COMMERCIAL METALS CO
Form 10-Q
January 09, 2013

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 November 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 1-4304

COMMERCIAL METALS COMPANY
(Exact name of registrant as specified in its charter)

Delaware	75-0725338
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

6565 N. MacArthur Blvd.
Irving, Texas 75039
(Address of principal executive offices)(Zip Code)
(214) 689-4300
(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 ¨
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 ¨
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 ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares outstanding of common stock as of January 8, 2013 was 116,509,667.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended November 30,	
(in thousands, except share data)	2012	2011
Net sales	$1,789,226	$1,986,820
Costs and expenses:		
Cost of goods sold	1,600,327	1,814,284
Selling, general and administrative expenses	99,893	126,521
Interest expense	17,024	16,297
	1,717,244	1,957,102
Earnings from continuing operations before taxes	71,982	29,718
Income taxes (benefit)	22,515	(95,327)
Earnings from continuing operations	49,467	125,045
Earnings (loss) from discontinued operations before taxes	388	(27,003)
Income taxes (benefit)	136	(9,694)
Earnings (loss) from discontinued operations	252	(17,309)
Net earnings	49,719	107,736
Less net earnings attributable to noncontrolling interests	2	2
Net earnings attributable to CMC	$49,717	$107,734
Basic earnings (loss) per share attributable to CMC:		
Earnings from continuing operations	$0.43	$1.08
Earnings (loss) from discontinued operations	—	(0.15)
Net earnings	$0.43	$0.93
Diluted earnings (loss) per share attributable to CMC:		
Earnings from continuing operations	$0.42	$1.07
Earnings (loss) from discontinued operations	—	(0.14)
Net earnings	$0.42	$0.93
Cash dividends per share	$0.12	$0.12
Average basic shares outstanding	116,336,504	115,530,545
Average diluted shares outstanding	117,093,627	116,449,483

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended November 30,	
(in thousands)	2012	2011
Net earnings	$49,719	$107,736
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustment and other, net of taxes (benefit) of $11,792 and $(40,667)	21,900	(75,525)
Net unrealized gain (loss) on derivatives:		
Unrealized holding gain (loss), net of taxes of $88 and $324	317	(1,186)
Less: Reclassification for gain (loss) included in net earnings, net of taxes of $49 and $164	122	(1,133)
Net unrealized gain (loss) on derivatives, net of taxes of $39 and $160	195	(53)
Defined benefit obligation:		
Amortization of prior service cost, net of taxes (benefit)	2	—
Adjustment from plan changes, net of taxes (benefit) of $308 and $0	1,315	—
Defined benefit obligation, net of taxes (benefit) of $308 and $0	1,317	—
Other comprehensive income (loss)	23,412	(75,578)
Comprehensive income	$73,131	$32,158

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)	November 30, 2012	August 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$271,396	$262,422
Accounts receivable (less allowance for doubtful accounts of $9,998 and $9,480)	926,409	958,364
Inventories, net	914,289	807,923
Other	191,831	211,122
Total current assets	2,303,925	2,239,831
Property, plant and equipment:		
Land	78,225	79,123
Buildings and improvements	488,316	483,708
Equipment	1,680,191	1,656,328
Construction in process	46,690	41,036
	2,293,422	2,260,195
Less accumulated depreciation and amortization	(1,303,043)	(1,265,891)
	990,379	994,304
Goodwill	77,149	76,897
Other assets	126,116	130,214
Total assets	$3,497,569	$3,441,246
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	$414,674	$433,132
Accounts payable-documentary letters of credit	156,204	95,870
Accrued expenses and other payables	312,075	343,337
Notes payable	12,555	24,543
Current maturities of long-term debt	204,066	4,252
Total current liabilities	1,099,574	901,134
Deferred income taxes	19,546	20,271
Other long-term liabilities	116,562	116,261
Long-term debt	953,530	1,157,073
Total liabilities	2,189,212	2,194,739
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 116,448,898 and 116,351,424 shares	1,290	1,290
Additional paid-in capital	366,336	365,778
Accumulated other comprehensive income (loss)	5,276	(18,136)
Retained earnings	1,181,199	1,145,445
Less treasury stock, 12,611,766 and 12,709,240 shares at cost	(245,900)	(248,009)
Stockholders' equity attributable to CMC	1,308,201	1,246,368
Stockholders' equity attributable to noncontrolling interests	156	139
Total equity	1,308,357	1,246,507
Total liabilities and stockholders' equity	$3,497,569	$3,441,246

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended November 30,	
(in thousands)	2012	2011
Cash flows from (used by) operating activities:		
Net earnings	$49,719	$107,736
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	33,751	35,028
Provision for losses on receivables, net	1,153	239
Share-based compensation	4,509	3,881
Amortization of interest rate swaps termination gain	(2,908)	—
Deferred income taxes (benefit)	23,876	(112,237)
Net (gain) loss on sale of cost method investment and other	(26,071)	374
Write-down of inventory	1,063	5,907
Asset impairment	3,028	1,044
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	81,217	94,061
Accounts receivable sold (repurchased), net	(46,614)	47,785
Increase in inventories	(100,139)	(24,786)
Decrease (increase) in other assets	(740)	2,978
Decrease in accounts payable, accrued expenses, other payables and income taxes	(56,228)	(121,167)
Increase (decrease) in other long-term liabilities	113	(2,704)
Net cash flows from (used by) operating activities	(34,271)	38,139
Cash flows from (used by) investing activities:		
Capital expenditures	(24,757)	(29,925)
Proceeds from the sale of property, plant and equipment and other	5,956	7,014
Proceeds from the sale of cost method investment	28,995	—
Increase in deposit for letters of credit	—	(865)
Net cash flows from (used by) investing activities	10,194	(23,776)
Cash flows from (used by) financing activities:		
Increase in documentary letters of credit	60,217	13,080
Short-term borrowings, net change	(13,045)	44,432
Repayments on long-term debt	(1,284)	(44,584)
Stock issued under incentive and purchase plans, net of forfeitures	(414)	(27)
Cash dividends	(13,963)	(13,863)
Contribution from (purchase of) noncontrolling interests	15	(30)
Net cash flows from (used by) financing activities	31,526	(992)
Effect of exchange rate changes on cash	1,525	(7,658)
Increase in cash and cash equivalents	8,974	5,713
Cash and cash equivalents at beginning of year	262,422	222,390
Cash and cash equivalents at end of period	$271,396	$228,103

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2011	129,060,664	$1,290	$371,616	$59,473	$993,578	(13,526,901)	$(265,532)	$223	$1,160,648
Comprehensive income (loss):									
Net earnings					107,734			2	107,736
Other comprehensive loss				(75,578)					(75,578)
Comprehensive income									32,158
Cash dividends					(13,863)				(13,863)
Issuance of stock under incentive and purchase plans, net of forfeitures			(151)			5,085	124		(27)
Share-based compensation			3,275						3,275
Purchase of noncontrolling interests			14					(44)	(30)
Balance, November 30, 2011	129,060,664	$1,290	$374,754	$(16,105)	$1,087,449	(13,521,816)	$(265,408)	$181	$1,182,161

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2012	129,060,664	$1,290	$365,778	$(18,136)	$1,145,445	(12,709,240)	$(248,009)	$139	$1,246,507
Comprehensive income:									
Net earnings					49,717			2	49,719
Other comprehensive income				23,412					23,412
Comprehensive income									73,131
Cash dividends					(13,963)				(13,963)
			(2,523)			97,474	2,109		(414)

Issuance of stock under incentive and purchase plans, net of forfeitures									
Share-based compensation			3,081						3,081
Contribution of noncontrolling interest								15	15
Balance, November 30, 2012	129,060,664	$1,290	$366,336	$5,276	$1,181,199	(12,611,766)	$(245,900)	$156	$1,308,357

See notes to unaudited consolidated financial statements.

7

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 1. ACCOUNTING POLICIES

Accounting Principles The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a basis consistent with that used in the Commercial Metals Company's Annual Report on Form 10-K filed by Commercial Metals Company ("CMC," and together with its consolidated subsidiaries, the "Company") with the Securities and Exchange Commission (“SEC”) for the year ended August 31, 2012, and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets, statements of operations, comprehensive income, cash flows and stockholders' equity for the periods indicated. Certain amounts in fiscal 2012 have been reclassified to conform to the fiscal 2013 presentation. These notes should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended August 31, 2012. The results of operations for the three month period are not necessarily indicative of the results to be expected for a full year.

Recent accounting pronouncements In the first quarter of 2013, the Company adopted guidance issued by the Financial Accounting Standards Board (FASB) on disclosure requirements for the presentation of comprehensive income. This guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. As a result of the adoption, the Company's financial statements now include a separate consolidated statement of comprehensive income immediately following the consolidated statement of operations.

In the first quarter of 2013, the Company adopted guidance that simplifies how entities test indefinite-lived intangible assets for impairment and improves consistency in impairment testing guidance among long-lived asset categories. The guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with U.S. GAAP. An entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. The adoption of this guidance did not have a material impact on the Company's financial statements.

In December 2011, the FASB issued guidance requiring an entity to disclose the nature of its rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The objective is to make financial statements that are prepared under U.S. generally accepted accounting principles more comparable to those prepared under International Financial Reporting Standards. The new disclosures will give financial statement users information about both gross and net exposures. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The guidance will be applied on a retrospective basis. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.
NOTE 2. SALES OF ACCOUNTS RECEIVABLE

The Company has a domestic sale of accounts receivable program which expires on December 26, 2014. Under the program, the Company periodically contributes, and several of its subsidiaries periodically sell without recourse, certain eligible trade accounts receivable to CMC Receivables, Inc. (“CMCRV”), a wholly-owned subsidiary of the Company. CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling receivables generated by the Company. Depending on the Company’s level of financing needs, CMCRV sells the trade accounts receivable in their entirety to two third party financial institutions. The third party financial institutions advance up to a maximum of $200 million for all receivables and the remaining portion due to the Company is deferred until the ultimate collection of the underlying receivables. The Company accounts for sales to the financial institutions as true sales and the cash advances for receivables are removed from the consolidated balance sheets and are reflected as cash provided by operating activities. Additionally, the receivables program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under certain of its credit arrangements. The covenants contained in the receivables purchase agreement are consistent with the credit facility described in Note 8, Credit Arrangements.

At November 30, 2012 and August 31, 2012, the Company sold $405.0 million and $406.9 million of receivables, respectively, to the third party financial institutions. The Company did not receive any advance payments at November 30, 2012 and received $10.0 million as advance payments at August 31, 2012. The remaining amounts of $405.0 million and $396.9 million, respectively, are the deferred purchase prices, and are included in trade receivables on the Company's consolidated balance sheets.

In addition to the domestic sale of accounts receivable program described above, the Company’s international subsidiaries in Europe and Australia periodically sell accounts receivable without recourse. These arrangements constitute true sales, and once the accounts are sold, they are no longer available to the Company’s creditors in the event of bankruptcy. Uncollected accounts receivable sold under these arrangements and removed from the consolidated balance sheets were $58.5 million and $95.1 million as of November 30, 2012 and August 31, 2012, respectively. The Australian program contains financial covenants in which the subsidiary must meet certain coverage and tangible net worth levels, as defined. At November 30, 2012, the Australian subsidiary was not in compliance with these covenants. The Company provided a guarantee of the Australian subsidiary’s performance resulting in the financial covenants being waived at November 30, 2012.

During the three months ended November 30, 2012 and 2011, proceeds from the domestic and international sales of receivables were $287.0 million and $528.9 million, respectively, and cash payments to the owners of receivables were $333.6 million and $481.1 million, respectively. The Company is responsible for servicing the receivables for a nominal servicing fee. Discounts on domestic and international sales of accounts receivable were $1.2 million and $1.7 million for the three months ended November 30, 2012 and 2011, respectively. These discounts primarily represent the cost of funds and are included in selling, general and administrative expenses in the Company's consolidated statements of operations.

NOTE 3. INVENTORIES

Inventories are stated at the lower of cost or market. Inventory cost for most domestic inventories is determined by the last-in-first-out ("LIFO") method. LIFO inventory reserves were $238.4 million and $261.8 million at November 30, 2012 and August 31, 2012, respectively. Inventory cost for international inventories and the remaining domestic inventories are determined by the first-in-first-out ("FIFO") method.

At November 30, 2012 and August 31, 2012, 52% and 55%, respectively, of total inventories were valued at LIFO. The remainder of inventories, valued at FIFO, consisted mainly of material dedicated to CMC Zawiercie S.A. (“CMCZ”) and certain marketing and distribution businesses.

The majority of the Company’s inventories are in the form of finished goods with minimal work in process. At November 30, 2012 and August 31, 2012, $101.5 million and $68.0 million, respectively, were in raw materials.

NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table details the changes in the carrying amount of goodwill by reportable segment:

	Americas			International		
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Consolidated
Balance at August 31, 2012	$7,267	$295	$57,144	$2,685	$ 9,506	$ 76,897
Translation	—	—	—	134	118	252
Balance at November 30, 2012	$7,267	$295	$57,144	$2,819	$ 9,624	$ 77,149

The total gross carrying amounts of the Company's intangible assets that were subject to amortization were $44.1 million and $44.3 million at November 30, 2012 and August 31, 2012, respectively, and are included in other noncurrent assets. Excluding goodwill, there are no other significant intangible assets with indefinite lives. Amortization expense for intangible assets for the three months ended November 30, 2012 and 2011 was $1.2 million and $1.5 million, respectively.

NOTE 5. SEVERANCE

Severance cost recorded by the Company during the three months ended November 30, 2012 was not material. During the three months ended November 30, 2011, the Company recorded severance cost of $19.8 million. The severance cost recorded during the first quarter of 2012 primarily related to the Company's discontinued operations. See Note 7, Discontinued Operations, for additional details.

NOTE 6. DISPOSITIONS

During the first quarter of fiscal 2013, the Company completed the sale of its 11% ownership interest in Trinecke Zelezarny, a.s., a Czech Republic joint-stock company, for $29.0 million resulting in a pre-tax gain of $26.1 million and is included in selling, general and administrative expenses on the consolidated statement of operations. The Trinecke Zelezarny, a.s. investment was included in the International Marketing and Distribution segment. During the first quarter of fiscal 2012, the Company completed the sale of two properties that were previously joist & deck locations.

NOTE 7. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2012, the Company announced its decision to exit the steel pipe manufacturing operations in Croatia (“CMCS”) by closure of the facility and sale of the assets. The Company determined that the decision to exit this business met the definition of a discontinued operation. As a result, the Company recorded severance cost of $18.0 million and this business has been presented as a discontinued operation for all periods. The Company sold a majority of CMCS' assets during fiscal 2012. The remaining assets were sold during the first quarter of fiscal 2013 for $3.9 million with no impact to the consolidated statement of operations.

As of November 30, 2012, the assets of discontinued operations have been presented as held for sale and are included in other current assets on the consolidated balance sheets. Financial information for discontinued operations was as follows:

(in thousands)	November 30, 2012	August 31, 2012
Current assets	$3,832	$6,601

	Three Months Ended November 30,	
(in thousands)	2012	2011
Revenue	$—	$14,144
Earnings (loss) before taxes	388	(27,003)

NOTE 8. CREDIT ARRANGEMENTS

On December 27, 2011, the Company entered into a third amended and restated $300 million revolving credit facility that matures on December 27, 2016. The maximum availability under this facility can be increased to $400 million with the consent of both parties. The program’s capacity, with a sublimit of $50 million for letters of credit, is reduced by outstanding stand-by letters of credit which totaled $30.7 million at November 30, 2012. Under the credit facility, the Company was required to maintain a minimum interest coverage ratio (adjusted EBITDA to interest expense, as each is defined in the facility) of not less than 3.00 to 1.00 for the twelve month cumulative period ended November 30, 2012 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At November 30, 2012, the Company’s interest coverage ratio was 6.12 to 1.00. The agreement also requires the Company to maintain a debt to capitalization ratio that does not exceed 0.60 to 1.00. At November 30, 2012, the Company’s debt to capitalization ratio was 0.49 to 1.00. The agreement provides for interest based on the LIBOR, the Eurodollar rate or Bank of America’s prime rate.

During the third quarter of fiscal 2012, the Company terminated its existing interest rate swap transactions and received cash proceeds of approximately $53 million, net of customary finance charges. The resulting gain was deferred and is being amortized as a reduction to interest expense over the remaining term of the respective debt tranches. At November 30, 2012, the unamortized portion was $44.0 million and the amortization of the deferred gain was $2.9 million for the three months ended November 30, 2012.

The Company has uncommitted credit facilities available from domestic and international banks. In general, these credit facilities are used to support trade letters of credit (including accounts payable settled under bankers' acceptances), foreign exchange transactions and short-term advances which are priced at market rates.

Long-term debt, including the deferred gain from the termination of the interest rate swaps, was as follows:

(in thousands)	Weighted Average Interest Rate as of November 30, 2012	November 30, 2012	August 31, 2012
$200 million notes at 5.625% due November 2013	3.5%	$ 203,865	$ 204,873
$400 million notes at 6.50% due July 2017	5.7%	413,748	414,491
$500 million notes at 7.35% due August 2018	6.4%	526,398	527,554
Other, including equipment notes		13,585	14,407
		1,157,596	1,161,325
Less current maturities		204,066	4,252
		$ 953,530	$ 1,157,073

Interest on the notes is payable semiannually.

CMCZ has uncommitted credit facilities of $77.6 million with several banks with expiration dates ranging from March 31, 2013 to November 30, 2013. At November 30, 2012, $12.6 million was outstanding under these facilities and is included in notes payable on the Company's consolidated balance sheets. The weighted average interest rate on these facilities was 5.8% at November 30, 2012.

