CommonWealth REIT
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

Commission File Number 1-9317

COMMONWEALTH REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**04-6558834**

(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts	**02458-1634**
(Address of Principal Executive Offices)	(Zip Code)

617-332-3990

(Registrant s Telephone Number, Including Area Code)

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 x No o

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 x No o

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. (Check One):

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

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

Number of registrant s common shares of beneficial interest, $0.01 par value per share, outstanding as of August 5, 2013: 118,314,068.

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References in this Quarterly Report on Form 10-Q to the Company , CWH , we , us or our refer to CommonWealth REIT and its consolidated subsidiaries, as of June 30, 2013, including its then majority owned consolidated subsidiary, Select Income REIT and its consolidated subsidiaries, or SIR, unless the context indicates otherwise. On July 2, 2013, SIR completed an underwritten public offering of its common shares, at which time CWH ceased to own a majority of SIR s common shares. Accordingly, beginning with the filing of CWH s Quarterly Report on Form 10-Q for the period ended September 30, 2013, CWH will deconsolidate its investment in SIR and account for its investment in SIR under the equity method.

SIR is itself a public company having common shares registered under the Securities Exchange Act of 1934, as amended. For further information about SIR, please see SIR s periodic reports and other filings with the Securities and Exchange Commission, or the SEC, which are available at the SEC s website at www.sec.gov. References in this Quarterly Report on Form 10-Q to SIR s filings with the SEC are included as textual references only, and the information in SIR s filings with the SEC is not incorporated by reference into this Quarterly Report on Form 10-Q unless otherwise expressly stated herein.

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PART I. Financial Information

Item 1. Financial Statements.

COMMONWEALTH REIT

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

ASSETS				
Real estate properties:				
Land	$	1,533,543	$	1,531,416
Buildings and improvements		6,446,307		6,297,993
		7,979,850		7,829,409
Accumulated depreciation		(1,090,928)		(1,007,606)
		6,888,922		6,821,803
Properties held for sale		128,529		171,832
Acquired real estate leases, net		394,978		427,756
Equity investments		11,407		184,711
Cash and cash equivalents		77,520		102,219
Restricted cash		18,009		16,626
Rents receivable, net of allowance for doubtful accounts of $8,769 and $9,962, respectively		274,988		253,394
Other assets, net		225,185		211,293
Total assets	$	8,019,538	$	8,189,634
LIABILITIES AND SHAREHOLDERS EQUITY				
Revolving credit facility	$	135,000	$	297,000
SIR revolving credit facility		235,000		95,000
Senior unsecured debt, net		2,304,465		2,972,994
Mortgage notes payable, net		977,044		984,827
Liabilities related to properties held for sale		1,588		2,339
Accounts payable and accrued expenses		165,449		194,184
Assumed real estate lease obligations, net		62,270		69,304
Rent collected in advance		29,260		35,700
Security deposits		24,031		23,860
Due to related persons		12,954		12,958
Total liabilities		3,947,061		4,688,166
Shareholders equity:				
Shareholders equity attributable to CommonWealth REIT:				
Preferred shares of beneficial interest, $0.01 par value: 50,000,000 shares authorized;				

Series D preferred shares; 6 1/2% cumulative convertible; 15,180,000 shares issued and outstanding, aggregate liquidation preference $379,500		368,270		368,270
Series E preferred shares; 7 1/4% cumulative redeemable on or after May 15, 2016; 11,000,000 shares issued and outstanding, aggregate liquidation preference $275,000		265,391		265,391
Common shares of beneficial interest, $0.01 par value: 350,000,000 shares authorized; 118,314,068 and 83,804,068 shares issued and outstanding, respectively		1,183		838
Additional paid in capital		4,212,182		3,585,400
Cumulative net income		2,431,456		2,386,900
Cumulative other comprehensive (loss) income		(32,576)		565
Cumulative common distributions		(3,023,096)		(2,972,569)
Cumulative preferred distributions		(551,669)		(529,367)
Total shareholders equity attributable to CommonWealth REIT		3,671,141		3,105,428
Noncontrolling interest in consolidated subsidiary		401,336		396,040
Total shareholders equity		4,072,477		3,501,468
Total liabilities and shareholders equity	$	8,019,538	$	8,189,634

See accompanying notes.

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COMMONWEALTH REIT

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

[redacted]				
Rental income	$ 274,766	$ 249,797	$ 549,814	$ 493,175
Expenses:				
Operating expenses	109,754	103,034	219,413	200,270
Depreciation and amortization	67,389	60,433	133,912	118,452
General and administrative	21,653	12,595	38,919	24,131
Acquisition related costs	145	1,434	773	3,936
Total expenses	198,941	177,496	393,017	346,789
Operating income	75,825	72,301	156,797	146,386
Interest and other income	250	360	708	645
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of $284, $1,005, $913 and $1,751, respectively)	(43,762)	(50,237)	(96,106)	(99,343)
Loss on early extinguishment of debt		(1,608)	(60,027)	(1,675)
Equity in earnings of investees	159	2,829	4,421	5,787
Gain on sale of equity investment			66,293	
Income from continuing operations before income tax expense	32,472	23,645	72,086	51,800
Income tax expense	(754)	(92)	(1,742)	(584)
Income from continuing operations	31,718	23,553	70,344	51,216
Discontinued operations:				
Loss from discontinued operations	(311)	(3,317)	(2,223)	(6,406)
Loss on asset impairment from discontinued operations	(4,589)		(8,535)	
Gain on sale of properties from discontinued operations	2,099	350	3,359	350
Income before gain on sale of properties	28,917	20,586	62,945	45,160
Gain on sale of properties			1,596	
Net income	28,917	20,586	64,541	45,160
Net income attributable to noncontrolling interest in consolidated subsidiary	(10,028)	(4,521)	(19,985)	(5,415)
Net income attributable to CommonWealth REIT	18,889	16,065	44,556	39,745
Preferred distributions	(11,151)	(13,823)	(22,302)	(27,646)
Net income available for CommonWealth REIT common shareholders	$ 7,738	$ 2,242	$ 22,254	$ 12,099
Amounts attributable to CommonWealth REIT common shareholders:				
Income from continuing operations	$ 10,539	$ 5,209	$ 29,653	$ 18,155
Loss from discontinued operations	(311)	(3,317)	(2,223)	(6,406)

Loss on asset impairment from discontinued operations		(4,589)				(8,535)		
Gain on sale of properties from discontinued operations		2,099		350		3,359		350
Net income	$	7,738	$	2,242	$	22,254	$	12,099
Weighted average common shares outstanding basic and diluted		118,309		83,727		106,298		83,724
Basic and diluted earnings per common share attributable to CommonWealth REIT common shareholders:								
Income from continuing operations	$	0.09	$	0.06	$	0.28	$	0.22
Loss from discontinued operations	$	(0.02)	$	(0.04)	$	(0.07)	$	(0.07)
Net income available for common shareholders	$	0.07	$	0.03	$	0.21	$	0.14

See accompanying notes.

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COMMONWEALTH REIT

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(amounts in thousands)

(unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 28,917	$ 20,586	$ 64,541	$ 45,160
Other comprehensive (loss) income:				
Unrealized gain (loss) on derivative instruments	2,782	(2,404)	3,833	(2,441)
Foreign currency translation adjustments	(37,821)	(3,447)	(36,848)	1,081
Equity in unrealized loss of an investee	(146)	(3)	(162)	(4)
Total comprehensive (loss) income	(6,268)	14,732	31,364	43,796
Less: comprehensive income attributable to noncontrolling interest in consolidated subsidiary	(9,996)	(4,521)	(19,949)	(5,415)
Comprehensive (loss) income attributable to CommonWealth REIT	$ (16,264)	$ 10,211	$ 11,415	$ 38,381

See accompanying notes.

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COMMONWEALTH REIT

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 64,541	$ 45,160
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	96,006	90,680
Net amortization of debt discounts, premiums and deferred financing fees	913	1,751
Straight line rental income	(19,798)	(17,991)
Amortization of acquired real estate leases	33,060	29,422
Other amortization	9,806	9,815
Loss on asset impairment	8,535	
Loss on early extinguishment of debt	60,027	1,675
Equity in earnings of investees	(4,421)	(5,787)
Gain on sale of equity investment	(66,293)	
Distributions of earnings from investees	4,111	5,592
Gain on sale of properties	(4,955)	(350)
Change in assets and liabilities:		
Restricted cash	966	(4,339)
Rents receivable and other assets	(22,449)	(17,943)
Accounts payable and accrued expenses	(15,737)	2,429
Rent collected in advance	(7,730)	(5,493)
Security deposits	122	713
Due to related persons	(3)	3,369
Cash provided by operating activities	136,701	138,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Real estate acquisitions	(165,110)	(253,710)
Real estate improvements	(53,908)	(50,636)
Principal payments received from direct financing lease	3,444	3,283
Proceeds from sale of properties, net	33,863	338
Proceeds from sale of equity investment, net	239,576	
Distributions in excess of earnings from investees	168	2,766
Investment in Affiliates Insurance Company		(5,335)
Increase in restricted cash	(2,349)	(2,121)
Cash provided by (used in) investing activities	55,684	(305,415)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares, net	626,809	180,814
Repurchase and retirement of outstanding debt securities	(728,021)	
Proceeds from borrowings	936,000	444,500
Payments on borrowings	(962,207)	(395,250)
Deferred financing fees	(1,200)	(6,049)
Distributions to common shareholders	(50,527)	(83,722)

Distributions to preferred shareholders		(22,302)		(27,466)
Distributions to noncontrolling interest in consolidated subsidiary		(14,863)		
Cash (used in) provided by financing activities		(216,311)		112,827
Effect of exchange rate changes on cash		(773)		(73)
Decrease in cash and cash equivalents		(24,699)		(53,958)
Cash and cash equivalents at beginning of period		102,219		192,763
Cash and cash equivalents at end of period	$	77,520	$	138,805

See accompanying notes.

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COMMONWEALTH REIT

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(amounts in thousands)

(unaudited)

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
SUPPLEMENTAL CASH FLOW INFORMATION:				
Interest paid	$	109,108	$	99,227
Taxes paid		1,134		536
NON-CASH INVESTING ACTIVITIES:				
Real estate acquisitions	$		$	(176,884)
Investment in real estate mortgages receivable		(7,688)		(1,419)
NON-CASH FINANCING ACTIVITIES:				
Issuance of common shares	$	244	$	187
Assumption of mortgage notes payable				176,884

See accompanying notes.

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COMMONWEALTH REIT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of CommonWealth REIT and its subsidiaries, or the Company, CWH, we, us or our, have been prepared without audit. Certain information and footnote disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2012, or our Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. All material intercompany transactions and balances with or among our subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior years   financial statements to conform to the current year s presentation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates. Significant estimates in the condensed consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, useful lives of fixed assets and impairment of real estate and intangible assets.

On March 12, 2012, our then wholly owned subsidiary, Select Income REIT, completed an initial public offering of 9,200,000 of its common shares, or the SIR IPO. We refer to Select Income REIT and its consolidated subsidiaries as SIR. We understand that SIR intends to be taxable as a real estate investment trust, or REIT, commencing with its taxable year ended December 31, 2012. As of June 30, 2013, SIR owned substantially all of our industrial and commercial properties located on Oahu, HI as well as 43 office and industrial properties located throughout the mainland United States. As of June 30, 2013, we owned 22,000,000 SIR common shares, or approximately 56.0% of SIR s outstanding common shares, and SIR was one of our consolidated subsidiaries. On July 2, 2013, SIR issued and sold to the public 10,500,000 of its common shares of beneficial interest in a public offering. After this offering, our 22,000,000 common shares of SIR represented approximately 44.2% of SIR s outstanding common shares and SIR ceased to be our consolidated subsidiary. Since our investment in SIR is below 50% after this offering, effective July 2, 2013 and beginning with the filing of our Quarterly Report on Form 10-Q for the period ended September 30, 2013, we will deconsolidate our investment in SIR and account for our investment in SIR under the equity method.   See Note 15 for additional information regarding SIR.