Interest of $0.5 million and $0.4 million was capitalized in the cost of property, plant and equipment constructed for the three months ended November 30, 2012 and 2011, respectively. Interest of $4.6 million and $4.4 million was paid during the three months ended November 30, 2012 and 2011, respectively.

NOTE 9. DERIVATIVES AND RISK MANAGEMENT

The Company’s worldwide operations and product lines expose it to risks from fluctuations in metals commodity prices, foreign currency exchange rates, natural gas prices and interest rates. One objective of the Company’s risk management program is to mitigate these risks using derivative instruments. The Company enters into metal commodity futures and forward contracts to mitigate the risk of unanticipated changes in gross margin due to the volatility of the commodities’ prices, enters into foreign currency forward contracts that match the expected settlements for purchases and sales denominated in foreign currencies and enters into natural gas forward contracts to mitigate the risk of unanticipated changes in operating cost due to the volatility of natural gas prices. When sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to reduce the effects of the volatility of ocean freight rates.

At November 30, 2012, the Company's notional value of its foreign currency contract commitments was $233 million.

The following table provides commodity contract commitments as of November 30, 2012:

Commodity	Long/Short	Total	
Aluminum	Long	4,675	MT
Aluminum	Short	2,725	MT
Copper	Long	964	MT
Copper	Short	5,602	MT
Natural Gas	Long	40,000	MMBtu

MT = Metric Ton
MMBtu = One million British thermal units

The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in substantially no ineffectiveness in the consolidated statements of operations, and there were no components excluded from the assessment of hedge effectiveness for the three months ended November 30, 2012 and 2011. Certain foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

The following tables summarize activities related to the Company’s derivative instruments and hedged items recognized within the consolidated statements of operations:

Derivatives Not Designated as Hedging Instruments (in thousands)	Location	Three Months Ended November 30, 2012	2011
Commodity	Cost of goods sold	$(411)	$3,577
Commodity	SG&A expenses	(588)	—
Foreign exchange	Net sales	(11)	(108)
Foreign exchange	Cost of goods sold	—	(233)
Foreign exchange	SG&A expenses	(36)	(7,159)
Other	Cost of goods sold	15	—
Loss before taxes		$(1,031)	$(3,923)

The Company’s fair value hedges are designated for accounting purposes with gains and losses on the hedged items offsetting the gain or loss on the related derivative transaction. Hedged items relate to firm commitments on commercial sales and purchases and capital expenditures.

Derivatives Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended November 30, 2012	2011
Foreign exchange	SG&A expenses	$—	$2,570
Foreign exchange	Cost of goods sold	(229)	—
Interest rate	Interest expense	—	1,205
Gain (loss) before taxes		$(229)	$3,775

Hedged Items Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended November 30, 2012	2011
Foreign exchange	Net sales	$(23)	$—
Foreign exchange	Cost of goods sold	157	—
Foreign exchange	SG&A expenses	—	(2,579)
Interest rate	Interest expense	—	(1,205)
Gain (loss) before taxes		$134	$(3,784)

Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss) (in thousands)	Three Months Ended November 30, 2012	2011
Commodity	$14	$(25)
Foreign exchange	303	(1,161)
Gain (loss), net of taxes	$317	$(1,186)

Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss) (in thousands)	Location	Three Months Ended November 30, 2012	2011
Commodity	Cost of goods sold	$—	$(13)
Foreign exchange	Net sales	51	(1,157)
Foreign exchange	Cost of goods sold	(41)	—
Foreign exchange	SG&A expenses	10	(64)
Interest rate	Interest expense	102	101
Gain (loss), net of taxes		$122	$(1,133)

The Company's derivative instruments were recorded at their respective fair values as follows on the consolidated balance sheets:

Derivative Assets (in thousands)	November 30, 2012	August 31, 2012
Commodity — designated for hedge accounting	$16	$—
Commodity — not designated for hedge accounting	1,467	407
Foreign exchange — designated for hedge accounting	114	670
Foreign exchange — not designated for hedge accounting	455	798
Derivative assets (other current assets and other assets)*	$2,052	$1,875

Derivative Liabilities (in thousands)	November 30, 2012	August 31, 2012
Commodity — designated for hedge accounting	$—	$2
Commodity — not designated for hedge accounting	2,051	993
Foreign exchange — designated for hedge accounting	390	1,272
Foreign exchange — not designated for hedge accounting	413	1,248
Other — not designated for hedge accounting	13	32
Derivative liabilities (accrued expenses, other payables and long-term liabilities)*	$2,867	$3,547

* Derivative assets and liabilities do not include the hedged items designated as fair value hedges.

As of November 30, 2012, all of the Company's derivative instruments designated to hedge exposure to the variability in future cash flows of the forecasted transactions will mature within twelve months.

All of the instruments are highly liquid, and not entered into for trading purposes.

NOTE 10. FAIR VALUE

The Company has established a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. These levels are determined based on the lowest level input that is significant to the fair value measurement. When available, the Company uses unadjusted quoted market prices in active markets to measure the fair value and classifies such items within Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use current market-based or independently sourced market parameters. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. Fair value of nonqualified benefit plan liabilities in Level 2 is measured based on investments selections from plan participants. The following tables summarize information regarding the Company's financial assets and financial liabilities that were measured at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	November 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market investments	$192,417	$192,417	$—	$—
Derivative assets	2,052	1,467	585	—
Nonqualified benefit plan assets *	54,208	54,208	—	—
Derivative liabilities	2,867	2,051	816	—
Nonqualified benefit plan liabilities *	75,561	—	75,561	—

13

		Fair Value Measurements at Reporting Date Using		
(in thousands)	August 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market investments	$172,462	$172,462	$—	$—
Derivative assets	1,875	407	1,468	—
Nonqualified benefit plan assets *	52,929	52,929	—	—
Derivative liabilities	3,547	993	2,554	—
Nonqualified benefit plan liabilities *	76,952	—	76,952	—

* The Company provides a nonqualified benefit restoration plan to certain eligible executives equal to amounts that would have been available under tax qualified Employee Retirement Income Security Act ("ERISA") plans but for limitations of ERISA, tax laws and regulations. Though under no obligation to fund this plan, the Company has segregated assets in a trust. The plan assets and liabilities consist of securities included in various mutual funds.

Fair value of property, plant and equipment held for sale (Level 3) was $3.8 million based on appraised values less costs to sell at November 30, 2012. CMC does not have other assets or intangible assets measured at fair value on a non-recurring basis at November 30, 2012. Impairment charges for property, plant and equipment were $3.0 million for the three months ended November 30, 2012.

The Company’s long-term debt (Level 2) is predominantly publicly held. The fair value was approximately $1.23 billion at November 30, 2012 and $1.22 billion at August 31, 2012. Fair value was determined by indicated market values.

NOTE 11. INCOME TAX

The Company's effective income tax rate from continuing operations for the three months ended November 30, 2012 and 2011 was 31.3% and (320.7)%, respectively. The Company’s effective tax rate from discontinued operations for the three months ended November 30, 2012 and 2011 was 35.0% and 35.9%, respectively.

During the three months ended November 30, 2011, the Company recognized a tax loss in the amount of $291 million related to its investment in its Croatian subsidiary. As a result, a tax benefit of $102.1 million was recorded from this loss in continuing operations in the first quarter of 2012. The Company will report and disclose the investment loss on its U.S. tax return as ordinary worthless stock and bad debt deductions. This tax benefit was the primary reason for the variance from the statutory tax rate of 35%.

The Company made net payments of $0.3 million and $12.5 million for income taxes during the three months ended November 30, 2012 and 2011, respectively.

The reserve for unrecognized tax benefits related to the accounting for uncertainty in income taxes was $27.4 million and $10.0 million, respectively, exclusive of interest and penalties, as of November 30, 2012 and 2011.

The Company's policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as tax expense and the balances at the end of a reporting period are recorded as part of the current or noncurrent reserve for uncertain income tax positions. For the three months ended November 30, 2012, before any tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized tax benefits.

During the next twelve months, it is reasonably possible that the statute of limitations may lapse pertaining to positions taken by the Company in prior year tax returns or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized tax benefits may decrease by approximately $10.6 million, which would reduce the provision for taxes on earnings by an immaterial amount.

The Company files income tax returns in the United States and multiple foreign jurisdictions with varying statutes of limitations. In the normal course of business, the Company and its subsidiaries are subject to examination by various taxing authorities. The following is a summary of tax years subject to examination:

US Federal — 2008 and forward
US States — 2008 and forward
Foreign — 2005 and forward

The Company is currently under examination by the Internal Revenue Service and state revenue authorities from 2009 to 2011. Management believes the Company's recorded tax liabilities as of November 30, 2012 sufficiently reflect the anticipated outcome of these examinations.

NOTE 12. SHARE-BASED COMPENSATION PLANS

The Company recognizes share-based compensation at fair value in the financial statements. The fair value of each share-based award is estimated at the date of grant using the Black-Scholes pricing model. Total compensation cost is amortized over the requisite service period using either the accelerated method of amortization for grants with graded vesting or using the straight-line method for grants with cliff vesting. The Company recognized share-based compensation expense of $4.5 million and $3.9 million as a component of selling, general and administrative expenses for the three months ended November 30, 2012 and 2011, respectively. At November 30, 2012, the Company had $37.4 million of total unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over three years.

As of November 30, 2012, the Company had 2,116,730 shares available for future grants.

Combined information for shares subject to options and stock appreciation rights ("SARs"), excluding the cash component was as follows:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at September 1, 2012	2,930,492	$24.81		
Granted	175,298	14.12		
Forfeited/Expired	(34,602)	25.94		
Outstanding at November 30, 2012	3,071,188	$24.19	3.3	1,814,963
Exercisable at November 30, 2012	2,076,475	$29.86	1.9	266,884

Information for restricted stock units ("RSUs") and performance stock units ("PSUs") (excluding the cash components), for the three months ended November 30, 2012 was as follows:

	Number	Weighted Average Grant-Date Fair Value
Outstanding at September 1, 2012	1,683,572	$ 13.16
Granted	1,312,916	12.99
Vested	(129,618)	10.28
Forfeited	(17,591)	13.84
Outstanding at November 30, 2012	2,849,279	$ 13.21

During the first quarter of 2013, the Compensation Committee (the “Committee”) of CMC's Board of Directors approved a grant of RSUs, SARs and PSUs to employees. The PSUs will vest upon the achievement of certain target levels of the performance goals and objectives of the Company over the performance period of approximately three years. The actual number of PSUs granted will be based on the level of achievement. Upon achievement of any of the performance goals, a portion of the awards will be settled with shares of the Company's common stock. The RSUs and SARs vest over a three year period and will be settled with shares of CMC's common stock.

Share-Based Liability Awards During the first quarter of 2013, the Company granted 204,069 equivalent shares of cash-settled RSUs, SARs and PSUs. The PSUs vest upon the achievement of performance goals and objectives of the Company over the performance period. The RSUs and SARs vest over a three year period. The Company has accounted for these cash-settled awards as a liability and the value is adjusted to the current share price of CMC's common stock at each reporting period. As of November 30, 2012, the Company had 1,503,960 equivalent shares in awards outstanding. The Company expects 1,327,463 equivalent shares to vest.

NOTE 13. EARNINGS PER SHARE ATTRIBUTABLE TO CMC

In calculating earnings per share, there were no adjustments to net earnings to arrive at earnings for any periods presented. The reconciliation of the denominators of the earnings per share calculations is as follows:

	Three Months Ended November 30,	
	2012	2011
Shares outstanding for basic earnings per share	116,336,504	115,530,545
Effect of dilutive securities:		
Stock-based incentive/purchase plans	757,123	918,938
Shares outstanding for diluted earnings per share	117,093,627	116,449,483

For the three months ended November 30, 2012 and 2011, SARs with total share commitments of 2.9 million and 2.7 million, respectively, were antidilutive and therefore were excluded from the calculation of diluted earnings per share. All stock options and SARs expire by 2022.

CMC’s restricted stock is included in the number of shares of common stock issued and outstanding, but omitted from the basic earnings per share calculation until the shares vest.

The Company did not purchase any shares during the first quarter of 2013 and had remaining authorization to purchase 8,259,647 shares of its common stock at November 30, 2012.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and government investigations, including environmental matters. See Note 17, Commitments and Contingencies, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended August 31, 2012.

On September 18, 2008, the Company was served with a class action antitrust lawsuit alleging violations of Section 1 of the Sherman Act, brought by Standard Iron Works of Scranton, Pennsylvania, against nine steel manufacturing companies, including CMC. The lawsuit, filed in the United States District Court for the Northern District of Illinois, alleges that the defendants conspired to fix, raise, maintain and stabilize the price at which steel products were sold in the United States by artificially restricting the supply of such steel products. The lawsuit, which purports to be brought on behalf of a class consisting of all purchasers of steel products directly from the defendants between January 1, 2005 and September 2008, seeks treble damages and costs, including reasonable attorney fees and pre- and post-judgment interest. Document discovery has taken place but motions for class certification are not yet pending nor have any depositions been taken. The Company believes the case is without merit and intends to defend it vigorously.

Since the filing of the direct purchaser lawsuit, a case has been filed in federal court in the Northern District of Illinois on behalf of a class of indirect purchasers in approximately 28 states naming the same defendants and containing allegations substantially identical to those of the Standard Iron Works complaint. That case has in effect been stayed. Another indirect purchaser action was filed in Tennessee state court, again naming the same defendants but contending that the conspiracy continued through 2010. The case has been removed to federal court and plaintiffs have moved to remand. The motion to remand has not yet been decided and no motion practice or discovery has taken place. The Company believes that the lawsuits are without merit and plans to defend them vigorously. Due to the uncertainty and the information available at this time, we cannot reasonably estimate a range of loss relating to these cases.

Guarantees During the fourth quarter of 2012, the Company entered into a guarantee agreement with a bank in connection with a credit facility granted by the bank to a supplier of the company. The fair value of the guarantee is negligible. As of November 30, 2012, the maximum credit facility with the bank was $4.0 million and the Company's maximum exposure was $4.0 million.

NOTE 15. BUSINESS SEGMENTS

The Company's reporting segments are based on strategic business areas, which offer different products and services. These segments have different lines of management responsibility as each business requires different marketing strategies and management expertise. The reporting segments are the Company's operating segments except for the Americas Mills reporting segment which includes the domestic steel mills operating segment and the domestic copper tube minimill operating segment. The domestic copper tube minimill is aggregated with the domestic steel mills because of similar economic characteristics, products, production processes, customers and distribution methods.

The Company structures its business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mill and International Marketing and Distribution. The Americas Recycling segment consists of the scrap metal processing and sales operations primarily in Texas, Florida and the southern United States. The Americas Mills segment includes the Company’s domestic steel mills, including the scrap processing facilities that directly support these mills, and the domestic copper tube minimill. The Americas Fabrication segment consists of the Company’s rebar fabrication operations, fence post manufacturing plants and construction-related and other products facilities. The International Mill segment includes the minimill, recycling and fabrication operations in Poland. International Marketing and Distribution includes international operations for the sales, distribution and processing of steel products, ferrous and nonferrous metals and other industrial products. Additionally, the International Marketing and Distribution segment includes the Company’s U.S.-based trading and distribution divisions, CMC Cometals and CMC Cometals Steel. Corporate contains expenses of the Company’s corporate headquarters and interest expense related to its long-term public debt.

The financial information presented for the International Mill segment excludes CMCS operations. These operations have been classified as discontinued operations in the consolidated statements of operations. See Note 7, Discontinued Operations, for more information.

The Company uses adjusted operating profit (loss) to measure segment performance. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended August 31, 2012.

The following is a summary of certain financial information from continuing operations by reportable segment:

	Three Months Ended November 30, 2012							
	Americas			International				
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	Continuing Operations
Net sales-unaffiliated customers	$307,471	$306,816	$352,747	$215,858	$ 603,535	$2,799	$ —	$1,789,226
Intersegment sales	44,490	189,633	3,845	6,209	5,053	—	(249,230)	—
Net sales	351,961	496,449	356,592	222,067	608,588	2,799	(249,230)	1,789,226
Adjusted operating profit (loss)	4,494	52,522	10,192	876	40,161	(17,370)	(660)	90,215
Total assets*	277,756	660,400	623,055	536,787	894,807	1,028,927	(527,995)	3,493,737

	Three Months Ended November 30, 2011							
	Americas			International				
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and	Corporate	Eliminations	Continuing Operations

					Distribution			
Net sales-unaffiliated customers	$373,393	$344,566	$315,517	$252,921	$ 700,363	$60	$ —	$1,986,820
Intersegment sales	41,412	180,930	4,251	43,260	9,708	—	(279,561)	—
Net sales	414,805	525,496	319,768	296,181	710,071	60	(279,561)	1,986,820
Adjusted operating profit (loss)	20,816	57,931	(7,380)	9,822	(4,101)	(23,268)	(6,145)	47,675
Total assets at August 31, 2012*	285,136	676,909	629,970	529,160	870,933	961,654	(519,117)	3,434,645

* Excludes total assets from discontinued operations of $3.8 million at November 30, 2012 and $6.6 million at August 31, 2012.

The following table provides a reconciliation of consolidated adjusted operating profit to net earnings from continuing operations:

	Three Months Ended November 30,	
(in thousands)	2012	2011
Earnings from continuing operations	$49,467	$125,045
Income taxes (benefit)	22,515	(95,327)
Interest expense	17,024	16,297
Discounts on sales of accounts receivable	1,209	1,660
Adjusted operating profit from continuing operations	90,215	47,675
Adjusted operating profit (loss) from discontinued operations	388	(26,552)
Adjusted operating profit	$90,603	$21,123

The following represents the Company's external net sales from continuing operations by major product and geographic area:

	Three Months Ended November 30,	
(in thousands)	2012	2011
Major product information:		
Steel products	$1,104,597	$1,155,840
Industrial materials	243,431	320,502
Nonferrous scrap	181,333	194,298
Ferrous scrap	151,017	207,346
Construction materials	48,148	44,494
Nonferrous products	39,122	40,113
Other	21,578	24,227
Net sales	$1,789,226	$1,986,820

	Three Months Ended November 30,	
(in thousands)	2012	2011
Geographic area:		
United States	$1,022,105	$1,153,779
Europe	285,042	352,188
Asia	310,029	281,042
Australia	153,656	147,563
Other	18,394	52,248
Net sales	$1,789,226	$1,986,820

NOTE 16. SUBSEQUENT EVENTS

On December 6, 2012, the Company amended the stockholder rights plan (the "Rights Agreement") dated as of July 30, 2011. As a result of the amendment, the rights to purchase Series B Junior Participating Preferred Stock of the Company (the "Rights") pursuant to the Rights Agreement expired at 5:00 p.m. (Dallas, Texas time) on December 6, 2012 (the "Final Expiration Date"), and the Rights Agreement effectively terminated as of such time.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto, which are included in this report, and our audited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2012. This discussion contains or incorporates by reference “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on expectations, estimates, assumptions and projections about our industry, business and future financial results, based on information available at the time this report is filed with the Securities and Exchange Commission ("SEC") or, with respect to any document incorporated by reference, available at the time that such document was prepared. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those identified in the section entitled “Forward-Looking Statements” in this Item 2 of this Quarterly Report on Form 10-Q and in the section entitled “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2012. We do not assume any obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise, except as required by law.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies as set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K filed with the SEC for the year ended August 31, 2012.

CONSOLIDATED RESULTS OF OPERATIONS

(in thousands)	Three Months Ended November 30, 2012	2011	Increase (Decrease) %
Net sales*	$1,789,226	$1,986,820	(10)%
Earnings from continuing operations	49,467	125,045	(60)%
Adjusted EBITDA	126,171	55,533	127%

* Excludes divisions classified as discontinued operations.

In the table above, we have included a financial statement measure that was not derived in accordance with United States generally accepted accounting principles ("GAAP"). We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization as well as impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our annual and long-term cash incentive performance plans for management and part of a debt compliance test for our revolving credit agreement. Reconciliations from net earnings from continuing operations to adjusted EBITDA are provided below:

(in thousands)	Three Months Ended November 30, 2012	2011	Increase (Decrease) %
Earnings from continuing operations	$49,467	$125,045	(60)%
Less net earnings attributable to noncontrolling interests	(2)	(2)	—%
Interest expense	17,024	16,297	4%
Income taxes (benefit) from continuing operations	22,515	(95,327)	124%
Depreciation, amortization and impairment charges	36,779	34,479	7%
Adjusted EBITDA from continuing operations	125,783	80,492	56%
Adjusted EBITDA from discontinued operations	388	(24,959)	102%
Adjusted EBITDA	$126,171	$55,533	127%

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation and amortization are also necessary elements of our costs. Impairment charges, when necessary, accelerate the write-off of fixed assets that would otherwise have been accomplished by periodic depreciation charges. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings (loss) determined in accordance with GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

The following are highlights with respect to our performance during the first quarter of 2013 as compared to the same period of 2012 or could be significant for our future operations:

1. In our Americas Recycling segment, net sales decreased 15% and adjusted operating profit decreased $16.3 million during the first quarter of 2013 as compared to the prior year's first quarter. The results were primarily due to lower ferrous and nonferrous volumes and pricing and nonferrous margin compression combined with decreased LIFO

income of $8.2 million.

2. In our Americas Mills segment, net sales decreased 6% and adjusted operating profit decreased $5.4 million during the first quarter of 2013 as compared to the prior year's first quarter. The segment's volumes were slightly higher compared to the same quarter in the prior year while margins declined on our higher margin merchant products.

3. In our Americas Fabrication segment, net sales increased 12% and the segment reported an improvement in adjusted operating profit of $17.6 million during the first quarter of 2013 as compared to the prior year's first quarter. The results were primarily due to stable material pricing and improved backlog margins.

4. In our International Mill segment, net sales decreased 25% and adjusted operating profit decreased $8.9 million to $0.9 million during the first quarter of 2013 as compared to the prior year's first quarter primarily due to declining volume and margins as market conditions in Euorpe continued to erode.

5. In our International Marketing and Distribution segment, net sales decreased 14% and adjusted operating profit increased $44.3 million during the first quarter of 2013 as compared to the prior year's first quarter. During the first quarter of 2013, we sold our investment in 11% of the outstanding stock of Trinecke Zelezarny, a.s., a Czech Republic joint-stock company for $29.0 million resulting in a pre-tax gain of $26.1 million in the segment. Additionally, within the segment, the raw materials business experienced a profit recovery compared to the prior year's first quarter, which included charges on long positions the Company held on iron ore purchase contracts. The results were also impacted by an increase of $7.6 million in LIFO income.

6. During the first quarter of fiscal 2012, we announced the exit of our steel pipe manufacturing operation in Croatia (“CMCS”). The division recorded severance costs of $18.0 million associated with exiting the business during the first quarter of fiscal 2012. The Company sold the majority of CMCS assets in the fourth quarter of 2012. During the first quarter of 2013, the Company sold the remaining assets for $3.9 million.

7. During the first quarter of fiscal 2012, we recognized a tax benefit of $102.1 million in continuing operations related to ordinary worthless stock and bad debt deductions from our investment in CMCS.

SEGMENT OPERATING DATA

Unless otherwise indicated, all dollar amounts below are calculated before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for the purpose of making operating decisions. See Note 15, Business Segments, to the unaudited consolidated financial statements included in this report.

We use adjusted operating profit (loss) to compare and to evaluate the financial performance of our segments. Adjusted operating profit (loss) is the sum of our earnings (loss) before income taxes and financing costs.

The following table shows net sales and adjusted operating profit (loss) by business segment:

	Three Months Ended			
(in thousands)	11/30/2012	11/30/2011		
Net sales:				
ALLOCATION OF NET INCOME:				
Preference Units	$2,072	$2,072	$1,036	$1,036
General Partner	$189,753	$1,340,373	$111,654	$323,723
Limited Partners	7,535	56,111	4,442	12,788
Net income available to Units	$197,288	$1,396,484	$116,096	$336,511
Earnings per Unit – basic:				
Income (loss) from continuing operations available to Units	$0.52	$(0.62)	$0.31	$(0.16)
Net income available to Units	$0.53	$3.84	$0.31	$0.90
Weighted average Units outstanding	374,377	362,390	374,551	373,403
Earnings per Unit – diluted:				
Income (loss) from continuing operations available to Units	$0.52	$(0.62)	$0.31	$(0.16)
Net income available to Units	$0.52	$3.84	$0.31	$0.90
Weighted average Units outstanding	376,780	362,390	377,118	373,403
Distributions declared per Unit outstanding	$1.00	$0.80	$0.50	$0.40

See accompanying notes

11

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)
(Amounts in thousands except per Unit data)
(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2014	2013	2014	2013
Comprehensive income:				
Net income	$200,452	$1,397,766	$117,720	$336,732
Other comprehensive (loss) income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(21,881)	12,337	(9,929)	9,523
Losses reclassified into earnings from other comprehensive income	8,335	12,098	4,206	3,826
Other comprehensive income – other instruments:				
Unrealized holding gains arising during the period	—	928	—	501
Other comprehensive income – foreign currency:				
Currency translation adjustments arising during the period	1,718	941	1,627	1,814
Other comprehensive (loss) income	(11,828)	26,304	(4,096)	15,664
Comprehensive income	188,624	1,424,070	113,624	352,396
Comprehensive (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,092)	790	(588)	815
Comprehensive income attributable to controlling interests	$187,532	$1,424,860	$113,036	$353,211

See accompanying notes
12

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$200,452	$1,397,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	375,303	550,488
Amortization of deferred financing costs	5,926	11,529
Amortization of above/below market leases	1,530	1,216
Amortization of discounts and premiums on debt	(5,876)	(23,031)
Amortization of deferred settlements on derivative instruments	8,068	11,830
Write-off of pursuit costs	1,492	3,365
Loss from investments in unconsolidated entities	9,025	54,540
Distributions from unconsolidated entities – return on capital	2,390	588
Net (gain) on sales of land parcels	(794)	(14,616)
Net (gain) on sales of discontinued operations	(224)	(1,588,874)
Net (gain) on sales of real estate properties	(14,903)	—
Unrealized (gain) loss on derivative instruments	(90)	24
Compensation paid with Company Common Shares	21,905	22,089
Changes in assets and liabilities:		
(Increase) in deposits – restricted	(1,820)	(12,220)
Decrease in mortgage deposits	187	789
(Increase) in other assets	(7,745)	(4,695)
Increase in accounts payable and accrued expenses	38,951	25,956
Increase (decrease) in accrued interest payable	80	(1,396)
(Decrease) in other liabilities	(17,237)	(11,449)
Increase (decrease) in security deposits	2,916	(6,080)
Net cash provided by operating activities	619,536	417,819
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Archstone, net of cash acquired	—	(4,000,875)
Investment in real estate – acquisitions	(265,466)	(108,308)
Investment in real estate – development/other	(245,657)	(154,576)
Improvements to real estate	(76,912)	(57,253)
Additions to non-real estate property	(1,818)	(2,801)
Interest capitalized for real estate and unconsolidated entities under development	(25,037)	(20,006)
Proceeds from disposition of real estate, net	48,359	3,764,000
Investments in unconsolidated entities	(9,554)	(53,687)
Distributions from unconsolidated entities – return of capital	64,669	—
Decrease in deposits on real estate acquisitions and investments, net	20,979	65,869
Decrease in mortgage deposits	760	5,089
Acquisition of Noncontrolling Interests – Partially Owned Properties	(5,501)	—
Net cash (used for) investing activities	(495,178)	(562,548)

See accompanying notes

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan and bond acquisition costs	$(10,881)	$(18,006)
Mortgage deposits	(3,580)	(2,208)
Mortgage notes payable:		
Proceeds	—	683
Lump sum payoffs	(3,064)	(697,897)
Scheduled principal repayments	(6,000)	(6,336)
Notes, net:		
Proceeds	1,194,277	1,245,550
Lump sum payoffs	(750,000)	(400,000)
Lines of credit:		
Proceeds	3,374,000	8,413,000
Repayments	(3,489,000)	(8,413,000)
(Payments on) settlement of derivative instruments	(733)	(44,013)
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,218	2,363
Proceeds from exercise of EQR options	25,685	13,885
OP Units repurchased and retired	(1,777)	—
Payment of offering costs	—	(744)
Other financing activities, net	(33)	(33)
Contributions – Noncontrolling Interests – Partially Owned Properties	5,684	6,769
Contributions – Limited Partners	3	5
Distributions:		
OP Units – General Partner	(414,843)	(393,347)
Preference Units	(2,072)	(1,036)
OP Units – Limited Partners	(16,405)	(16,528)
Noncontrolling Interests – Partially Owned Properties	(5,239)	(4,404)
Net cash (used for) financing activities	(101,760)	(315,297)
Net increase (decrease) in cash and cash equivalents	22,598	(460,026)
Cash and cash equivalents, beginning of period	53,534	612,590
Cash and cash equivalents, end of period	$76,132	$152,564

See accompanying notes

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2014	2013
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$226,785	$319,992
Net cash paid for income and other taxes	$843	$1,028
Amortization of deferred financing costs:		
Investment in real estate, net	$—	$(1)
Deferred financing costs, net	$5,926	$11,530
Amortization of discounts and premiums on debt:		
Mortgage notes payable	$(7,011)	$(24,083)
Notes, net	$1,135	$1,052
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$(267)	$(268)
Accumulated other comprehensive income	$8,335	$12,098
Loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	$7,354	$49,507
Other liabilities	$1,671	$5,033
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	$2,285	$588
Other liabilities	$105	$—
Unrealized (gain) loss on derivative instruments:		
Other assets	$10,611	$(10,753)
Notes, net	$1,452	$(1,523)
Other liabilities	$9,728	$(37)
Accumulated other comprehensive income	$(21,881)	$12,337
Acquisition of Archstone, net of cash acquired:		
Investment in real estate, net	$39,929	$(8,713,217)
Investments in unconsolidated entities	$(33,993)	$(214,677)
Deposits – restricted	$—	$(474)
Escrow deposits – mortgage	$—	$(35,898)
Deferred financing costs, net	$—	$(25,780)
Other assets	$(2,586)	$(203,008)
Mortgage notes payable	$—	$3,076,876
Accounts payable and accrued expenses	$(146)	$17,576
Accrued interest payable	$—	$11,256
Other liabilities	$(3,204)	$117,391
Security deposits	$—	$10,949
Issuance of OP Units	$—	$1,929,868
Noncontrolling Interests – Partially Owned Properties	$—	$28,263
Interest capitalized for real estate and unconsolidated entities under development:		
Investment in real estate, net	$(25,002)	$(19,195)
Investments in unconsolidated entities	$(35)	$(811)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	$(2,354)	$(4,371)

Other liabilities	$(7,200)	$(49,316)
Other:		
Foreign currency translation adjustments	$(1,718)	$(941)

See accompanying notes
15

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2014	
PARTNERS' CAPITAL		
PREFERENCE UNITS		
Balance, beginning of year	$50,000	
Balance, end of period	$50,000	
GENERAL PARTNER		
Balance, beginning of year	$10,612,363	
OP Unit Issuance:		
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	1,430	
Exercise of EQR share options	25,685	
EQR's Employee Share Purchase Plan (ESPP)	2,218	
Share-based employee compensation expense:		
EQR restricted shares	6,983	
EQR share options	5,330	
EQR ESPP discount	587	
OP Units repurchased and retired	(1,777	)
Net income available to Units – General Partner	189,753	
OP Units – General Partner distributions	(361,279	)
Supplemental Executive Retirement Plan (SERP)	4,212	
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,308	)
Change in market value of Redeemable Limited Partners	(80,615	)
Adjustment for Limited Partners ownership in Operating Partnership	4,146	
Balance, end of period	$10,406,728	
LIMITED PARTNERS		
Balance, beginning of year	$211,412	
Issuance of LTIP Units to Limited Partners	3	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(1,430	)
Equity compensation associated with Units – Limited Partners	10,319	
Net income available to Units – Limited Partners	7,535	
Units – Limited Partners distributions	(14,364	)
Change in carrying value of Redeemable Limited Partners	3,709	
Adjustment for Limited Partners ownership in Operating Partnership	(4,146	)
Balance, end of period	$213,038	
ACCUMULATED OTHER COMPREHENSIVE (LOSS)		
Balance, beginning of year	$(155,162	)
Accumulated other comprehensive (loss) – derivative instruments:		
Unrealized holding (losses) arising during the period	(21,881	)
Losses reclassified into earnings from other comprehensive income	8,335	
Accumulated other comprehensive income – foreign currency:		

Currency translation adjustments arising during the period	1,718
Balance, end of period	$(166,990)

See accompanying notes

16

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL (Continued)
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2014
NONCONTROLLING INTERESTS	
NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$126,583
Net income attributable to Noncontrolling Interests	1,092
Contributions by Noncontrolling Interests	5,684
Distributions to Noncontrolling Interests	(5,272)
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,244)
Balance, end of period	$125,843

See accompanying notes
17

Table of Contents

EQUITY RESIDENTIAL
ERP OPERATING LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business

Equity Residential (“EQR”), a Maryland real estate investment trust (“REIT”) formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. ERP Operating Limited Partnership ("ERPOP"), an Illinois limited partnership, was formed in May 1993 to conduct the multifamily residential property business of Equity Residential. EQR has elected to be taxed as a REIT. References to the "Company," "we," "us" or "our" mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the "Operating Partnership" mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. Unless otherwise indicated, the notes to consolidated financial statements apply to both the Company and the Operating Partnership.

EQR is the general partner of, and as of June 30, 2014 owned an approximate 96.2% ownership interest in, ERPOP. All of the Company’s property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. The Operating Partnership holds substantially all of the assets of the Company, including the Company’s ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity.

As of June 30, 2014, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 397 properties located in 12 states and the District of Columbia consisting of 111,491 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	369	100,210
Master-Leased Properties – Consolidated	3	853
Partially Owned Properties – Consolidated	19	3,752
Partially Owned Properties – Unconsolidated	4	1,669
Military Housing	2	5,007
	397	111,491

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications did not have an impact on net income previously reported. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

In preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The balance sheets at December 31, 2013 have been derived from the audited financial statements at that date but do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Table of Contents

For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company’s and the Operating Partnership's annual report on Form 10-K for the year ended December 31, 2013.

Income and Other Taxes

Due to the structure of EQR as a REIT and the nature of the operations of its operating properties, no provision for federal income taxes has been made at the EQR level. In addition, ERPOP generally is not liable for federal income taxes as the partners recognize their proportionate share of income or loss in their tax returns; therefore no provision for federal income taxes has been made at the ERPOP level. Historically, the Company has generally only incurred certain state and local income, excise and franchise taxes. The Company has elected Taxable REIT Subsidiary (“TRS”) status for certain of its corporate subsidiaries and as a result, these entities will incur both federal and state income taxes on any taxable income of such entities after consideration of any net operating losses.