Note 2. Recent Accounting Pronouncements

Effective January 2013, we adopted Financial Accounting Standards Board, or FASB, Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This update is the culmination of the FASB s deliberation on reporting reclassification adjustments from accumulated other comprehensive income, or AOCI. This standard does not change the current requirements for reporting net income or other comprehensive income. However, it requires disclosure of amounts reclassified out of AOCI in their entirety, by component, on the face of the statement of operations or in the notes thereto. Amounts that are not required to be reclassified in their entirety to net income must be cross referenced to other disclosures that provide additional detail. This standard was effective prospectively for interim and annual reporting periods beginning after December 15, 2012. The implementation of this update did not cause any material changes to the presentation of our condensed consolidated financial statements.

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COMMONWEALTH REIT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

Note 3. Board of Trustees

On February 26, 2013, Corvex Management LP, or Corvex, Related Fund Management, LLC and certain of their affiliates, or together with Corvex, Corvex/Related, publicly disclosed their recent accumulation of the Company s common shares. Corvex/Related have since undertaken a series of actions in an effort to influence and control the Company, including publishing open letters to our Board of Trustees, announcing conditional, unfinanced purported offers to acquire all the common shares of the Company and running a purported consent solicitation seeking to remove, without cause, all of the members of our Board of Trustees. Corvex/Related unilaterally, publicly stated that they believed the record date for their purported consent solicitation was April 22, 2013 and solicited consents from our shareholders as of that date to their removal proposal. On June 21, 2013, Corvex delivered to the Company a letter and enclosed materials that it claimed were written consents from the Company s shareholders that effectuated the immediate removal of the Company s entire Board of Trustees.

The legal effectiveness of the Corvex/Related purported consent solicitation is the subject of legal proceedings before an arbitration panel. We believe that the Corvex/Related consent solicitation has no legal effect because, among other things, under our declaration of trust and bylaws, the power to set a record date for a consent solicitation rests with the Company s Board of Trustees and our Board of Trustees did not set such a record date for the Corvex/Related purported consent solicitation as the Corvex/Related request for a record date did not comply with requirements in our governing documents. Moreover, our Board of Trustees believes that the removal of all of our Trustees without cause and in one removal action conflicts with our Board of Trustee s election to be subject to certain provisions of the Maryland Unsolicited Takeovers Act. On June 24, 2013, the Company responded to the letters from Corvex/Related pointing out that the legal effectiveness of the Corvex/Related consent solicitation is currently the subject of proceedings before an arbitration panel and that the Board of Trustees would continue to manage the Company unless and until the arbitration panel directs otherwise. To date, no court or arbitration panel has ruled that the Corvex/Related purported consent solicitation is legally effective.

We believe that the Corvex/Related consent solicitation has no legal effect. However, if the arbitration panel determines that the Corvex/Related consent solicitation is legally effective and the entire Board of Trustees has been removed, as proposed by Corvex/Related, such removal may, among other things, disrupt the Company s business and operations, give rise to preferred shareholder conversion rights and events of default under certain material agreements, affect our ability to pay dividends, borrow money and implement our business plan, and have other effects which may adversely affect us.

Note 4. Real Estate Properties

Completed Acquisitions:

During the six months ended June 30, 2013, SIR acquired five properties with a combined 779,010 square feet for an aggregate purchase price of $158,320, excluding closing costs, which are consolidated in our financial results. SIR accounted for these transactions as business combinations (except as noted below) and allocated the purchase prices of these acquisitions based on the estimated fair value of the acquired assets and assumed liabilities. Details of these completed acquisitions are as follows:

Date	Location	Number of Properties	Square Feet	Purchase Price(1)	Land	Buildings and Improvements	Acquired Real Estate Leases	Acquired Real Estate Lease Obligations
SIR Acquisitions through June 30, 2013:								
January 2013	Addison, TX(2)	2	553,799	$ 105,000	$ 10,107	$ 94,893	$	$
February 2013	Provo, UT	2	125,225	34,720	3,400	25,938	5,382	
March 2013	San Antonio, TX	1	99,986	18,600	3,197	12,175	3,507	(279)
		5	779,010	$ 158,320	$ 16,704	$ 133,006	$ 8,889	$ (279)

(1) Purchase price excludes closing costs.

(2) This property was acquired and simultaneously leased back to the seller in a sale/leaseback transaction. SIR accounted for this transaction as an acquisition of assets. SIR recognized acquisition costs of $226, which SIR capitalized as part of the transaction.

COMMONWEALTH REIT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

Excluding SIR, we did not make any acquisitions during the six months ended June 30, 2013.

In July 2013, SIR acquired an office property located in Richmond, VA with 310,950 square feet for $143,600, excluding closing costs. This acquisition was accounted for as a business combination, and, due to the timing of the acquisition, the purchase price allocation is not complete.

In addition, during the six months ended June 30, 2013, we also made improvements totaling $47,356 to our properties.

Property Sales:

During the six months ended June 30, 2013, we sold 24 properties with a combined 2,265,228 square feet and two land parcels for an aggregate sale price of $42,612, excluding closing costs. Details of these completed sales are as follows:

- In January 2013, we sold 18 suburban office and industrial properties in industrial suburbs of Detroit with a combined 1,060,026 square feet for $10,250, excluding closing costs. In connection with the sale of these properties, we provided mortgage financing to the buyer, an unrelated third party, totaling $7,688 at 6.0% per annum and recognized a gain on sale of $1,277.

- As a result of an eminent domain taking in March 2013, we sold a land parcel adjacent to one of our central business district, or CBD, office buildings located in Boston, MA for $1,806, excluding closing costs, and recognized a gain on sale of $1,596.

- In April 2013, we sold an industrial property with 618,000 square feet for $830, excluding closing costs.

- In May 2013, we sold a suburban office property with 57,250 square feet for $4,025, excluding closing costs.

- In June 2013, we sold two suburban office properties with a combined 356,045 square feet for an aggregate sale price of $16,300, excluding closing costs.

- Also in June 2013, we sold a suburban office property with 30,105 square feet for $1,600, excluding closing costs, and recognized a gain on sale of $317.

- Also in June 2013, we sold a suburban office property with 143,802 square feet for $5,250, excluding closing costs.

- Also in June 2013, we sold a parcel of land in Tukwila, WA for $2,551, excluding closing costs, and recognized a gain on sale of $1,765.

As of June 30, 2013, we had 30 office properties and 40 industrial properties with a combined 4,408,623 square feet held for sale. As of August 6, 2013, we have 49 of these properties with a combined 2,283,345 square feet under agreement to sell for an aggregate sale price of $67,500, excluding closing costs. We expect to complete the sale of the 49 properties currently under agreement and the remaining 21 properties listed for sale during 2013; however, no assurance can be given that these properties will be sold in that time period or at all. As of December 31, 2012, we had 37 office properties and 57 industrial properties with a combined 6,673,851 square feet held for sale. We classify all properties that meet the criteria outlined in the Property, Plant and Equipment Topic of the *FASB Accounting Standards CodificationTM*, or the Codification, as held for sale in our condensed consolidated balance sheets. Results of operations for properties sold or held for sale are included in discontinued operations in our condensed consolidated statements of operations once the criteria for discontinued operations in the Presentation of

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COMMONWEALTH REIT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

Financial Statements Topic of the Codification are met. Summarized balance sheet information for all properties classified as held for sale and income statement information for properties held for sale or sold is as follows:

Balance Sheets:

	June 30, 2013	December 31, 2012
Real estate properties	$ 122,095	$ 164,041
Acquired real estate leases	453	453
Rents receivable	2,569	2,791
Other assets, net	3,412	4,547
Properties held for sale	$ 128,529	$ 171,832
Assumed real estate lease obligations	$ 21	$ 21
Rent collected in advance	248	854
Security deposits	1,319	1,464
Liabilities related to properties held for sale	$ 1,588	$ 2,339

Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Rental income	$ 4,625	$ 5,577	$ 9,432	$ 13,445
Operating expenses	(4,379)	(5,059)	(10,414)	(11,913)
Depreciation and amortization		(3,119)		(6,451)
General and administrative	(565)	(769)	(1,249)	(1,543)
Operating loss	(319)	(3,370)	(2,231)	(6,462)
Interest and other income	8	53	8	56
Loss from discontinued operations	$ (311)	$ (3,317)	$ (2,223)	$ (6,406)

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COMMONWEALTH REIT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

Note 5. Investment in Direct Financing Lease

We have an investment in a direct financing lease that relates to a lease with a term that exceeds 75% of the useful life of an office tower located within a mixed use property in Phoenix, AZ. We recognize income using the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent our initial estimates of the fair value of the leased assets at the expiration of the lease, which do not exceed their original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real estate values. The carrying amount of our net investment is included in other assets in our condensed consolidated balance sheets. The following table summarizes the carrying amount of our net investment in this direct financing lease:

	June 30, 2013	December 31, 2012
Total minimum lease payments receivable	$ 27,035	$ 31,084
Estimated unguaranteed residual value of leased asset	4,951	4,951
Unearned income	(8,697)	(9,302)
Net investment in direct financing lease	$ 23,289	$ 26,733

We monitor the payment history and credit profile of the tenant and have determined that no allowance for losses related to our direct financing lease was necessary at June 30, 2013 and December 31, 2012. Our direct financing lease has an expiration date in 2045.

Note 6. Equity Investments

At June 30, 2013 and December 31, 2012, we had the following equity investments in Government Properties Income Trust, or GOV, and Affiliates Insurance Company, or AIC (including 100% attribution of SIR s 12.5% equity ownership interest in AIC):

	Ownership Percentage		Equity Investments		Equity in Earnings			
					Three Months Ended June 30,		Six Months Ended June 30,	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	2013	2012	2013	2012
GOV	%	18.2%	$	$ 173,452	$	$ 2,680	$ 4,111	$ 5,593
AIC	25.0%	25.0%	11,407	11,259	159	149	310	194
			$ 11,407	$ 184,711	$ 159	$ 2,829	$ 4,421	$ 5,787

On March 15, 2013, we sold all 9,950,000 common shares that we owned of GOV in a public offering for $25.20 per common share, raising gross proceeds of $250,740 ($239,576 after deducting underwriters discounts and commissions and expenses). We recognized a gain on this sale of an equity investment of $66,293 as a result of the per share sales price of this transaction being above our per share carrying value. GOV is a REIT which primarily owns properties that are majority leased to government tenants and was our wholly owned subsidiary until its initial public offering in June 2009 when it became a separate public entity.

During the six months ended June 30, 2013 and 2012, we received cash distributions from GOV totaling $4,279 and $8,358, respectively.

As of June 30, 2013, we and SIR have invested a total of $10,544 in AIC, an insurance company owned in equal proportion by Reit Management & Research LLC, our business and property manager, or RMR, us (excluding SIR s AIC interest), SIR and five other companies to which RMR provides management services, including GOV. We and SIR may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we and SIR are not obligated to do so. At June 30, 2013, we (without SIR) and SIR each owned 12.5% of AIC with a combined carrying value of $11,407. We and SIR use the equity method to account for this investment because we and SIR believe that we each have significant influence over AIC because all

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

of our Trustees and all of SIR s trustees are also directors of AIC. Under the equity method, we record our and SIR s percentage share of net earnings from AIC in our condensed consolidated statements of operations. If we determine there is an other than temporary decline in the fair value of this investment, we would record a charge to earnings. In evaluating the fair value of this investment, we have considered, among other things, the assets and liabilities held by AIC, AIC s overall financial condition and the financial condition and prospects for AIC s insurance business. See Note 15 for additional information about our and SIR s investment in AIC.

Note 7. Real Estate Mortgages Receivable

We provided mortgage financing totaling $7,688 at 6.0% per annum in connection with 18 office and industrial properties sold in January 2013. This real estate mortgage requires monthly interest payments and matures on January 24, 2023. As of June 30, 2013 and December 31, 2012, we had total real estate mortgages receivable with an aggregate carrying value of $9,107 and $1,419, respectively, included in other assets in our condensed consolidated balance sheets.