Deferred tax assets and liabilities applicable to the TRS are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company’s deferred tax assets are generally the result of tax affected suspended interest deductions, net operating losses, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of June 30, 2014, the Company has recorded a deferred tax asset, which is fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

Other

The Company is the controlling partner in various consolidated partnerships owning 19 properties and 3,752 apartment units and various completed and uncompleted development properties having a noncontrolling interest book value of $125.8 million at June 30, 2014. The Company is required to make certain disclosures regarding noncontrolling interests in consolidated limited-life subsidiaries. Of the consolidated entities described above, the Company is the controlling partner in limited-life partnerships owning six properties having a noncontrolling interest deficit balance of $10.2 million. These six partnership agreements contain provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of June 30, 2014, the Company estimates the value of Noncontrolling Interest distributions for these six properties would have been approximately $53.2 million (“Settlement Value”) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the six Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on June 30, 2014 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company's Partially Owned Properties is subject to change. To the extent that the partnerships' underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

Effective January 1, 2013, companies are required to report, in one place, information about reclassifications out of accumulated other comprehensive income ("AOCI"). Companies are also required to report changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under US GAAP is required in the notes. This does not have a material effect on the Company's consolidated results of operations or financial position. See Note 9 for further discussion.

Effective January 1, 2014, companies are required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount a company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount a company expects to pay on behalf of its co-obligors. Companies are required to disclose the nature and amount of the obligation as well as other information about those obligations. This does not have a material effect on the Company's consolidated results of operations or financial position.

Table of Contents

In April 2014, the Financial Accounting Standards Board (the "FASB") issued new guidance for reporting discontinued operations. Only disposals representing a strategic shift in operations that has a major effect on a company's operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. Companies will also be required to disclose the pre-tax income attributable to a disposal of a significant part of a company that does not qualify for discontinued operations reporting. Application of this guidance is prospective from the date of adoption and early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The new standard is effective January 1, 2015 but the Company early adopted it as allowed effective January 1, 2014. Adoption of this standard did not have a material effect on the Company's overall consolidated results of operations or financial position. However, adoption will result in substantially fewer of the Company's dispositions meeting the discontinued operations qualifications. See Note 11 for further discussion.

In May 2014, the FASB issued a comprehensive new revenue recognition standard entitled Revenue from Contracts with Customers that will supersede nearly all existing revenue recognition guidance. The new standard specifically excludes lease contracts. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Companies will likely need to use more judgment and make more estimates than under current revenue recognition guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration, if any, to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard will be effective for the Company beginning on January 1, 2017 and early adoption is not permitted. The new standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

3. Equity, Capital and Other Interests

Equity and Redeemable Noncontrolling Interests of Equity Residential

The following tables present the changes in the Company's issued and outstanding Common Shares and "Units" (which includes OP Units and Long-Term Incentive Plan ("LTIP") Units) for the six months ended June 30, 2014:

	2014	
Common Shares		
Common Shares outstanding at January 1,	360,479,260	
Common Shares Issued:		
Conversion of OP Units	56,536	
Exercise of share options	851,514	
Employee Share Purchase Plan (ESPP)	47,457	
Restricted share grants, net	170,626	
Common Shares Other:		
Conversion of restricted shares to LTIP Units	(12,146	)
Repurchased and retired	(31,240	)
Common Shares outstanding at June 30,	361,562,007	
Units		
Units outstanding at January 1,	14,180,376	
LTIP Units, net	200,840	
Conversion of restricted shares to LTIP Units	12,146	
Conversion of OP Units to Common Shares	(56,536	)

Units outstanding at June 30,	14,336,826	
Total Common Shares and Units outstanding at June 30,	375,898,833	
Units Ownership Interest in Operating Partnership	3.8	%

The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units, are collectively referred to as the “Noncontrolling Interests – Operating Partnership”. Subject to certain exceptions (including the “book-up” requirements of LTIP Units), the Noncontrolling Interests – Operating Partnership may exchange their Units with EQR for Common Shares on a one-for-one basis.

Table of Contents

The carrying value of the Noncontrolling Interests – Operating Partnership (including redeemable interests) is allocated based on the number of Noncontrolling Interests – Operating Partnership Units in total in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total plus the number of Common Shares. Net income is allocated to the Noncontrolling Interests – Operating Partnership based on the weighted average ownership percentage during the period.

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Noncontrolling Interests – Operating Partnership Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Noncontrolling Interests – Operating Partnership Units for cash, EQR is obligated to deliver Common Shares to the exchanging holder of the Noncontrolling Interests – Operating Partnership Units.

The Noncontrolling Interests – Operating Partnership Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests – Operating Partnership are differentiated and referred to as "Redeemable Noncontrolling Interests – Operating Partnership". Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Noncontrolling Interests – Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests – Operating Partnership Units that are classified in permanent equity at June 30, 2014 and December 31, 2013.

The carrying value of the Redeemable Noncontrolling Interests – Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests – Operating Partnership Units in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests – Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2014, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of approximately $440.1 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Noncontrolling Interests – Operating Partnership Units.

The following table presents the changes in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the six months ended June 30, 2014 (amounts in thousands):

	2014
Balance at January 1,	$363,144
Change in market value	80,615
Change in carrying value	(3,709)
Balance at June 30,	$440,050

Net proceeds from EQR Common Share and Preferred Share (see definition below) offerings are contributed by EQR to ERPOP. In return for those contributions, EQR receives a number of OP Units in ERPOP equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in ERPOP equal in number and having the same terms as the Preferred Shares issued in the equity offering). As a result, the net offering proceeds from Common Shares and Preferred Shares are allocated between shareholders' equity and Noncontrolling Interests – Operating Partnership to account for the change in their respective percentage ownership of the underlying equity of ERPOP.

The Company's declaration of trust authorizes it to issue up to 100,000,000 preferred shares of beneficial interest, $0.01 par value per share (the "Preferred Shares"), with specific rights, preferences and other attributes as the Board of

Trustees may determine, which may include preferences, powers and rights that are senior to the rights of holders of the Company’s Common Shares.
The following table presents the Company’s issued and outstanding Preferred Shares as of June 30, 2014 and December 31, 2013:

Table of Contents

	Redemption Date (1)	Annual Dividend per Share (2)	Amounts in thousands June 30, 2014	December 31, 2013
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized:				
8.29% Series K Cumulative Redeemable Preferred; liquidation value $50 per share; 1,000,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	12/10/26	$4.145	$50,000	$50,000
			$50,000	$50,000

(1) On or after the redemption date, redeemable preferred shares may be redeemed for cash at the option of the Company, in whole or in part, at a redemption price equal to the liquidation price per share, plus accrued and unpaid distributions, if any.
(2) Dividends on Preferred Shares are payable quarterly.

Capital and Redeemable Limited Partners of ERP Operating Limited Partnership

The following tables present the changes in the Operating Partnership's issued and outstanding Units and in the limited partners' Units for the six months ended June 30, 2014:

	2014	
General and Limited Partner Units		
General and Limited Partner Units outstanding at January 1,	374,659,636	
Issued to General Partner:		
Exercise of EQR share options	851,514	
EQR's Employee Share Purchase Plan (ESPP)	47,457	
EQR's restricted share grants, net	170,626	
Issued to Limited Partners:		
LTIP Units, net	200,840	
OP Units Other:		
Repurchased and retired	(31,240	)
General and Limited Partner Units outstanding at June 30,	375,898,833	
Limited Partner Units		
Limited Partner Units outstanding at January 1,	14,180,376	
Limited Partner LTIP Units, net	200,840	
Conversion of EQR restricted shares to LTIP Units	12,146	
Conversion of Limited Partner OP Units to EQR Common Shares	(56,536	)
Limited Partner Units outstanding at June 30,	14,336,826	
Limited Partner Units Ownership Interest in Operating Partnership	3.8	%

The Limited Partners of the Operating Partnership as of June 30, 2014 include various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units. Subject to certain exceptions (including the "book-up" requirements of LTIP Units), Limited Partners may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Limited Partner Units (including redeemable interests) is allocated based on the number of Limited Partner Units in total in proportion to the number of Limited Partner Units in total plus the number of General Partner Units. Net income is allocated to the Limited Partner Units based on the weighted average ownership percentage during the period.

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Limited Partner Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Limited Partner Units for cash, EQR is obligated to deliver Common Shares to the exchanging limited partner.

The Limited Partner Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Limited Partner Units are differentiated and referred to as "Redeemable Limited Partner Units". Instruments that require settlement in registered shares can not be classified in permanent

22

Table of Contents

equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Limited Partner Units are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Limited Partner Units that are classified in permanent equity at June 30, 2014 and December 31, 2013.

The carrying value of the Redeemable Limited Partner Units is allocated based on the number of Redeemable Limited Partner Units in proportion to the number of Limited Partner Units in total. Such percentage of the total carrying value of Limited Partner Units which is ascribed to the Redeemable Limited Partner Units is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2014, the Redeemable Limited Partner Units have a redemption value of approximately $440.1 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Limited Partner Units.

The following table presents the changes in the redemption value of the Redeemable Limited Partners for the six months ended June 30, 2014 (amounts in thousands):

	2014
Balance at January 1,	$363,144
Change in market value	80,615
Change in carrying value	(3,709)
Balance at June 30,	$440,050

EQR contributes all net proceeds from its various equity offerings (including proceeds from exercise of options for Common Shares) to ERPOP. In return for those contributions, EQR receives a number of OP Units in ERPOP equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in ERPOP equal in number and having the same terms as the preferred shares issued in the equity offering).

The following table presents the Operating Partnership’s issued and outstanding “Preference Units” as of June 30, 2014 and December 31, 2013:

			Amounts in thousands	
	Redemption Date (1)	Annual Dividend per Unit (2)	June 30, 2014	December 31, 2013
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units; liquidation value $50 per unit; 1,000,000 units issued and outstanding at June 30, 2014 and December 31, 2013	12/10/26	$4.145	$50,000	$50,000
			$50,000	$50,000

(1) On or after the redemption date, redeemable preference units may be redeemed for cash at the option of the Operating Partnership, in whole or in part, at a redemption price equal to the liquidation price per unit, plus accrued and unpaid distributions, if any, in conjunction with the concurrent redemption of the corresponding Company Preferred Shares.

(2) Dividends on Preference Units are payable quarterly.

Other

On February 27, 2013, the Company issued 34,468,085 Common Shares to an affiliate of Lehman Brothers Holdings Inc. as partial consideration for the portion of the Archstone Portfolio acquired by the Company (as discussed in Note 4 below). The shares had a total value of $1.9 billion based on the February 27, 2013 closing price of EQR Common Shares of $55.99 per share. Concurrent with this transaction, ERPOP issued 34,468,085 OP Units to EQR. On March 7, 2013, EQR filed a shelf registration statement relating to the resale of these shares by the selling shareholders.

In September 2009, the Company announced the establishment of an At-The-Market (“ATM”) share offering program which would allow EQR to sell Common Shares from time to time into the existing trading market at current market prices as well as through negotiated transactions. Per the terms of ERPOP's partnership agreement, EQR contributes the net proceeds from all equity offerings to the capital of ERPOP in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis). On July 30, 2013, the Board of Trustees approved an increase to the amount of shares which may be offered under the ATM

Table of Contents

program to 13.0 million Common Shares and extended the program maturity to July 2016. EQR has not issued any shares under this program since September 14, 2012.

Effective July 30, 2013, the Board of Trustees approved an increase and modification to the Company's share repurchase program to allow for the potential repurchase of up to 13.0 million Common Shares. Considering the repurchase activity for the six months ended June 30, 2014 (see discussion below), EQR has remaining authorization to repurchase an additional 12,968,760 of its shares as of June 30, 2014.

During the six months ended June 30, 2014, EQR repurchased 31,240 of its Common Shares at a price of $56.87 per share for total consideration of approximately $1.8 million. These shares were retired subsequent to the repurchases. Concurrent with these transactions, ERPOP repurchased and retired 31,240 OP Units previously issued to EQR. All of the shares repurchased during the six months ended June 30, 2014 were repurchased from employees at the then current market price to cover the minimum statutory tax withholding obligations related to the vesting of employees' restricted shares.

During the six months ended June 30, 2014, the Company acquired all of its partners' interests in one consolidated partially owned property consisting of 268 apartment units and one consolidated partially owned land parcel for $5.5 million. In conjunction with these transactions, the Company reduced paid in capital (included in general partner's capital in the Operating Partnership's financial statements) by $2.3 million, Noncontrolling Interests – Partially Owned Properties by $2.2 million and other liabilities by $1.0 million.

See Note 6 for a discussion of the Noncontrolling Interests assumed in conjunction with the acquisition of Archstone.

4. Real Estate and Lease Intangibles

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of June 30, 2014 and December 31, 2013 (amounts in thousands):

	June 30, 2014	December 31, 2013
Land	$6,296,735	$6,192,512
Depreciable property:		
Buildings and improvements	17,920,222	17,509,609
Furniture, fixtures and equipment	1,302,882	1,214,220
In-Place lease intangibles	507,633	502,218
Projects under development:		
Land	391,156	353,574
Construction-in-progress	615,836	635,293
Land held for development:		
Land	256,536	341,389
Construction-in-progress	50,089	52,133
Investment in real estate	27,341,089	26,800,948
Accumulated depreciation	(5,170,438)	(4,807,709)
Investment in real estate, net	$22,170,651	$21,993,239

The following table summarizes the carrying amounts for the Company's above and below market ground and retail lease intangibles as of June 30, 2014 and December 31, 2013 (amounts in thousands):

Table of Contents

Description	Balance Sheet Location	June 30, 2014	December 31, 2013
Assets			
Ground lease intangibles – below market	Other Assets	$178,251	$178,251
Retail lease intangibles – above market	Other Assets	1,260	1,260
Lease intangible assets		179,511	179,511
Accumulated amortization		(6,641)	(4,364)
Lease intangible assets, net		$172,870	$175,147
Liabilities			
Ground lease intangibles – above market	Other Liabilities	$2,400	$2,400
Retail lease intangibles – below market	Other Liabilities	5,270	5,500
Lease intangible liabilities		7,670	7,900
Accumulated amortization		(1,678)	(1,161)
Lease intangible liabilities, net		$5,992	$6,739

During the six months ended June 30, 2014 and 2013, the Company amortized approximately $2.2 million and $1.4 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately $0.6 million and $0.2 million, respectively, of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of operations and comprehensive income. During the quarters ended June 30, 2014 and 2013, the Company amortized approximately $1.1 million and $1.0 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately $0.3 million and $0.1 million, respectively, of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of operations and comprehensive income.

The weighted average amortization period for above and below market ground lease intangibles and retail lease intangibles is 49.8 years and 2.8 years, respectively.

The following table provides a summary of the aggregate amortization expense for above and below market ground lease intangibles and retail lease intangibles for each of the next five years (amounts in thousands):

	Remaining 2014	2015	2016	2017	2018	2019
Ground lease intangibles	$2,161	$4,321	$4,321	$4,321	$4,321	$4,321
Retail lease intangibles	(469)	(939)	(896)	(540)	(71)	(71)
Total	$1,692	$3,382	$3,425	$3,781	$4,250	$4,250

Archstone Acquisition

On February 27, 2013, the Company, AvalonBay Communities, Inc. (“AVB”) and certain of their respective subsidiaries completed their previously announced acquisition (the “Archstone Acquisition” or the “Archstone Transaction”) from Archstone Enterprise LP (“Enterprise”) (which subsequently changed its name to Jupiter Enterprise LP), an affiliate of Lehman Brothers Holdings Inc. (“Lehman”) and its affiliates, of all of the assets of Enterprise (including interests in various entities affiliated with Enterprise), constituting a portfolio of apartment properties and other assets (the “Archstone Portfolio”).

The Company acquired assets representing approximately 60% of the Archstone Portfolio which consisted principally of high-quality apartment properties in major markets in the United States. The acquisition allowed the Company to accelerate the completion of its strategic shift into coastal apartment markets. Pursuant to the Archstone Transaction, the Company acquired directly or indirectly, 71 wholly owned, stabilized properties consisting of 20,160 apartment units, one partially owned and consolidated stabilized property consisting of 432 apartment units, one partially owned and unconsolidated stabilized property consisting of 336 apartment units, three consolidated master-leased properties consisting of 853 apartment units, four projects in various stages of construction (two consolidated and two unconsolidated) for 964 apartment units and fourteen land sites for

Table of Contents

approximately $9.0 billion. During the six months ended June 30, 2013, the Company recorded revenues and net operating income ("NOI") of $204.5 million and $140.0 million, respectively, from the acquired assets. During the quarter ended June 30, 2013, the Company recorded revenues and NOI of $151.9 million and $103.9 million, respectively, from the acquired assets.

The consideration paid by the Company in connection with the Archstone Acquisition consisted of cash of approximately $4.0 billion (inclusive of $2.0 billion of Archstone secured mortgage principal paid off in conjunction with the closing), 34,468,085 Common Shares (which shares had a total value of $1.9 billion based on the February 27, 2013 closing price of EQR common shares of $55.99 per share) issued to the seller and the assumption of approximately $3.1 billion of mortgage debt (inclusive of a net mark-to-market premium of $127.9 million) and approximately 60% of all of the other assets and liabilities related to the Archstone Portfolio. The cash consideration was funded with proceeds from the issuance of 21,850,000 Common Shares (which shares had a total value of approximately $1.2 billion based on a price of $54.75 per share) in the November/December 2012 public equity offering, asset sales of approximately $4.5 billion that were completed during the year ended December 31, 2013, the Company's $750.0 million unsecured term loan facility (which was subsequently paid off in the second quarter of 2014) and the Company's revolving credit facility.