Note 8. Shareholders Equity

The following is a reconciliation of changes in shareholders equity for the six months ended June 30, 2013:

	Shareholders Equity Attributable to CommonWealth REIT	Shareholders Equity Attributable to Noncontrolling Interest	Total Shareholders Equity
Balance at December 31, 2012	$ 3,105,428	$ 396,040	$ 3,501,468
Net income	44,556	19,985	64,541
Other comprehensive income (loss):			
Unrealized gain on derivative instruments	3,833		3,833
Foreign currency translation adjustments	(36,848)		(36,848)
Equity in unrealized loss of an investee	(126)	(36)	(162)
Total comprehensive income	11,415	19,949	31,364
Issuance of common shares, net	626,851	(42)	626,809
Share grants	276	252	528

Distributions		(72,829)		(14,863)		(87,692)
Balance at June 30, 2013	$	3,671,141	$	401,336	$	4,072,477

In the remainder of this Note 8, references to we, us, our or CWH refer to CWH and its consolidated subsidiaries other than SIR and its consolidated subsidiaries, unless noted otherwise.

CWH Common Share Issuance:

In March 2013, we issued 34,500,000 common shares (including 4,500,000 common shares sold pursuant to the underwriters option to purchase additional shares) in a public offering for $19.00 per common share, raising gross proceeds of $655,500 ($626,904 after deducting underwriters discounts and commissions and expenses). Net proceeds from this offering were used to repay indebtedness, including amounts borrowed under our revolving credit facility to fund, in part, the purchase of the senior notes that were tendered in the tender offer discussed in Note 10.

On May 14, 2013, we granted 2,000 common shares of beneficial interest, par value $0.01 per share, valued at $20.13 per share, the closing price of our common shares on the New York Stock Exchange, or NYSE, on that day, to each of our five Trustees as part of their annual compensation.

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(dollars in thousands, except per share data)

CWH Common and Preferred Share Distributions:

On each of February 15, 2013 and May 15, 2013, we paid quarterly distributions on our series D preferred shares of $0.4063 per share, or $6,167, and quarterly distributions on our series E preferred shares of $0.4531 per share, or $4,984, both of which were paid to shareholders of record as of February 1, 2013 and May 1, 2013, respectively.

On February 21, 2013, we paid a quarterly distribution on our common shares of $0.25 per share, or $20,951, to shareholders of record on January 22, 2013. On May 22, 2013, we paid a quarterly distribution on our common shares of $0.25 per share, or $29,576, to shareholders of record on April 23, 2013.

In July 2013, we declared a distribution of $0.25 per common share, or approximately $29,600, to be paid on or about August 23, 2013 to shareholders of record on July 26, 2013. We also announced in July 2013 a quarterly distribution on our series D preferred shares of $0.4063 per share, or $6,167, and a quarterly distribution on our series E preferred shares of $0.4531 per share, or $4,984, both of which we expect to pay on or about August 15, 2013 to our preferred shareholders of record as of August 1, 2013. Our revolving credit facility agreement and term loan agreement contain a number of financial and other covenants, including a covenant which restricts our ability to make distributions under certain circumstances.

SIR Common Share Issuance:

On May 13, 2013, SIR granted 2,000 of its common shares of beneficial interest, par value $0.01 per share, valued at $27.61 per share, the closing price of SIR s common shares on the NYSE on that day, to each of its trustees as part of their annual compensation.

SIR Common Share Distributions:

On February 19, 2013, SIR paid a quarterly distribution on its common shares of $0.42 per share, or $16,499, to SIR s shareholders of record on January 22, 2013. On May 20, 2013, SIR paid a quarterly distribution on its common shares of $0.44 per share, or $17,284, to SIR s shareholders of record on April 23, 2013.

In July 2013, SIR declared a distribution on its common shares of $0.44 per share, or approximately $21,900, to be paid on or about August 20, 2013 to SIR s shareholders of record on July 24, 2013. SIR s revolving credit facility agreement and term loan agreement contain a number of financial and other covenants, including a covenant which restricts SIR s ability to make distributions under certain circumstances.

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(dollars in thousands, except per share data)

Note 9. Cumulative Other Comprehensive (Loss) Income

The following table presents a roll forward of amounts recognized in cumulative other comprehensive (loss) income by component for the three and six months ended June 30, 2013:

	Three Months Ended June 30, 2013			
	Unrealized Gain (Loss) on Derivative Instruments	**Foreign Currency Translation Adjustments**	**Equity in Unrealized Gain (Loss) of an Investee**	**Total**
Balance as of March 31, 2013	$ (15,573)	$ 18,044	$ 106	$ 2,577
Other comprehensive income (loss) before reclassifications	1,546	(37,821)	(110)	(36,385)
Amounts reclassified from cumulative other comprehensive income (loss) to net income	1,236		(4)	1,232
Net current period other comprehensive income (loss)	2,782	(37,821)	(114)	(35,153)
Balance as of June 30, 2013	$ (12,791)	$ (19,777)	$ (8)	$ (32,576)

	Six Months Ended June 30, 2013			
	Unrealized Gain (Loss) on Derivative Instruments	**Foreign Currency Translation Adjustments**	**Equity in Unrealized Gain (Loss) of an Investee**	**Total**
Balance as of December 31, 2012	$ (16,624)	$ 17,071	$ 118	$ 565
Other comprehensive income (loss) before reclassifications	1,361	(36,848)	(109)	(35,596)
Amounts reclassified from cumulative other comprehensive income (loss) to net income	2,472		(17)	2,455
Net current period other comprehensive income (loss)	3,833	(36,848)	(126)	(33,141)
Balance as of June 30, 2013	$ (12,791)	$ (19,777)	$ (8)	$ (32,576)

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The following table presents reclassifications out of cumulative other comprehensive income (loss) for the three and six months ended June 30, 2013:

Three Months Ended June 30, 2013

Details about Cumulative Other Comprehensive Income (Loss) Components	**Amounts Reclassified from Cumulative Other Comprehensive Income (Loss) to Net Income**	**Affected Line Items in the Statement of Operations**
Interest rate swap contracts	$ 1,236	Interest expense
Unrealized gains and losses on available for sale securities	(4)	Equity in earnings of investees
	$ 1,232	

Six Months Ended June 30, 2013

Details about Cumulative Other Comprehensive Income (Loss) Components	**Amounts Reclassified from Cumulative Other Comprehensive Income (Loss) to Net Income**	**Affected Line Items in the Statement of Operations**
Interest rate swap contracts	$ 2,472	Interest expense
Unrealized gains and losses on available for sale securities	(17)	Equity in earnings of investees
	$ 2,455	

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(dollars in thousands, except per share data)

Note 10. Indebtedness

In this Note 10, references to we, us, our or CWH refer to CWH and its consolidated subsidiaries other than SIR and its consolidated subsidiaries, unless noted otherwise.

CWH Prepayments:

In March 2013, we purchased a total of $670,295 of the outstanding principal amount of the following senior notes for $726,151, excluding transaction costs, pursuant to a tender offer:

Senior Note	**Principal**	**Purchase Price**
5.75% Senior Notes due February 15, 2014	$ 145,612	$ 148,746
6.40% Senior Notes due February 15, 2015	152,560	164,140
5.75% Senior Notes due November 1, 2015	111,227	121,047
6.25% Senior Notes due August 15, 2016	260,896	292,218
	$ 670,295	$ 726,151

In connection with the purchase of these senior notes, we recognized a combined loss on early extinguishment of debt totaling $60,027, which includes the write off of unamortized discounts and deferred financing fees and estimated expenses.

CWH Unsecured Revolving Credit Facility and Unsecured Term Loan:

We have a $750,000 unsecured revolving credit facility that is available for general business purposes, including acquisitions. The maturity date of our revolving credit facility is October 19, 2015 and, subject to the payment of an extension fee and meeting certain other conditions, includes an option for us to extend the stated maturity date of our revolving credit facility by one year to October 19, 2016. In addition, our revolving credit facility includes a feature under which maximum borrowings may be increased to up to $1,500,000 in certain circumstances. Borrowings under our revolving credit facility bear interest at LIBOR plus a premium, which was 150 basis points as of June 30, 2013. We also pay a facility fee of 35 basis points per annum on the total amount of lending commitments under our revolving credit facility. Both the interest rate premium and the facility fee are subject to adjustment based upon changes to our credit ratings. As of June 30, 2013, the interest rate payable on borrowings under our revolving credit facility was 1.7%. The weighted average interest rate for borrowings under our revolving credit facility was 1.7% for both the three and six months ended June 30, 2013, and 1.5% for the six months ended June 30, 2012. We had no amounts outstanding under our revolving credit facility during the three months ended June 30, 2012. As of June 30, 2013, we had $135,000 outstanding and $615,000 available under our revolving credit facility.

We also have a $500,000 unsecured term loan that matures in December 2016 and is prepayable without penalty at any time. Our term loan includes a feature under which maximum borrowings may be increased to up to $1,000,000 in certain circumstances. Our term loan bears interest at a rate of LIBOR plus a premium, which was 185 basis points as of June 30, 2013. The interest rate premium is subject to adjustment based upon changes to our credit ratings. As of June 30, 2013, the interest rate for the amount outstanding under our term loan was 2.1%. The weighted average interest rate for the amount outstanding under our term loan was 2.1% for both the three and six months ended June 30, 2013, and 1.8% for both the three and six months ended June 30, 2012.

Our revolving credit facility agreement and our term loan agreement provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including a change of control of us and the termination of our business management or property management agreements with RMR. As stated in Note 3 above, we believe that the Corvex/Related consent solicitation has no legal effect. However, if the arbitration panel determines that the Corvex/Related consent solicitation is legally effective and the entire Board of Trustees has been removed, as proposed by Corvex/Related, such removal would constitute an event of default under the Company s revolving credit facility and term loan agreements and may also constitute an event of default under certain mortgage loans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(dollars in thousands, except per share data)

SIR Unsecured Revolving Credit Facility and Unsecured Term Loan:

SIR has a $750,000 revolving credit facility that is available to SIR for general business purposes, including acquisitions. The maturity date of the SIR revolving credit facility is March 11, 2016 and, subject to the payment by SIR of an extension fee and SIR meeting certain other conditions, includes an option for SIR to extend the stated maturity date of the SIR revolving credit facility by one year to March 11, 2017. In February 2013, SIR increased the available borrowing amount under the SIR revolving credit facility from $500,000 to $750,000. Borrowings under the SIR revolving credit facility bear interest at LIBOR plus a premium, which was 130 basis points as of June 30, 2013. SIR also pays a facility fee of 30 basis points per annum on the total amount of lending commitments under the SIR revolving credit facility. Both the interest rate premium and the facility fee are subject to adjustment based upon changes to SIR s leverage or credit ratings. As of June 30, 2013, the interest rate payable on borrowings under the SIR revolving credit facility was 1.5%. The weighted average interest rate for borrowings under the SIR revolving credit facility was 1.5% for both the three and six months ended June 30, 2013, and 1.5% for both the three months ended June 30, 2012 and for the period from March 12, 2012 to June 30, 2012. As of June 30, 2013, SIR had $235,000 outstanding and $515,000 available under the SIR revolving credit facility.

SIR also has a $350,000 unsecured term loan. The SIR term loan matures on July 11, 2017 and is prepayable without penalty at any time. In addition, the SIR term loan includes a feature under which maximum borrowings may be increased to up to $700,000 in certain circumstances. The SIR term loan bears interest at a rate of LIBOR plus a premium, which was 155 basis points as of June 30, 2013. The interest rate premium is subject to adjustment based upon changes to SIR s leverage or credit ratings. As of June 30, 2013, the interest rate for the amount outstanding under the SIR term loan was 1.8%. The weighted average interest rate for the amount outstanding under the SIR term loan was 1.8% for both the three and six months ended June 30, 2013.

The SIR revolving credit facility agreement and the SIR term loan agreement provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including a change of control of SIR and the termination of SIR s business management or property management agreements with RMR.

Credit Facility and Term Loan Debt Covenants:

Our public debt indentures and related supplements, our revolving credit facility agreement and our term loan agreement contain a number of financial and other covenants, including covenants that restrict our ability to incur indebtedness or to make distributions under certain circumstances and require us to maintain financial ratios and a minimum net worth. The SIR revolving credit facility agreement and the SIR term loan agreement also contain a number of financial and other covenants, including covenants that restrict SIR s ability to incur indebtedness or to make distributions under certain circumstances and require SIR to maintain financial ratios and a minimum net worth. At June 30, 2013, we believe we and SIR, as applicable, were in compliance with all of our respective covenants under our public debt indentures, our revolving credit facility, our term loan, SIR s revolving credit facility and SIR s term loan agreements.