The Company owns the building and improvements and leases the land underlying the improvements under long-term ground leases that expire beginning in 2042 and running through 2103 for nine of the operating properties acquired and discussed above. These properties are consolidated and reflected as real estate assets while the ground leases are accounted for as operating leases. The Company also leases the three master-leased properties discussed above to third party operators and earns monthly net rental income.

The Company accounted for the acquisition under the acquisition method in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations ("ASC 805"), and the accounting for this business combination is complete and final. The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed, which the Company determined using Level 1, Level 2 and Level 3 inputs (amounts in thousands):

Land	$2,239,000
Depreciable property:	
Buildings and improvements	5,765,538
Furniture, fixtures and equipment	61,470
In-Place lease intangibles	304,830
Projects under development	36,583
Land held for development	244,097
Investments in unconsolidated entities	230,608
Other assets	195,260
Other liabilities	(108,997)
Net assets acquired	$8,968,389

The allocation of fair values of the assets acquired and liabilities assumed has changed from the allocation reported in "Note 4 – Real Estate and Lease Intangibles" in the Notes to Consolidated Financial Statements included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014. The changes to our valuation assumptions were based on more accurate information concerning the subject assets and liabilities and resulted from information not readily available at the acquisition date, final purchase price settlement with our partner in accordance with the terms of the purchase agreement and reclassification adjustments for presentation. None of these changes had a material impact on our Consolidated Financial Statements. The Company's assessment of the fair values and the allocation of the purchase price to the identified tangible and intangible assets/liabilities at March 31, 2014 was its final and best estimate of fair value. As a result, the Company did not make any changes to its allocation of fair values of the assets acquired and liabilities assumed subsequent to the allocation reported in "Note 4 – Real Estate and Lease Intangibles" in the Notes to Consolidated Financial Statements included in Part I of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 8, 2014.

The fair values of investment in real estate were determined using internally developed models that were based on market assumptions and comparable sales data as well as external valuations performed by unrelated third parties. The market assumptions used as inputs to the Company’s fair value model include construction costs, leasing assumptions, growth rates, discount rates, terminal capitalization rates and development yields. The Company used data on its existing portfolio of properties and its recent acquisition and development properties, as well as similar market data from third party sources, when available, in determining

Table of Contents

these inputs (Level 2 and 3). The fair value of Noncontrolling Interests was calculated similar to the investment in real estate described above. The fair value of mortgage debt was calculated using indicative rates, leverage and coverage provided by lenders of similar loans (Level 2). The Common Shares issued to an affiliate of Lehman Brothers Holdings Inc. were valued using the quoted market price of Common Shares (Level 1).

The following table summarizes the acquisition date fair values of the above and below market ground and retail lease intangibles, which we determined using Level 2 and Level 3 inputs (amounts in thousands):

Description	Balance Sheet Location	Fair Value
Ground lease intangibles – below market	Other Assets	$178,251
Retail lease intangibles – above market	Other Assets	1,260
Ground lease intangibles – above market	Other Liabilities	2,400
Retail lease intangibles – below market	Other Liabilities	8,040

As of June 30, 2014, the Company has incurred cumulative Archstone-related expenses of approximately $100.9 million, of which approximately $13.5 million of this total was financing-related and approximately $87.4 million was merger costs. During the six months ended June 30, 2014, the Company expensed nominal amounts of direct merger costs. During the six months ended June 30, 2013, the Company expensed $19.6 million of direct merger costs primarily related to investment banking and legal/accounting fees, which were included in other expenses in the accompanying consolidated statements of operations and comprehensive income. During the six months ended June 30, 2014 and 2013, the Company also expensed $6.2 million and $53.0 million, respectively, of indirect merger costs primarily related to severance and retention obligations, office leases and German operations/sales that were incurred through our 60% interest in unconsolidated joint ventures with AVB, which were included in (loss) from investments in unconsolidated entities in the accompanying consolidated statements of operations and comprehensive income. Finally, during the six months ended June 30, 2013, the Company also expensed $2.5 million of financing-related costs, which were included in interest expense in the accompanying consolidated statements of operations and comprehensive income.

Unaudited Pro Forma Financial Information

Equity Residential

The following table illustrates the effect on net income, earnings per share – basic and earnings per share – diluted as if the Company had consummated the Archstone Acquisition as of January 1, 2012 (amounts in thousands, except per share amounts):

	Six Months Ended June 30, 2013	Quarter Ended June 30, 2013
Total revenues	$1,256,088	$635,078
Income from continuing operations	60,541	96,585
Discontinued operations, net	1,608,374	389,329
Net income	1,668,915	485,914
Net income available to Common Shares	1,601,368	467,237
Earnings per share - basic:		
Net income available to Common Shares	$4.45	$1.30
Weighted average Common Shares outstanding (1)	359,509	359,653
Earnings per share - diluted:		

Net income available to Common Shares	$4.44	$1.29
Weighted average Common Shares outstanding (1)	375,722	375,910

(1) Includes an adjustment for Common Shares issued to the public in November/December 2012 and to an affiliate of Lehman Brothers Holdings Inc. in February 2013 as partial consideration for the Archstone Acquisition.

Table of Contents

ERP Operating Limited Partnership

The following table illustrates the effect on net income, earnings per Unit – basic and earnings per Unit – diluted as if the Operating Partnership had consummated the Archstone Acquisition as of January 1, 2012 (amounts in thousands, except per Unit amounts):

	Six Months Ended June 30, 2013	Quarter Ended June 30, 2013
Total revenues	$1,256,088	$635,078
Income from continuing operations	60,541	96,585
Discontinued operations, net	1,608,374	389,329
Net income	1,668,915	485,914
Net income available to Units	1,668,439	485,693
Earnings per Unit - basic:		
Net income available to Units	$4.45	$1.30
Weighted average Units outstanding (1)	373,245	373,403
Earnings per Unit - diluted:		
Net income available to Units	$4.44	$1.29
Weighted average Units outstanding (1)	375,722	375,910

(1) Includes an adjustment for Common Shares issued to the public in November/December 2012 and to an affiliate of Lehman Brothers Holdings Inc. in February 2013 as partial consideration for the Archstone Acquisition. Concurrent with these transactions, ERPOP issued the same number of OP Units to EQR.

For the six months ended June 30, 2013, acquisition costs of $19.6 million and severance/retention and other costs of $50.9 million related to the Archstone Acquisition are not expected to have a continuing impact on the Company's financial results and therefore have been excluded from these pro forma results. The pro forma results also do not include the impact of any synergies or lower borrowing costs that the Company has or may achieve as a result of the acquisition or any strategies that management has or may consider in order to more efficiently manage the Company's operations, nor do they give pro forma effect to any other acquisitions, dispositions or capital markets transactions (excluding the equity offering in November/December 2012 which proceeds were used for the Archstone Acquisition) that the Company completed during the periods presented. These pro forma results are not necessarily indicative of the operating results that would have been obtained had the Archstone Acquisition occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

Other

During the six months ended June 30, 2014, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated	3	772	$249,610
Land Parcels – Consolidated	—	—	15,790
Total	3	772	$265,400

During the six months ended June 30, 2014, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties	1	336	$40,850

Land Parcel	—	—	8,200
Total	1	336	$49,050

Table of Contents

The Company recognized a net gain on sales of real estate properties of approximately $14.9 million and a net gain on sales of land parcels of approximately $0.8 million on the above sales.

5. Commitments to Acquire/Dispose of Real Estate

In addition to the land parcel that was subsequently acquired as discussed in Note 14, the Company has entered into a separate agreement to acquire the following (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Land Parcel	—	—	$3,300
Total	—	—	$3,300

The Company has entered into separate agreements to dispose of the following (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties	6	2,005	$306,350
Land Parcel	—	—	54,402
Total	6	2,005	$360,752

The closings of these pending transactions are subject to certain conditions and restrictions, therefore, there can be no assurance that these transactions will be consummated or that the final terms will not differ in material respects from those summarized in the preceding paragraphs.

6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following tables and information summarize the Company’s investments in partially owned entities as of June 30, 2014 (amounts in thousands except for project and apartment unit amounts):

Table of Contents

	Consolidated Development Projects			Unconsolidated Development Projects			
	Held for and/or Under Development	Operating	Total	Held for and/or Under Development	Completed, Not Stabilized (3)	Operating	Total
Total projects (1)	—	19	19	—	2	2	4
Total apartment units (1)	—	3,752	3,752	—	945	724	1,669
Balance sheet information at 6/30/14 (at 100%):							
ASSETS							
Investment in real estate	$329,668	$676,848	$1,006,516	$55,998	$233,411	$108,164	$397,573
Accumulated depreciation	—	(183,571)	(183,571)	—	(6,693)	(7,136)	(13,829)
Investment in real estate, net	329,668	493,277	822,945	55,998	226,718	101,028	383,744
Cash and cash equivalents	4,488	14,125	18,613	454	2,830	1,582	4,866
Investments in unconsolidated entities	—	53,209	53,209	—	—	—	—
Deposits – restricted	34,761	250	35,011	—	130	47	177
Deferred financing costs, net	—	2,318	2,318	53	4	122	179
Other assets	6,679	26,176	32,855	14	41	1,250	1,305
Total assets	$375,596	$589,355	$964,951	$56,519	$229,723	$104,029	$390,271
LIABILITIES AND EQUITY/CAPITAL							
Mortgage notes payable (2)	$—	$360,305	$360,305	$21,982	$145,016	$63,305	$230,303
Accounts payable & accrued expenses	12,313	1,730	14,043	5,095	955	350	6,400
Accrued interest payable	—	1,265	1,265	43	687	42	772
Other liabilities	140	1,252	1,392	—	244	1,046	1,290
Security deposits	—	1,916	1,916	—	279	140	419
Total liabilities	12,453	366,468	378,921	27,120	147,181	64,883	239,184
Noncontrolling Interests – Partially Owned Properties/Partners' equity	117,677	8,166	125,843	27,858	70,428	23,434	121,720
Company equity/General and Limited Partners' Capital	245,466	214,721	460,187	1,541	12,114	15,712	29,367
Total equity/capital	363,143	222,887	586,030	29,399	82,542	39,146	151,087
Total liabilities and equity/capital	$375,596	$589,355	$964,951	$56,519	$229,723	$104,029	$390,271

Table of Contents

	Consolidated Development Projects			Unconsolidated Development Projects			
	Held for and/or Under Development	Operating	Total	Held for and/or Under Development	Completed, Not Stabilized (3)	Operating	Total
Operating information for the six months ended 6/30/14 (at 100%):							
Operating revenue	$—	$43,110	$43,110	$—	$7,958	$5,060	$13,018
Operating expenses	154	12,825	12,979	132	3,287	1,856	5,275
Net operating (loss) income	(154)	30,285	30,131	(132)	4,671	3,204	7,743
Depreciation	—	10,768	10,768	—	5,299	2,039	7,338
General and administrative/other	(3)	26	23	—	1	122	123
Operating (loss) income	(151)	19,491	19,340	(132)	(629)	1,043	282
Interest and other income	—	3	3	—	—	—	—
Other expenses	(76)	(32)	(108)	—	—	—	—
Interest:							
Expense incurred, net	—	(7,788)	(7,788)	—	(3,864)	(926)	(4,790)
Amortization of deferred financing costs	—	(177)	(177)	—	—	(7)	(7)
(Loss) income before income and other taxes and (loss) from investments in unconsolidated entities	(227)	11,497	11,270	(132)	(4,493)	110	(4,515)
Income and other tax (expense) benefit	—	(45)	(45)	—	(7)	—	(7)
(Loss) from investments in unconsolidated entities	—	(879)	(879)	—	—	—	—
Net (loss) income	$(227)	$10,573	$10,346	$(132)	$(4,500)	$110	$(4,522)

(1) Project and apartment unit counts exclude all uncompleted development projects until those projects are substantially completed.

(2) All debt is non-recourse to the Company with the exception of 50% of the current $22.0 million outstanding debt balance on one unconsolidated development project.

(3) Projects included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.

Note: The above tables exclude the Company's interests in unconsolidated joint ventures entered into with AVB in connection with the Archstone Transaction. These ventures own certain non-core Archstone assets that are held for sale and succeeded to certain residual Archstone liabilities, such as liability for various employment-related matters as well as responsibility for tax protection arrangements and third-party preferred interests in former Archstone subsidiaries. The preferred interests have an aggregate liquidation value of $76.8 million at June 30, 2014. The ventures are owned 60% by the Company and 40% by AVB.

The Company is the controlling partner in various consolidated partnership properties and development properties having a noncontrolling interest book value of $125.8 million at June 30, 2014. The Company does not have any VIEs.

Archstone Acquisition

On February 27, 2013, in conjunction with the Archstone Acquisition, the Company acquired interests in several joint ventures. Details of these interests follow by project:

East Palmetto Park – This venture was formed to ultimately develop certain land parcels into a 377 unit apartment building located in Boca Raton, Florida. The Company has a 90% equity interest with an initial basis of $20.2 million. The Company is the managing member, is responsible for constructing the project and its partner does not have substantive kick-out or participating rights. As a result, the entity is required to be consolidated on the Company's balance sheet.

Wisconsin Place – This project contains a mixed-use site located in Chevy Chase, Maryland consisting of residential, retail, office and accessory uses, including underground parking facilities. The Company has a 75% equity interest with an initial basis of $198.5 million in the 432 unit residential component. The Company is the managing member, was responsible for constructing the residential project and its partner does not have substantive kick-out or participating rights. As a result, the entity that owns the residential component of this mixed-use site is required to be consolidated on the Company's balance sheet. Such entity also retains an unconsolidated interest in an entity that owns the land underlying the entire project and owns and operates the parking facility.

Table of Contents

The initial fair value of this investment is $56.5 million. The Company does not have any ownership interest in the retail and office components.

San Norterra – This venture developed certain land parcels into a 388 unit apartment building located in Phoenix, Arizona and was completed and stabilized during the quarter ended June 30, 2014. The Company has an 85% equity interest with an initial basis of $16.9 million. Total project costs were approximately $52.8 million and construction was partially funded with a construction loan that was guaranteed by the partner and non-recourse to the Company. The loan has a maximum debt commitment of $34.8 million and a current unconsolidated outstanding balance of $33.0 million; the loan bears interest at LIBOR plus 2.00% and matures January 6, 2015. The partner is the managing member and developed the project. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Waterton Tenside – This venture was formed to develop and operate a 336 unit apartment property located in Atlanta, Georgia. The Company has a 20% equity interest with an initial basis of $5.1 million. The partner is the managing member and developed the project. The project is encumbered by a non-recourse mortgage loan that has a current outstanding balance of $30.3 million, bears interest at 3.66% and matures December 1, 2018. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Parc on Powell (formerly known as 1333 Powell) – This venture is currently developing certain land parcels into a 176 unit apartment building located in Emeryville, California. The Company has a 5% equity interest with an initial obligation of approximately $2.1 million. Total project costs are expected to be approximately $75.0 million and construction is being partially funded with a construction loan. The loan has a maximum debt commitment of $39.5 million and a current unconsolidated outstanding balance of $22.0 million; the loan bears interest at LIBOR plus 2.25% and matures August 14, 2015. The Company has given a repayment guaranty on the construction loan of 50% of the outstanding balance, up to a maximum of $19.7 million, and has given certain construction cost overrun guarantees. The partner is the managing member. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

On February 27, 2013, in connection with the Archstone Acquisition, subsidiaries of the Company and AVB entered into three limited liability company agreements (collectively, the “Residual JV”). The Residual JV owns certain non-core Archstone assets, such as interests in a six property portfolio of apartment buildings and succeeded to certain residual Archstone liabilities, such as liability for various employment-related matters. The Residual JV is owned 60% by the Company and 40% by AVB and the Company's initial investment was $147.6 million. The Residual JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Residual JV is unconsolidated and recorded using the equity method of accounting.

During the six months ended June 30, 2014, the Company closed on the sale of its unconsolidated interest in the German portfolio fund and the German management company, representing the sale of the majority of the remaining German real estate assets that were acquired by the Residual JV as part of the Archstone Acquisition. The Company's pro rata share of the proceeds/distributions that have been repatriated to the Residual JV and received by the Company as a result of the German dispositions was approximately $64.7 million during the six months ended June 30, 2014 and $83.6 million cumulatively since the closing of the Archstone Acquisition.

On February 27, 2013, in connection with the Archstone Acquisition, a subsidiary of the Company and AVB entered into a limited liability company agreement (the “Legacy JV”), through which they assumed obligations of Archstone in the form of preferred interests, some of which are governed by tax protection arrangements. During the year ended December 31, 2013, the Company purchased with AVB $65.0 million (of which the Company's 60% share was $39.0

million) of the preferred interests assumed by Legacy JV. At June 30, 2014, the remaining preferred interests have an aggregate liquidation value of $76.8 million, our share of which is included in other liabilities in the accompanying consolidated balance sheets. Obligations of the Legacy JV are borne 60% by the Company and 40% by AVB. The Legacy JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Legacy JV is unconsolidated and recorded using the equity method of accounting.

Other

In December 2011, the Company and Toll Brothers (NYSE: TOL) jointly acquired a vacant land parcel at 400 Park Avenue South in New York City. The Company's and Toll Brothers' allocated portions of the purchase price were approximately $76.1 million and $57.9 million, respectively. The Company is the managing member and Toll Brothers does not have substantive kick-out or participating rights. Until the core and shell of the building is complete, the building and land will be owned jointly and are

32

Table of Contents

required to be consolidated on the Company's balance sheet. Thereafter, the Company will solely own and control the rental portion of the building (floors 2-22) and Toll Brothers will solely own and control the for sale portion of the building (floors 23-40). Once the core and shell are complete, the Toll Brothers' portion of the property will be deconsolidated from the Company's balance sheet. The acquisition was financed through contributions by the Company and Toll Brothers of approximately $102.5 million and $75.7 million, respectively, which included the land purchase noted above, restricted deposits and taxes and fees. As of June 30, 2014, the Company's and Toll Brothers' consolidated contributions to the joint venture were approximately $327.9 million, of which Toll Brothers' noncontrolling interest balance totaled $117.4 million.