Mortgage Debt:

At June 30, 2013, 25 of our and SIR s properties costing $1,333,240 with an aggregate net book value of $1,184,274 secured mortgage notes totaling $977,044 (including net premiums and discounts) maturing from 2014 through 2026.

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(dollars in thousands, except per share data)

Note 11. Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and are generally not subject to federal and state income taxes provided we distribute a sufficient amount of our taxable income to our shareholders and meet other requirements for qualifying as a REIT. However, we are subject to certain state, local and Australian taxes without regard to our REIT status. Our provision for income taxes for the three and six months ended June 30, 2013 and 2012 consists of the following:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Current:				
State	$ 162	$ 107	$ 325	$ 249
Foreign	519		1,382	
	681	107	1,707	249
Deferred:				
Foreign	73	(15)	35	335
	73	(15)	35	335
Income tax provision	$ 754	$ 92	$ 1,742	$ 584

At June 30, 2013 and December 31, 2012, we had deferred tax assets of $1,995 and $2,329, respectively, of which $1,896 and $2,181, respectively, related to different carrying amounts for financial reporting and for Australian income tax purposes of our properties in Australia. At June 30, 2013 and December 31, 2012, we had deferred tax liabilities of $3,204 and $3,643, respectively. Because we are uncertain of our ability to realize the future benefit of certain Australian loss carry forwards, we have reduced our net deferred income tax assets by a valuation allowance of $535 and $598 as of June 30, 2013 and December 31, 2012, respectively.

Note 12. Fair Value of Assets and Liabilities

The table below presents certain of our assets and liabilities measured at fair value during 2013, categorized by the level of inputs used in the valuation of each asset and liability:

Fair Value at Reporting Date Using

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Fair Value Measurements:				
Effective portion of interest rate swap contracts(1)	$ (12,791)	$	$ (12,791)	$
Non-Recurring Fair Value Measurements:				
Properties held for sale(2)	$ 127,504	$	$	$ 127,504

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COMMONWEALTH REIT

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(dollars in thousands, except per share data)

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(1) The fair value of our interest rate swap contracts is determined using the net discounted cash flows of the expected cash flows of each derivative based on the market based interest rate curve (level 2 inputs) and adjusted for our credit spread and the actual and estimated credit spreads of the counterparties (level 3 inputs). Although we have determined that the majority of the inputs used to value our derivatives fall within level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. As of June 30, 2013, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified as level 2 inputs in the fair value hierarchy.

(2) As of June 30, 2013, we recorded a net loss on asset impairment totaling $6,940 for one property in our CBD Office segment, 29 properties in our Suburban Office segment and 40 properties in our Industrial & Other segment to reduce the aggregate carrying value of these properties from $134,444 to their estimated fair value less costs to sell of $127,504. All of these properties were classified as held for sale as of June 30, 2013 and December 31, 2012. We used updated broker information, including recent purchase offers, for all 70 properties (level 3 inputs) in determining the fair value of these properties. The valuation techniques and significant unobservable inputs used for our level 3 fair value measurements at June 30, 2013 were as follows:

Description	**Fair Value at June 30, 2013**	**Valuation Techniques**	**Unobservable Inputs**	**Range**
Properties held for sale for which we recognized impairment losses	$ 127,504	Purchase Offers	N/A	N/A

We are exposed to certain risks relating to our ongoing business operations, including the effect of changes in foreign currency exchange rates and interest rates. The only risk we currently manage by using derivative instruments is a part of our interest rate risk. Although we have not done so as of June 30, 2013, and have no present intention to do so, we may manage our Australian currency exchange exposure by borrowing in Australian dollars or using derivative instruments in the future, depending on the relative significance of our business activities in Australia at that time. We have interest rate swap agreements to manage our interest rate risk exposure on $174,074 of mortgage debt due 2019, which require interest at a premium over LIBOR. The interest rate swap agreements utilized by us qualify as cash flow hedges and effectively modify our exposure to interest rate risk by converting our floating interest rate debt to a fixed interest rate basis for this loan through December 1, 2016, thus reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating interest rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amount. The fair value of our derivative instruments increased by $2,782 and $3,833 during the three and six months ended June 30, 2013, respectively, based primarily on changes in market interest rates. The fair value of our derivative instruments decreased by $2,404 and $2,441 during the three and six months ended June 30, 2012, respectively, based primarily on changes in market interest rates. As of June 30, 2013 and December 31, 2012, the fair value of these derivative instruments included in accounts payable and accrued expenses and cumulative other comprehensive (loss) income in our condensed consolidated balance sheets totaled ($12,791) and ($16,624), respectively. We may enter additional interest rate swaps or hedge agreements to manage some of our additional interest rate risk associated with our floating rate borrowings. The table below presents the effects of our interest rate derivatives in our condensed consolidated statements of operations and condensed consolidated statements of comprehensive (loss) income for the three and six months ended June 30, 2013 and 2012:

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	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Balance at beginning of period	$ (15,573)	$ (15,833)	$ (16,624)	$ (15,796)
Amount of income (loss) recognized in cumulative other comprehensive (loss) income	1,546	(3,641)	1,361	(4,890)
Amount of loss reclassified from cumulative other comprehensive (loss) income into interest expense	1,236	1,237	2,472	2,449
Unrealized gain (loss) on derivative instruments	2,782	(2,404)	3,833	(2,441)
Balance at end of period	$ (12,791)	$ (18,237)	$ (12,791)	$ (18,237)

Over the next 12 months, we estimate that approximately $4,820 will be reclassified from cumulative other comprehensive income as an increase to interest expense.