The Company admitted an 80% institutional partner to two separate entities/transactions (Nexus Sawgrass in December 2010 and Domain in August 2011), each owning a developable land parcel, in exchange for $40.1 million in cash and retained a 20% equity interest in both of these entities. These projects are now unconsolidated. Details of these projects follow:

- Nexus Sawgrass – This development project is substantially complete. Total project costs are expected to be approximately $79.0 million and construction was predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of $48.7 million and a current unconsolidated outstanding balance of $48.6 million; the loan bears interest at 5.60% and matures January 1, 2021.
- Domain – This development project is substantially complete. Total project costs are expected to be approximately $155.8 million and construction was predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of $98.6 million and a current unconsolidated outstanding balance of $96.4 million; the loan bears interest at 5.75% and matures January 1, 2022.

While the Company is the managing member of both of the joint ventures, was responsible for constructing both of the projects and has given certain construction cost overrun guarantees, the joint venture partner has significant participating rights and has active involvement in and oversight of the ongoing projects. The Company currently has no further funding obligations related to these projects.

7. Deposits – Restricted and Escrow Deposits – Mortgage

The following table presents the Company’s restricted deposits as of June 30, 2014 and December 31, 2013 (amounts in thousands):

	June 30, 2014	December 31, 2013
Earnest money on pending acquisitions	$830	$4,514
Restricted deposits on real estate investments	36,476	53,771
Resident security and utility deposits	46,597	44,777
Other	505	505
Totals	$84,408	$103,567

The following table presents the Company’s escrow deposits as of June 30, 2014 and December 31, 2013 (amounts in thousands):

	June 30, 2014	December 31, 2013
Real estate taxes and insurance	$3,500	$3,687
Replacement reserves	3,469	4,229
Mortgage principal reserves/sinking funds	37,448	33,868

Other	852	852
Totals	$45,269	$42,636

8. Debt

EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. EQR guarantees the Operating Partnership’s revolving credit facility up to the maximum amount and for the full term of the facility.

Table of Contents

Mortgage Notes Payable

As of June 30, 2014, the Company had outstanding mortgage debt of approximately $5.2 billion.

During the six months ended June 30, 2014, the Company:

Repaid $9.1 million of mortgage loans.

As of June 30, 2014, the Company had $700.5 million of secured debt subject to third party credit enhancement.

As of June 30, 2014, scheduled maturities for the Company’s outstanding mortgage indebtedness were at various dates through May 1, 2061. At June 30, 2014, the interest rate range on the Company’s mortgage debt was 0.03% to 7.25%. During the six months ended June 30, 2014, the weighted average interest rate on the Company’s mortgage debt was 4.23%.

Notes

As of June 30, 2014, the Company had outstanding unsecured notes of approximately $5.9 billion.

During the six months ended June 30, 2014, the Company:

Repaid its $750.0 million unsecured term loan facility in conjunction with the note issuances discussed below;
Issued $450.0 million of five-year 2.375% fixed rate public notes, receiving net proceeds of $449.6 million before underwriting fees and other expenses, at an all-in effective interest rate of 2.52% and swapped the notes to a floating interest rate in conjunction with the issuance (see Note 9 for further discussion); and
Issued $750.0 million of thirty-year 4.50% fixed rate public notes, receiving net proceeds of $744.7 million before underwriting fees, hedge termination costs and other expenses, at an all-in effective interest rate of 4.57% after termination of various forward starting swaps in conjunction with the issuance (see Note 9 for further discussion).

As of June 30, 2014, scheduled maturities for the Company’s outstanding notes were at various dates through 2044. At June 30, 2014, the interest rate range on the Company’s notes was 2.375% to 7.57%. During the six months ended June 30, 2014, the weighted average interest rate on the Company’s notes was 4.97%.

Lines of Credit

On January 11, 2013, the Company replaced its existing $1.75 billion facility with a $2.5 billion unsecured revolving credit facility maturing April 1, 2018. The Company has the ability to increase available borrowings by an additional $500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. The interest rate on advances under the facility will generally be LIBOR plus a spread (currently 1.05%) and the Company pays an annual facility fee (currently 15 basis points). Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt.

As of June 30, 2014, the amount available on the credit facility was $2.47 billion (net of $34.8 million which was restricted/dedicated to support letters of credit). During the six months ended June 30, 2014, the weighted average interest rate was 0.96%.

9. Derivative and Other Fair Value Instruments

The valuation of financial instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. The Company, where possible, bases the fair values of its financial instruments, including its derivative instruments, on listed market prices and third party quotes. Where these are not available, the Company bases its estimates on current instruments with similar terms and maturities or on other factors relevant to the financial instruments.

The carrying values of the Company’s mortgage notes payable and unsecured notes were approximately $5.2 billion and $5.9 billion, respectively, at June 30, 2014. The fair values of the Company’s mortgage notes payable and unsecured notes were approximately $5.2 billion (Level 2) and $6.4 billion (Level 2), respectively, at June 30, 2014. The carrying values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately $5.2 billion and $5.6 billion, respectively, at December 31, 2013. The fair values of the Company’s mortgage notes payable and unsecured debt (including its line of credit) were approximately $5.1 billion (Level 2) and $5.9 billion (Level 2), respectively, at December 31, 2013. The fair values of the Company’s financial instruments (other than mortgage notes payable, unsecured notes, lines of credit and derivative instruments), including cash and cash equivalents and other financial instruments, approximate their carrying or contract values.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments. The Company may also use derivatives to manage its exposure to foreign exchange rates or manage commodity prices in the daily operations of the business.

The following table summarizes the Company’s consolidated derivative instruments at June 30, 2014 (dollar amounts are in thousands):

	Fair Value Hedges (1)		Forward Starting Swaps (2)	
Current Notional Balance	$450,000		$100,000	
Lowest Possible Notional	$450,000		$100,000	
Highest Possible Notional	$450,000		$100,000	
Lowest Interest Rate	2.375	%	3.140	%
Highest Interest Rate	2.375	%	3.191	%
Earliest Maturity Date	2019		2025	
Latest Maturity Date	2019		2025	

(1) Fair Value Hedges – Converts outstanding fixed rate unsecured notes ($450.0 million 2.375%notes due July 1, 2019) to a floating interest rate of 90-Day LIBOR plus 0.61%.

(2) Forward Starting Swaps – Designed to partially fix interest rates in advance of a planned future debt issuance. These swaps have mandatory counterparty terminations in 2016, and are targeted to 2015 issuances.

A three-level valuation hierarchy exists for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company’s derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data). Employee holdings other than Common Shares within the supplemental executive retirement plan (the “SERP”) are valued using quoted market prices for identical assets and are included in other assets and other liabilities on the consolidated balance sheets. Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners are valued using the quoted market price of Common Shares. The fair values disclosed for mortgage notes payable and unsecured debt (including its line of credit) were calculated using indicative rates provided by lenders of similar loans in the case of mortgage notes payable and the private unsecured debt (including its line of credit) and quoted market prices for each underlying issuance in the case of the public unsecured notes.

The following tables provide a summary of the fair value measurements for each major category of assets and liabilities measured at fair value on a recurring basis and the location within the accompanying consolidated balance sheets at June 30, 2014 and December 31, 2013, respectively (amounts in thousands):

Table of Contents

Description	Balance Sheet Location	6/30/2014	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Assets	$1,452	$—	$1,452	$—
Supplemental Executive Retirement Plan	Other Assets	97,543	97,543	—	—
Total		$98,995	$97,543	$1,452	$—
Liabilities					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	Other Liabilities	$2,346	$—	$2,346	$—
Supplemental Executive Retirement Plan	Other Liabilities	97,543	97,543	—	—
Total		$99,889	$97,543	$2,346	$—
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners	Mezzanine	$440,050	$—	$440,050	$—

Description	Balance Sheet Location	12/31/2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	Other Assets	$ 18,710	$—	$18,710	$—
Supplemental Executive Retirement Plan	Other Assets	83,845	83,845	—	—
Total		$ 102,555	$83,845	$18,710	$—
Liabilities					
Supplemental Executive Retirement Plan	Other Liabilities	$ 83,845	$83,845	$—	$—

Total		$ 83,845	$83,845	$—	$—
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners	Mezzanine	$ 363,144	$—	$363,144	$—

The following tables provide a summary of the effect of fair value hedges on the Company's accompanying consolidated statements of operations and comprehensive income for the six months ended June 30, 2014 and 2013, respectively (amounts in thousands):

Table of Contents

June 30, 2014 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$ 1,452	Fixed rate debt	Interest expense	$(1,452)
Total		$ 1,452			$(1,452)

June 30, 2013 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$(1,524)	Fixed rate debt	Interest expense	$1,524
Total		$(1,524)			$1,524

The following tables provide a summary of the effect of cash flow hedges on the Company’s accompanying consolidated statements of operations and comprehensive income for the six months ended June 30, 2014 and 2013, respectively (amounts in thousands):

	Effective Portion			Ineffective Portion	
June 30, 2014 Type of Cash Flow Hedge	Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps/Treasury Locks	$(21,790)	Interest expense	$(8,335)	Interest expense	$91
Total	$(21,790)		$(8,335)		$91

	Effective Portion			Ineffective Portion	
June 30, 2013 Type of Cash Flow Hedge	Amount of Gain/(Loss) Recognized in OCI	Location of Gain/(Loss) Reclassified from	Amount of Gain/(Loss) Reclassified from	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from

	on Derivative	Accumulated OCI into Income	Accumulated OCI into Income		Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps/Treasury Locks	$12,337	Interest expense	$(12,098)	N/A	$—
Total	$12,337		$(12,098)		$—

As of June 30, 2014 and December 31, 2013, there were approximately $169.3 million and $155.8 million in deferred losses, net, included in accumulated other comprehensive (loss), respectively, related to derivative instruments. Based on the estimated fair values of the net derivative instruments at June 30, 2014, the Company may recognize an estimated $22.0 million of accumulated other comprehensive (loss) as additional interest expense during the twelve months ending June 30, 2015.

In June 2014, the Company paid a net $2.0 million to settle seven forward starting ten-year swaps in conjunction with the issuance of $750.0 million of thirty-year fixed rate public notes. The ineffective portion of approximately $0.1 million was recorded as a decrease to interest expense and accrued interest of approximately $1.3 million was recorded as an increase to interest expense. The remaining amount of approximately $0.8 million will be deferred as a component of accumulated other comprehensive (loss) and recognized as an increase to interest expense over the first nine years and ten months of the notes.

Table of Contents

10. Earning Per Share and Earnings Per Unit

Equity Residential

The following tables set forth the computation of net income per share – basic and net income per share – diluted for the Company (amounts in thousands except per share amounts):

	Six Months Ended June 30,		Quarter Ended June 30,	
	2014	2013	2014	2013
Numerator for net income per share – basic:				
Income (loss) from continuing operations	$183,987	$(223,850)	$102,307	$(58,511)
Allocation to Noncontrolling Interests – Operating Partnership, net	(7,475)	9,078	(4,422)	2,231
Net gain on sales of real estate properties	14,903	—	14,903	—
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,092)	790	(588)	815
Preferred distributions	(2,072)	(2,072)	(1,036)	(1,036)
Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests	188,251	(216,054)	111,164	(56,501)
Discontinued operations, net of Noncontrolling Interests	1,502	1,556,427	490	380,224
Numerator for net income per share – basic	$189,753	$1,340,373	$111,654	$323,723
Numerator for net income per share – diluted (1):				
Income from continuing operations	$183,987		$102,307	
Net gain on sales of real estate properties	14,903		14,903	
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,092)		(588)	
Preferred distributions	(2,072)		(1,036)	
Income from continuing operations available to Common Shares	195,726		115,586	
Discontinued operations, net	1,562		510	
Numerator for net income per share – diluted (1)	$197,288	$1,340,373	$116,096	$323,723
Denominator for net income per share – basic and diluted (1):				
Denominator for net income per share – basic	360,641	348,654	360,809	359,653
Effect of dilutive securities:				
OP Units	13,736		13,742	
Long-term compensation shares/units	2,403		2,567	
Denominator for net income per share – diluted (1)	376,780	348,654	377,118	359,653
Net income per share – basic	$0.53	$3.84	$0.31	$0.90
Net income per share – diluted	$0.52	$3.84	$0.31	$0.90
Net income per share – basic:				
Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests	$0.522	$(0.620)	$0.308	$(0.157)
Discontinued operations, net of Noncontrolling Interests	0.004	4.464	0.001	1.057

Net income per share – basic	$0.526	$3.844	$0.309	$0.900
Net income per share – diluted (1):				
Income (loss) from continuing operations available to Common Shares	$0.520	$(0.620)	$0.307	$(0.157)
Discontinued operations, net	0.004	4.464	0.001	1.057
Net income per share – diluted	$0.524	$3.844	$0.308	$0.900

(1) Potential common shares issuable from the assumed conversion of OP Units and the exercise/vesting of long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per share calculation as the Company had a loss from continuing operations for the six months and quarter ended June 30, 2013.

ERP Operating Limited Partnership

The following tables set forth the computation of net income per Unit – basic and net income per Unit – diluted for the Operating Partnership (amounts in thousands except per Unit amounts):

Table of Contents

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013
Numerator for net income per Unit – basic and diluted (1):				
Income (loss) from continuing operations	$183,987	$(223,850)	$102,307	$(58,511)
Net gain on sales of real estate properties	14,903	—	14,903	—
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,092)	790	(588)	815
Allocation to Preference Units	(2,072)	(2,072)	(1,036)	(1,036)
Income (loss) from continuing operations available to Units	195,726	(225,132)	115,586	(58,732)
Discontinued operations, net	1,562	1,621,616	510	395,243
Numerator for net income per Unit – basic and diluted (1)	$197,288	$1,396,484	$116,096	$336,511
Denominator for net income per Unit – basic and diluted (1):				
Denominator for net income per Unit - basic	374,377	362,390	374,551	373,403
Effect of dilutive securities:				
Dilution for Units issuable upon assumed exercise/vesting of the Company’s long-term compensation shares/units	2,403		2,567	
Denominator for net income per Unit – diluted (1)	376,780	362,390	377,118	373,403
Net income per Unit – basic	$0.53	$3.84	$0.31	$0.90
Net income per Unit – diluted	$0.52	$3.84	$0.31	$0.90
Net income per Unit – basic:				
Income (loss) from continuing operations available to Units	$0.522	$(0.620)	$0.308	$(0.157)
Discontinued operations, net	0.004	4.464	0.001	1.057
Net income per Unit – basic	$0.526	$3.844	$0.309	$0.900
Net income per Unit – diluted (1):				
Income (loss) from continuing operations available to Units	$0.520	$(0.620)	$0.307	$(0.157)
Discontinued operations, net	0.004	4.464	0.001	1.057
Net income per Unit – diluted	$0.524	$3.844	$0.308	$0.900

(1) Potential Units issuable from the assumed exercise/vesting of the Company's long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per Unit calculation as the Operating Partnership had a loss from continuing operations for the six months and quarter ended June 30, 2013.

11. Discontinued Operations

The Company has presented separately as discontinued operations in all periods the results of operations for all consolidated assets disposed of and all properties held for sale, if any, for properties sold in 2013 and prior years. The amounts included in discontinued operations for the six months and quarter ended June 30, 2014 represent trailing activity for properties sold in 2013 and prior years. None of the properties sold during the six months and quarter ended June 30, 2014 met the new criteria for reporting discontinued operations. See Note 2 for further discussion.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets for properties sold in 2013 and prior years during the six months and quarters ended June 30, 2014 and 2013 (amounts in thousands).

Table of Contents

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013
REVENUES				
Rental income	$1,275	$107,956	$252	$26,174
Total revenues	1,275	107,956	252	26,174
EXPENSES (1)				
Property and maintenance	(41)	31,449	(89)	11,025
Real estate taxes and insurance	(6)	10,867	(19)	2,273
Property management	—	1	—	—
Depreciation	—	30,962	—	7,146
General and administrative	51	73	46	65
Total expenses	4	73,352	(62)	20,509
Discontinued operating income	1,271	34,604	314	5,665
Interest and other income	80	90	45	38
Other expenses	—	(3)	—	(1)
Interest (2):				
Expense incurred, net	—	(1,258)	—	(6)
Amortization of deferred financing costs	—	(228)	—	—
Income and other tax (expense) benefit	(13)	(463)	(2)	(405)
Discontinued operations	1,338	32,742	357	5,291
Net gain on sales of discontinued operations	224	1,588,874	153	389,952
Discontinued operations, net	$1,562	$1,621,616	$510	$395,243

(1) Includes expenses paid in the current period for properties sold in prior periods related to the Company’s period of ownership.
(2) Includes only interest expense specific to secured mortgage notes payable for properties sold.

12. Commitments and Contingencies

The Company, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Company with existing laws has not had a material adverse effect on the Company. However, the Company cannot predict the impact of new or changed laws or regulations on its current properties or on properties that it may acquire in the future.

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans With Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys' fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company’s defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit or a possible loss or a range of loss, and no amounts have been accrued at June 30, 2014. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

The Company does not believe there is any other litigation pending or threatened against it that, individually or in the aggregate, may reasonably be expected to have a material adverse effect on the Company.

As of June 30, 2014, the Company has 12 consolidated projects (including Prism at Park Avenue South in New York City which the Company is jointly developing with Toll Brothers that is discussed below) totaling 3,871 apartment units in various stages of development with commitments to fund of approximately $1.0 billion and estimated completion dates ranging through September 30, 2016, as well as other completed development projects that are in various stages of lease up or are stabilized. Some of the projects are being developed solely by the Company, while others are being co-developed with various third party development partners. The development venture agreements with these partners are primarily deal-specific, with differing terms regarding

Table of Contents

profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The Company is the "general" or "managing" partner of the development ventures.

As of June 30, 2014, the Company has one unconsolidated project totaling 176 apartment units under development with an estimated completion date of December 31, 2014, as well as other completed development projects that are in various stages of lease up or are stabilized. These projects are all being co-developed with various third party development partners. The development venture agreements with these partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The Company currently has no further funding obligations for Domain, Nexus Sawgrass and San Norterra. While the Company is the managing member of the Domain and Nexus Sawgrass joint ventures, was responsible for constructing both projects and has given certain construction cost overrun guarantees, the joint venture partner has significant participating rights and has active involvement in and oversight of the ongoing projects. The Domain and Nexus Sawgrass buy-sell arrangements contain provisions that provide the right, but not the obligation, for the Company to acquire the partner’s interests or sell its interests at any time following the occurrence of certain pre-defined events (including at stabilization) described in the development venture agreements. The respective partner for San Norterra and Parc on Powell (formerly known as 1333 Powell) is the “general” or “managing” partner of the development venture and the Company does not have substantive kick-out or participating rights. The Company has given a repayment guaranty on the construction loan for Parc on Powell of 50% of the outstanding balance, up to a maximum of $19.7 million, and has given certain construction cost overrun guarantees.

In December 2011, the Company and Toll Brothers (NYSE: TOL) jointly acquired a vacant land parcel at 400 Park Avenue South in New York City. The Company's and Toll Brothers' allocated portions of the purchase price were approximately $76.1 million and $57.9 million, respectively. The Company is the managing member and Toll Brothers does not have substantive kick-out or participating rights. Until the core and shell of the building is complete, the building and land will be owned jointly and are required to be consolidated on the Company's balance sheet. Thereafter, the Company will solely own and control the rental portion of the building (floors 2-22) and Toll Brothers will solely own and control the for sale portion of the building (floors 23-40). Once the core and shell are complete, the Toll Brothers' portion of the property will be deconsolidated from the Company's balance sheet. The acquisition was financed through contributions by the Company and Toll Brothers of approximately $102.5 million and $75.7 million, respectively, which included the land purchase noted above, restricted deposits and taxes and fees. As of June 30, 2014, the Company's and Toll Brothers' consolidated contributions to the joint venture were approximately $327.9 million, of which Toll Brothers' noncontrolling interest balance totaled $117.4 million.

13. Reportable Segments

Operating segments are defined as components of an enterprise that engage in business activities from which they may earn revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker. The chief operating decision maker decides how resources are allocated and assesses performance on a recurring basis at least quarterly.

The Company’s primary business is the acquisition, development and management of multifamily residential properties, which includes the generation of rental and other related income through the leasing of apartment units to residents. The chief operating decision maker evaluates the Company's operating performance geographically by market and both on a same store and non-same store basis. The Company’s operating segments located in its core markets represent its reportable segments (with the aggregation of Los Angeles, Orange County and San Diego into the Southern California reportable segment). The Company's operating segments located in its non-core markets that are not material have also been aggregated in the tables presented below.

The Company’s fee and asset management and development (including its partially owned properties) activities are other business activities that do not constitute an operating segment and as such, have been aggregated in the "Other" category in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company's total revenues during the six months and quarters ended June 30, 2014 and 2013, respectively.

The primary financial measure for the Company's rental real estate segment is net operating income ("NOI"), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations and comprehensive income). The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating results of the Company's apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following tables present NOI for each

Table of Contents

segment from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2014 and 2013, respectively, as well as total assets and capital expenditures at June 30, 2014 (amounts in thousands):

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Boston	$125,024	$41,414	$83,610	$120,455	$39,651	$80,804
Denver	54,123	15,098	39,025	50,494	14,987	35,507
New York	225,407	88,102	137,305	217,297	83,745	133,552
San Francisco	165,343	52,960	112,383	152,459	54,109	98,350
Seattle	76,702	25,805	50,897	71,548	24,553	46,995
South Florida	97,893	36,404	61,489	93,289	35,417	57,872
Southern California	207,272	69,450	137,822	198,366	69,149	129,217
Washington DC	222,135	72,499	149,636	223,807	71,049	152,758
Non-core	65,607	24,495	41,112	63,715	23,931	39,784
Total same store	1,239,506	426,227	813,279	1,191,430	416,591	774,839
Non-same store/other (2) (3)						
Boston	1,817	413	1,404	1,154	255	899
Seattle	4,444	1,779	2,665	1,303	374	929
South Florida	2,041	1,301	740	24	146	(122)
Southern California	15,623	7,452	8,171	5,397	2,593	2,804
Washington DC	10,840	3,857	6,983	5,320	1,862	3,458
Other (3)	6,220	7,754	(1,534)	4,901	13,295	(8,394)
Total non-same store/other	40,985	22,556	18,429	18,099	18,525	(426)
Archstone pre-ownership (4)	—	—	—	(92,423)	(36,729)	(55,694)
Total	$1,280,491	$448,783	$831,708	$1,117,106	$398,387	$718,719

(1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2013, less properties subsequently sold, which represented 100,648 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(2) Non-same store primarily includes properties acquired after January 1, 2013, plus any properties in lease-up and not stabilized as of January 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and operations prior to sale for properties sold in 2014 that do not meet the new discontinued operations criteria.

(4) Represents pro forma Archstone pre-ownership results for the period January 1, 2013 to February 27, 2013 that is included in 2013 same store results.

Table of Contents

	Quarter Ended June 30, 2014			Quarter Ended June 30, 2013		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Boston	$63,117	$19,259	$43,858	$61,401	$19,444	$41,957
Denver	27,511	7,648	19,863	25,524	7,770	17,754
New York	114,221	41,898	72,323	109,299	40,634	68,665
San Francisco	84,082	26,305	57,777	77,514	25,955	51,559
Seattle	38,977	13,037	25,940	36,176	12,316	23,860
South Florida	49,456	18,220	31,236	47,051	17,774	29,277
Southern California	104,608	34,811	69,797	100,156	34,275	65,881
Washington DC	111,739	35,102	76,637	112,815	35,165	77,650
Non-core	33,035	11,806	21,229	32,110	11,880	20,230
Total same store	626,746	208,086	418,660	602,046	205,213	396,833
Non-same store/other (2) (3)						
Boston	790	202	588	898	201	697
Seattle	2,756	1,042	1,714	1,271	373	898
South Florida	1,241	760	481	14	68	(54)
Southern California	8,446	4,261	4,185	4,106	1,976	2,130
Washington DC	5,906	1,954	3,952	3,512	1,209	2,303
Other (3)	3,881	2,693	1,188	2,697	3,234	(537)
Total non-same store/other	23,020	10,912	12,108	12,498	7,061	5,437
Total	$649,766	$218,998	$430,768	$614,544	$212,274	$402,270

(1) Same store primarily includes all properties acquired or completed and stabilized prior to April 1, 2013, less properties subsequently sold, which represented 100,648 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(2) Non-same store primarily includes properties acquired after April 1, 2013, plus any properties in lease-up and not stabilized as of April 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and operations prior to sale for properties sold in 2014 that do not meet the new discontinued operations criteria.

43

Table of Contents

	Six Months Ended June 30, 2014	
	Total Assets	Capital Expenditures
Same store (1)		
Boston	$1,953,627	$8,814
Denver	530,832	1,904
New York	4,720,592	8,202
San Francisco	2,753,902	12,704
Seattle	1,046,051	5,264
South Florida	1,170,295	7,600
Southern California	2,978,750	11,953
Washington DC	4,270,418	14,834
Non-core	605,225	3,123
Total same store	20,029,692	74,398
Non-same store/other (2) (3)		
Boston	48,830	630
Seattle	226,604	281
South Florida	70,896	16
Southern California	511,343	645
Washington DC	306,594	852
Other (3)	1,797,443	90
Total non-same store/other	2,961,710	2,514
Total	$22,991,402	$76,912

(1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2013, less properties subsequently sold, which represented 100,648 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(2) Non-same store primarily includes properties acquired after January 1, 2013, plus any properties in lease-up and not stabilized as of January 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and capital expenditures for properties sold.

Note: Markets/Metro Areas aggregated in the above Southern California and Non-core segments are as follows:
(a) Southern California – Los Angeles, Orange County and San Diego.
(b) Non-core – Inland Empire, CA, New England (excluding Boston), Orlando and Phoenix.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2014 and 2013, respectively (amounts in thousands):

	Six Months Ended June 30,		Quarter Ended June 30,	
	2014	2013	2014	2013
Rental income	$1,280,491	$1,117,106	$649,766	$614,544
Property and maintenance expense	(240,961)	(212,030)	(115,388)	(113,501)
Real estate taxes and insurance expense	(165,149)	(141,837)	(83,055)	(76,742)
Property management expense	(42,673)	(44,520)	(20,555)	(22,031)
Total operating expenses	(448,783)	(398,387)	(218,998)	(212,274)
Net operating income	$831,708	$718,719	$430,768	$402,270

Table of Contents

14. Subsequent Events/Other

Subsequent Events

Subsequent to June 30, 2014, the Company:

- Acquired one land parcel for $13.0 million;
- Repaid $60.7 million in mortgage loans; and
- Closed on the sale of its unconsolidated interest in the remaining Residual JV wholly-owned German real estate assets that were acquired as part of the Archstone Acquisition. With this sale, all German real estate assets have now been sold.

Other

During the six months ended June 30, 2014 and 2013, the Company incurred charges of $0.1 million and $0.1 million, respectively, related to property acquisition costs, such as survey, title and legal fees, on the acquisition of operating properties (excluding the Archstone Transaction) and $1.5 million and $3.4 million, respectively, related to the write-off of various pursuit and out-of-pocket costs for terminated acquisition, disposition and development transactions. These costs, totaling $1.6 million and $3.5 million, respectively, are included in other expenses in the accompanying consolidated statements of operations and comprehensive income. See Note 4 for details on the property acquisition costs related to the Archstone Transaction.

During the six months ended June 30, 2014, the Company received $2.3 million for the settlement of various litigation/insurance claims, which are included in interest and other income in the accompanying consolidated statements of operations and comprehensive income.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For further information including definitions for capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2013.

Forward-Looking Statements

Forward-looking statements in this report are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, projections and assumptions made by management. While the Company's management believes the assumptions underlying its forward-looking statements are reasonable, such information is inherently subject to uncertainties and may involve certain risks, which could cause actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Many of these uncertainties and risks are difficult to predict and beyond management's control. Forward-looking statements are not guarantees of future performance, results or events. The forward-looking statements contained herein are made as of the date hereof and the Company undertakes no obligation to update or supplement these forward-looking statements. Factors that might cause such differences include, but are not limited to the following:

We intend to actively acquire, develop and rehab multifamily properties for rental operations as market conditions dictate. We may also acquire multifamily properties that are unoccupied or in the early stages of lease up. We may be unable to lease up these apartment properties on schedule, resulting in decreases in expected rental revenues and/or lower yields due to lower occupancy and rates as well as higher than expected concessions. We may not be able to achieve rents that are consistent with expectations for acquired, developed or rehabbed properties. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position, to complete a development property or to complete a rehab. Additionally, we expect that other real estate investors with capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development and acquisition efforts. This competition (or lack thereof) may increase (or depress) prices for multifamily properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. We have acquired in the past and intend to continue to pursue the acquisition of properties and portfolios of properties, including large portfolios, that could increase our size and result in alterations to our capital structure. The total number of apartment units under development, costs of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation;
Debt financing and other capital required by the Company may not be available or may only be available on adverse terms;
Labor and materials required for maintenance, repair, capital expenditure or development may be more expensive than anticipated;
Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including, without limitation, new construction and excess inventory of multifamily and single family housing, increasing portions of single family housing stock being converted to rental use, rental housing subsidized by the government, other government programs that favor single family rental housing or owner occupied housing over multifamily rental housing, governmental regulations, slow or negative employment growth and household formation, the availability of low-interest mortgages or the availability of mortgages requiring little or no down payment for single family home buyers, changes in social preferences and the potential for geopolitical instability, all of which are beyond the Company's control; and
Additional factors as discussed in Part I of the Company's and the Operating Partnership's Annual Report on Form 10-K, particularly those under "Item 1A. Risk Factors".

Forward-looking statements and related uncertainties are also included in the Notes to Consolidated Financial Statements in this report.

Overview

Equity Residential ("EQR"), a Maryland real estate investment trust ("REIT") formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. ERP Operating Limited Partnership ("ERPOP"), an Illinois limited partnership, was formed in May 1993 to conduct the multifamily residential property business of Equity Residential. EQR has elected to be taxed as a REIT. References to the "Company," "we," "us" or "our" mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by

Table of Contents

EQR and/or ERPOP. References to the "Operating Partnership" mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP.

EQR is the general partner of, and as of June 30, 2014 owned an approximate 96.2% ownership interest in, ERPOP. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity.

The Company's corporate headquarters are located in Chicago, Illinois and the Company also operates property management offices in each of its core markets. As of June 30, 2014, the Company had approximately 3,600 employees who provided real estate operations, leasing, legal, financial, accounting, acquisition, disposition, development and other support functions.

Available Information

You may access our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports we file with the SEC free of charge at our website, www.equityresidential.com. These reports are made available at our website as soon as reasonably practicable after we file them with the SEC. The information contained on our website, including any information referred to in this report as being available on our website, is not a part of or incorporated into this report.

Business Objectives and Operating and Investing Strategies

The Company invests in high quality apartment communities located in strategically targeted markets with the goal of maximizing our risk adjusted total return (operating income plus capital appreciation) on invested capital.

We seek to maximize the income and capital appreciation of our properties by investing in markets that are characterized by conditions favorable to multifamily property appreciation. We are focused primarily on the six core coastal, high barrier to entry markets of Boston, New York, Washington DC, Southern California (including Los Angeles, Orange County and San Diego), San Francisco and Seattle. These markets generally feature one or more of the following characteristics that allow us to increase rents:

- High barriers to entry where, because of land scarcity or government regulation, it is difficult or costly to build new apartment properties, creating limits on new supply;
- High home ownership costs;
- Strong economic growth leading to job growth and household formation, which in turn leads to high demand for our apartments;
- Urban core locations with an attractive quality of life and higher wage job categories leading to high resident demand and retention; and
- Favorable demographics contributing to a larger pool of target residents with a high propensity to rent apartments.

Our operating focus is on balancing occupancy and rental rates to maximize our revenue while exercising tight cost control to generate the highest possible return to our shareholders. Revenue is maximized by attracting qualified prospects to our properties, cost-effectively converting these prospects into new residents and keeping our residents satisfied so they will renew their leases upon expiration. While we believe that it is our high-quality, well-located assets that bring our customers to us, it is the customer service and superior value provided by our on-site personnel that keeps them renting with us and recommending us to their friends.

We use technology to engage our customers in the way that they want to be engaged. Many of our residents utilize our web-based resident portal which allows them to sign and renew their leases, review their accounts and make payments, provide feedback and make service requests on-line.

Acquisitions and developments may be financed from various sources of capital, which may include retained cash flow, issuance of additional equity and debt, sales of properties and joint venture agreements. In addition, the Company may acquire properties in transactions that include the issuance of limited partnership interests in the Operating Partnership ("OP Units") as consideration for the acquired properties. Such transactions may, in certain circumstances, enable the sellers to defer, in whole or in part, the recognition of taxable income or gain that might otherwise result from the sales. The Company may acquire land parcels to hold and/or sell based on market opportunities as well as options to buy more land in the future. The Company may also seek to acquire properties by purchasing defaulted or distressed debt that encumbers desirable properties in the hope of obtaining title to property through foreclosure or deed-in-lieu of foreclosure proceedings. The Company has also, in the past, converted some of its properties and sold them as condominiums but is not currently active in this line of business.

Over the past several years, the Company has done an extensive repositioning of its portfolio from low barrier to entry/non-core markets to high barrier to entry/core markets. Since 2005, the Company has sold over 162,000 apartment units primarily in its non-core markets for an aggregate sales price of approximately $15.6 billion, acquired over 67,000 apartment units primarily in its core markets for approximately $19.2 billion and began approximately $4.7 billion of development projects primarily in its core markets. We are currently seeking to acquire and develop assets primarily in the following six core coastal metropolitan areas: Boston, New York, Washington DC, Southern California, San Francisco and Seattle. We also have investments (in the aggregate about 11.9% of our NOI at June 30, 2014) in the two core markets of South Florida and Denver but do not currently intend to acquire or develop new assets in these markets. Further, we are in the process of exiting Phoenix and Orlando and will use sales proceeds from these markets to acquire and/or develop new assets and for other corporate purposes.

As part of its strategy, the Company purchases completed and fully occupied apartment properties, partially completed or partially occupied properties and takes options on land or acquires land on which apartment properties can be constructed. We intend to hold a diversified portfolio of assets across our target markets. As of June 30, 2014, no single market/metropolitan area accounted for more than 18.6% of our NOI, though no guarantee can be made that NOI concentration may not increase in the future.

We endeavor to attract and retain the best employees by providing them with the education, resources and opportunities to succeed. We provide many classroom and on-line training courses to assist our employees in interacting with prospects and residents as well as extensively train our customer service specialists in maintaining our properties and improvements, equipment and appliances. We actively promote from within and many senior corporate and property leaders have risen from entry level or junior positions. We monitor our employees' engagement by surveying them annually and have consistently received high engagement scores.