In addition to the assets and liabilities described in the above table, our financial instruments include our cash and cash equivalents, rents receivable, investment in direct financing lease receivable, real estate mortgages receivable, restricted cash, revolving credit facilities, senior notes and mortgage notes payable, accounts payable and accrued expenses, rent collected in advance, security deposits and amounts due to related persons. At June 30, 2013 and December 31, 2012, the fair values of these additional financial instruments were not materially different from their carrying values, except as follows:

	June 30, 2013 Carrying Amount	June 30, 2013 Fair Value	December 31, 2012 Carrying Amount	December 31, 2012 Fair Value
Senior notes and mortgage notes payable	$ 2,257,435	$ 2,364,479	$ 2,932,951	$ 3,181,522

The fair values of our senior notes and mortgage notes payable are based on estimates using discounted cash flow analyses and currently prevailing interest rates adjusted by credit risk spreads (level 3 inputs).

Other financial instruments that potentially subject us to concentrations of credit risk consist principally of rents receivable; however, as of June 30, 2013, no single tenant of ours is responsible for more than 2% of our total annualized rents.

We maintain derivative financial instruments, including interest rate swaps, with major financial institutions and monitor the amount of credit exposure to any one counterparty.

Note 13. Earnings Per Common Share

Assuming no fundamental change (as described below) has occurred, as of June 30, 2013, we had 15,180,000 shares of series D cumulative convertible preferred shares that were convertible into 7,298,165 of our common shares and the effect of our convertible preferred shares on income from continuing operations attributable to CommonWealth REIT common shareholders per share is anti-dilutive for all periods presented.

As stated in Note 3 above, we believe that the Corvex/Related consent solicitation has no legal effect. However, if the arbitration panel determines that the Corvex/Related consent solicitation is legally effective and the entire Board of Trustees has been removed, such removal would constitute a fundamental change under our 6.5% series D cumulative convertible preferred shares giving holders of such shares the option to convert these shares into common shares at a ratio based on 98% of the average closing market price for a period before such removal is effective unless the Company repurchases these shares for their par value plus accrued and unpaid distributions. This issuance of such a large number of common shares as a result of the exercise of this conversion

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right may have a dilutive effect on income from continuing operations attributable to CommonWealth REIT common shareholders per share.

Note 14. Segment Information

Our primary business is the ownership and operation of a nationwide portfolio of commercial properties. We account for each of our individual properties as separate operating segments. We have aggregated our separate operating segments into three reportable segments based on our primary method of internal reporting: CBD office properties, suburban office properties and industrial & other properties. Each of our reportable segments includes properties with similar operating and economic characteristics that are subject to unique supply and demand conditions. Our operating segments (i.e., our individual properties) are managed and operated consistently in accordance with our standard operating procedures, and our management responsibilities do not vary significantly from location to location based on the size of the property or geographic location within each primary reporting segment. In addition to our three reportable segments, we aggregate our operating segments into geographic regions for financial reporting purposes. We define these individual geographic regions as those which currently, or during either of the last two quarters, represent or generate 5% or more of our total square feet, annualized rental income or property net operating income, or NOI, which we define as income from our real estate including lease termination fees received from tenants less our property operating expenses, which expenses include property marketing costs. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions.

As of June 30, 2013, we owned 54 CBD office properties, 246 suburban office properties and 145 industrial & other properties, excluding properties classified as held for sale. Our geographic regions include Metro Chicago, IL, Oahu, HI, Metro Philadelphia, PA, and Other Markets, which includes properties located elsewhere throughout the United States and Australia. Prior periods have been restated to reflect 40 office properties and 57 industrial properties reclassified to discontinued operations from continuing operations as of December 31, 2012 and three properties reclassified from our Suburban Office segment to our CBD Office segment as of March 31, 2013.

Property level information by geographic region and property type as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012, is as follows:

	As of June 30, 2013				As of June 30, 2012			
	CBD Office	**Suburban Office**	**Industrial & Other**	**Totals**	**CBD Office**	**Suburban Office**	**Industrial & Other**	**Totals**
Property square feet (in thousands):								
Metro Chicago, IL	3,601	1,166	104	4,871	3,592	1,164	104	4,860
Oahu, HI			17,914	17,914			17,876	17,876

Metro Philadelphia, PA	4,597	255		4,852	4,596	255		4,851
Other Markets	13,853	18,927	12,300	45,080	12,306	17,244	10,733	40,283
Totals	22,051	20,348	30,318	72,717	20,494	18,663	28,713	67,870

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(dollars in thousands, except per share data)

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
	CBD Office	Suburban Office	Industrial & Other	Totals	CBD Office	Suburban Office	Industrial & Other	Totals
Property rental income:								
Metro Chicago, IL	$ 25,747	$ 6,200	$ 111	$ 32,058	$ 26,472	$ 6,748	$ 111	$ 33,331
Oahu, HI			20,976	20,976			18,298	18,298
Metro Philadelphia, PA	25,503	893		26,396	29,287	940		30,227
Other Markets	88,555	82,684	24,097	195,336	77,492	69,453	20,996	167,941
Totals	$ 139,805	$ 89,777	$ 45,184	$ 274,766	$ 133,251	$ 77,141	$ 39,405	$ 249,797
Property NOI:								
Metro Chicago, IL	$ 13,411	$ 3,155	$ 102	$ 16,668	$ 13,909	$ 3,660	$ 103	$ 17,672
Oahu, HI			16,624	16,624			14,171	14,171
Metro Philadelphia, PA	12,905	249		13,154	16,193	227		16,420
Other Markets	48,810	51,307	18,449	118,566	42,265	41,273	14,962	98,500
Totals	$ 75,126	$ 54,711	$ 35,175	$ 165,012	$ 72,367	$ 45,160	$ 29,236	$ 146,763

	Six Months Ended June 30, 2013				Six Months Ended June 30, 2012			
	CBD Office	Suburban Office	Industrial & Other	Totals	CBD Office	Suburban Office	Industrial & Other	Totals
Property rental income:								
Metro Chicago, IL	$ 50,896	$ 12,791	$ 222	$ 63,909	$ 51,047	$ 12,611	$ 222	$ 63,880
Oahu, HI			42,187	42,187			38,193	38,193
Metro Philadelphia, PA	54,634	1,768		56,402	58,587	1,784		60,371
Other Markets	177,026	162,351	47,939	387,316	151,756	137,889	41,086	330,731
Totals	$ 282,556	$ 176,910	$ 90,348	$ 549,814	$ 261,390	$ 152,284	$ 79,501	$ 493,175