We have a commitment to sustainability and consider the environmental impacts of our business activities. Sustainability and social responsibility are key drivers of our focus on creating the best apartment communities for residents to live, work and play. We have a dedicated in-house team that initiates and applies sustainable practices in all aspects of our business, including investment activities, development, property operations and property management activities. With its high density, multifamily housing is, by its nature, an environmentally friendly property type. Our recent acquisition and development activities have been primarily concentrated in pedestrian-friendly urban locations near public transportation. When developing and renovating our properties, we strive to reduce energy and water usage by investing in energy saving technology while positively impacting the experience of our residents and the value of our assets. We continue to implement a combination of irrigation, lighting, HVAC and renewable energy improvements at our properties that will reduce energy and water consumption. For additional information regarding our sustainability efforts, see our December 2013 Corporate Social Responsibility and Sustainability Report at our website, www.equityresidential.com.

Current Environment

During the six months ended June 30, 2014, the Company acquired three consolidated rental properties consisting of 772 apartment units for $249.6 million and one land parcel and development rights at one of its existing land sites for $15.8 million. We believe our access to capital, our ability to execute large, complex transactions and our ability to efficiently stabilize large scale lease up properties provide us with a competitive advantage, which was demonstrated in the Archstone Transaction that closed in 2013. The Company currently budgets consolidated rental acquisitions of approximately $500.0 million during the year ending December 31, 2014 to be funded with proceeds from rental dispositions (see discussion below).

The Company started construction on three projects representing 1,145 apartment units totaling approximately $614.3 million of development costs during the six months ended June 30, 2014. The Company expects to increase its development activity as compared to the past few years and has budgeted up to $1.6 billion combined of new apartment construction starts on land currently owned during the years ending December 31, 2014 and 2015, with up to $1.0 billion occurring in 2014 and the balance occurring in 2015. We currently budget spending approximately $500.0 million on development costs during the year ending December 31, 2014. This capital will be primarily sourced with excess operating cash flow and borrowings on our revolving credit facility.

The Company expects to continue to sell non-core assets and reduce its exposure to non-core markets as we believe these assets will have lower long-term returns and we can sell them for prices that we believe are favorable. The Archstone Transaction

48

that closed in 2013 provided an opportunity to accelerate this strategy and do so efficiently through the use of Section 1031 tax deferred exchanges. Over the past several years, dispositions combined with reinvestment of the cash proceeds in assets with lower cap rates (see definition below) were dilutive to our earnings per share. The Company defines dilution from transactions as the lost NOI from sales proceeds that were not reinvested in other apartment properties or were reinvested in properties with a lower cap rate. Beginning in 2014 and going forward, the Company expects a decrease in dilution due to our reduced disposition expectations and the locations of our planned dispositions. The Company sold one consolidated rental property consisting of 336 apartment units for $40.9 million and a land parcel for $8.2 million during the six months ended June 30, 2014. The Company currently budgets consolidated rental dispositions of approximately $500.0 million during the year ending December 31, 2014.

We currently have access to multiple sources of capital including the equity markets as well as both the secured and unsecured debt markets. In June 2014, the Company completed a $450.0 million unsecured five year note offering with a coupon of 2.375% and an all-in effective interest rate of approximately 2.52% as well as a $750.0 million unsecured thirty year note offering with a coupon of 4.5% and an all-in effective interest rate of approximately 4.57%. The Company used the proceeds from these offerings to repay its $750.0 million unsecured term loan facility that was scheduled to mature on January 11, 2015 and to repay the outstanding balance on its revolving credit facility. In October 2013, the Company used cash on hand from dispositions to repay $963.5 million outstanding of 5.883% mortgage debt assumed as part of the Archstone Transaction prior to the November 1, 2014 maturity date. Also in October 2013, the Company closed a new $800.0 million mortgage loan from a large insurance company which matures on November 10, 2023, is interest only and carries a fixed interest rate of 4.21%. The Company used the loan proceeds from this new loan to simultaneously repay $825.0 million of a $1.27 billion mortgage loan assumed as part of the Archstone Transaction. The approximately $440.0 million balance will remain outstanding, continue to mature in November 2017 and continue to carry a fixed interest rate of 6.256%. The Company believes it has obtained favorable interest terms on all of this long term debt and has substantially extended the duration of its debt maturities as well as reduced its 2014, 2015 and 2017 maturities as a percentage of outstanding debt.

We believe that cash and cash equivalents, securities readily convertible to cash, current availability on our revolving credit facility and disposition proceeds for 2014 will provide sufficient liquidity to meet our funding obligations relating to asset acquisitions, debt maturities and existing development projects through 2014. We expect that our remaining longer-term funding requirements will be met through some combination of new borrowings, equity issuances, property dispositions, joint ventures and cash generated from operations.

There is significant uncertainty surrounding the futures of Fannie Mae and Freddie Mac (the “Government Sponsored Enterprises” or “GSEs”). Through their lender originator networks, the GSEs are significant lenders both to the Company and to buyers of the Company's properties. The GSEs have a mandate to support multifamily housing through their financing activities. Any changes to their mandates, further reductions in their size or the scale of their activities or loss of key personnel could have a significant impact on the Company and may, among other things, lead to lower values for our assets and higher interest rates on our borrowings. The regulator of the GSEs required the GSEs to decrease their 2013 multifamily lending activities by 10% compared to 2012 levels. No such mandate is expected to be announced for 2014, however, it remains unclear if future reductions or changes could be mandated. The GSEs' regulator may require the GSEs to focus more of their lending activities on properties that the regulator deems affordable, which may or may not include the Company's assets. Reductions in GSE activity or increases in GSE loan pricing may also provide a competitive advantage to us by making the cost of financing multifamily properties more expensive for other multifamily owners while the Company continues to have access to cheaper capital in the public and private debt and equity markets. Over time, we expect that other lenders, including the commercial mortgage-backed securities market and life insurance companies, will become larger sources of debt capital to the multifamily market because multifamily properties are attractive to lenders due to their relatively stable cash flows.

We expect continued growth in revenue (anticipated 2014 same store revenue increase ranging from 3.9% to 4.1%) and NOI (anticipated 2014 same store NOI increase ranging from 4.5% to 5.0%) and are optimistic that the continued strength in fundamentals across most of our markets will produce solid performance through 2014. These same store revenue and NOI growth assumptions are both towards the high end of the Company's original projections budgeted in February 2014. These same-store assumptions include the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company. During the first half of 2014, same store revenues increased 4.0% over the first half of 2013. We believe the key drivers behind the anticipated increase in revenue are base rent pricing for new residents, renewal pricing for existing residents, resident turnover and physical occupancy. For 2014, we now expect average base rent growth of 3.5% (vs. original guidance of 3.25%), an increase in renewal rates of 5.0% (vs. original guidance of 4.75%), occupancy of 95.5% (vs. original guidance of 95.4%) and turnover at 51.0% (vs. original guidance of 51.5%).

With the exception of Washington, D.C., all of our other markets are generally performing better than original expectations back in February 2014. As noted above, demand for our apartments has been stronger than expected, with higher occupancy and lower turnover due in part to declines in move outs to buy new homes. In general, new supply continues to be absorbed in an

Table of Contents

orderly fashion with lease-ups occurring faster than expected with only minimal impact on rents at nearby stabilized assets. However, Washington D.C. continues to show signs of stress as substantial new supply and the impact of sequestration and furloughs have dampened the metro area economy. We expect our Washington D.C. results to produce a 1% decline in same store revenues during 2014, which will likely reduce our expected Company-wide same store revenue growth by 1%. Despite slow growth in the overall economy and the issues noted in Washington D.C., our business continues to perform well because of the combined forces of demographics, household formations and increasing consumer preference for the flexibility of rental housing, all of which should ensure a continued strong demand for rental housing.

The Company anticipates that 2014 same store expenses will increase 2.25% to 2.75%, in line with previous expectations, primarily due to increases in real estate taxes, which are now expected to increase 6.2%, and utilities, which are now expected to increase between 6% and 7%. During the first half of 2014, same store expenses increased 2.3% over the first half of 2013, with real estate taxes up 6.2% and utilities up 8.0%. The increase in real estate taxes is primarily due to rate and value increases in certain states and municipalities, reflecting those states' and municipalities' continued economic challenges and the dramatic improvement in apartment values and fundamentals as well as the continued burn off of 421a tax abatements in New York City. The increase in utilities is primarily due to a combination of increases in natural gas prices, increased consumption of gas and electric due to historically low temperatures and increases in water and sewer costs as many municipalities have antiquated systems with limited revenue for modernization. Expense growth in the controllable property level expenses (excluding real estate taxes and utilities) declined 1.8% as the Company leverages the geographic locations of its new same-store portfolio (as a result of the Archstone Transaction and the 2013 disposition program) and technology to lower costs, which should partially offset the increase in real estate taxes and utilities. We expect that the beneficial impact resulting from Archstone synergies will continue to diminish over the remainder of the year.

We believe that the Company is well-positioned as of June 30, 2014 because our properties are geographically diverse, were approximately 95.3% occupied (96.1% on a same store basis) and the long-term demographic picture is positive. We believe certain market areas, especially Washington D.C., downtown Boston and Cambridge and Seattle, will see substantial near term multifamily supply yet total new supply levels for our core markets remain within historical ranges. We believe over the longer term that our core markets will absorb future supply without material marketwide disruption because of the high occupancy levels we currently experience and increasing household formations. We have seen evidence of this in Seattle as supply has been absorbed and rental rates continue to grow. We believe our strong balance sheet and ample liquidity will allow us to fund our debt maturities and development costs in the near term, and should also allow us to take advantage of investment opportunities in the future.

The current environment information presented above is based on current expectations and is forward-looking.

Results of Operations

In conjunction with our business objectives and operating strategy, the Company continued to invest in apartment properties located in strategically targeted markets during the six months ended June 30, 2014 as follows:

Acquired one consolidated apartment property consisting of 430 apartment units for $143.0 million at a cap rate (see definition below) of 4.9%, one land parcel for $10.3 million and additional development rights at one of its existing land sites for $5.5 million;
Acquired two consolidated apartment properties, one that just completed lease up and the other which is still in lease up, consisting of 342 apartment units for $106.6 million and are expected to stabilize at a 6.4% yield on cost and a 4.9% yield on cost, respectively; and
Sold one consolidated apartment property consisting of 336 apartments units for $40.9 million at a cap rate of 6.7% generating an unlevered internal rate of return ("IRR"), inclusive of management costs, of 7.9%, and a land parcel for

$8.2 million.

The Company's primary financial measure for evaluating each of its apartment communities is net operating income ("NOI"). NOI represents rental income less property and maintenance expense, real estate tax and insurance expense and property management expense. The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating results of the Company's apartment communities. The cap rate is generally the first year NOI yield (net of replacements) on the Company's investment.

Properties that the Company owned and were stabilized (see definition below) for all of both of the six months ended June 30, 2014 and 2013 as well as the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company (the "Six-Month 2014 Same Store Properties"), which represented 100,648 apartment units, and properties that the Company owned and were stabilized for all of both of the quarters ended June 30, 2014 and 2013 (the "Second Quarter 2014 Same Store Properties"), which represented 100,648 apartment units, impacted the Company's results of

Table of Contents

operations. Both the Six-Month 2014 Same Store Properties and the Second Quarter 2014 Same Store Properties are discussed in the following paragraphs.

The following tables provide a rollforward of the apartment units included in Same Store Properties and a reconciliation of apartment units included in Same Store Properties to those included in Total Properties for the six months and quarter ended June 30, 2014:

	Six Months Ended June 30, 2014		Quarter Ended June 30, 2014	
	Properties	Apartment Units	Properties	Apartment Units
Same Store Properties at Beginning of Period	296	80,247	375	100,984
2012 acquisitions	9	1,896	—	—
2013 acquisitions	77	22,103	—	—
2013 acquisitions not yet included in same store (1)	(1)	(322)	—	—
2013 acquisitions not yet stabilized (2)	(2)	(613)	—	—
2013 acquisitions not managed by the Company (3)	(3)	(853)	—	—
2013 acquisitions not consolidated	(1)	(336)	—	—
2013 acquisitions disposed of in 2013 (4)	(3)	(1,536)	—	—
2014 dispositions	(1)	(336)	(1)	(336)
Lease-up properties stabilized	3	374	—	—
Other	—	24	—	—
Same Store Properties at June 30, 2014	374	100,648	374	100,648

	Six Months Ended June 30, 2014		Quarter Ended June 30, 2014	
	Properties	Apartment Units	Properties	Apartment Units
Same Store	374	100,648	374	100,648
Non-Same Store:				
2014 acquisitions	1	430	1	430
2014 acquisitions not yet stabilized (2)	2	342	2	342
2013 acquisitions not yet included in same store (1)	1	322	1	322
2013 acquisitions not yet stabilized (2)	2	613	2	613
2013 acquisitions not managed by the Company (3)	3	853	3	853
2013 acquisitions not consolidated	1	336	1	336
Lease-up properties not yet stabilized (2)	10	2,939	10	2,939
Other	1	1	1	1
Total Non-Same Store	21	5,836	21	5,836
Military Housing (not consolidated)	2	5,007	2	5,007
Total Properties and Apartment Units	397	111,491	397	111,491

Note: Properties are considered "stabilized" when they have achieved 90% occupancy for three consecutive months. Properties are included in Same Store when they are stabilized for all of the current and comparable periods presented. Same store includes the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company, with pro forma pre-ownership results for the period January 1, 2013 to February 27, 2013.

(1) Includes one property containing 322 apartment units acquired in 2013 separately from the Archstone Acquisition.

(2) Includes properties in various stages of lease-up and properties where lease-up has been completed but the properties were not stabilized for the comparable periods presented.

(3) Includes three properties containing 853 apartments units acquired on February 27, 2013 in conjunction with the Archstone Acquisition that are owned by the Company but the entire projects are master leased to a third party corporate housing provider and the Company earns monthly net rental income.

Table of Contents

(4) Includes three properties containing 1,536 apartment units acquired on February 27, 2013 in conjunction with the Archstone Acquisition that were subsequently sold in 2013.

The Company’s acquisition, disposition and completed development activities also impacted overall results of operations for the six months and quarters ended June 30, 2014 and 2013. The impacts of these activities are discussed in greater detail in the following paragraphs.

Comparison of the six months ended June 30, 2014 to the six months ended June 30, 2013

For the six months ended June 30, 2014, the Company reported diluted earnings per share/unit of $0.52 compared to $3.84 per share/unit in the same period of 2013. The difference is primarily due to approximately $1.6 billion in higher gains on property sales in 2013 vs. 2014, partially offset by $66.3 million of higher merger-related expenses incurred in 2013 vs. 2014 in connection with the Archstone Acquisition, $71.4 million of prepayment penalties incurred in 2013 in connection with early debt extinguishment of existing mortgage notes payable to manage the Company's post Archstone 2017 maturities profile and higher depreciation in 2013 as a direct result of in-place residential lease intangibles acquired in the Archstone Transaction.

For the six months ended June 30, 2014, income from continuing operations increased approximately $407.8 million when compared to the six months ended June 30, 2013. The increase in continuing operations is discussed below.

Revenues from the Six-Month 2014 Same Store Properties increased $48.1 million primarily as a result of an increase in average rental rates charged to residents, slightly higher occupancy and a decrease in turnover. Expenses from the Six-Month 2014 Same Store Properties increased $9.6 million primarily due to increases in real estate taxes and utilities, partially offset by lower on-site payroll and property management costs. The following tables provide comparative same store results and statistics for the Six-Month 2014 Same Store Properties:

June YTD 2014 vs. June YTD 2013
Same Store Results/Statistics for 100,648 Same Store Apartment Units
$ in thousands (except for Average Rental Rate)

	Results			Statistics		
Description	Revenues	Expenses	NOI	Average Rental Rate (1)	Occupancy	Turnover
YTD 2014	$1,239,506	$426,227	$813,279	$2,152	95.4 %	25.6 %
YTD 2013	$1,191,430	$416,591	$774,839	$2,072	95.3 %	26.5 %
Change	$48,076	$9,636	$38,440	$80	0.1 %	(0.9 %)
Change	4.0 %	2.3 %	5.0 %	3.9 %		

Note: Same store results/statistics include 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied apartment units for the period.

The following table provides comparative same store operating expenses for the Six-Month 2014 Same Store Properties:

52

Table of Contents

June YTD 2014 vs. June YTD 2013
Same Store Operating Expenses for 100,648 Same Store Apartment Units
$ in thousands

	Actual YTD 2014	Actual YTD 2013	$ Change	% Change	% of Actual YTD 2014 Operating Expenses
Real estate taxes	$146,077	$137,553	$8,524	6.2 %	34.3 %
On-site payroll (1)	87,506	88,704	(1,198)	(1.4 %)	20.5 %
Utilities (2)	66,708	61,768	4,940	8.0 %	15.7 %
Repairs and maintenance (3)	52,991	51,945	1,046	2.0 %	12.4 %
Property management costs (4)	37,805	39,317	(1,512)	(3.8 %)	8.9 %
Insurance	12,459	12,609	(150)	(1.2 %)	2.9 %
Leasing and advertising	5,063	6,135	(1,072)	(17.5 %)	1.2 %
Other on-site operating expenses (5)	17,618	18,560	(942)	(5.1 %)	4.1 %
Same store operating expenses	$426,227	$416,591	$9,636	2.3 %	100.0 %

(1) On-site payroll – Includes payroll and related expenses for on-site personnel including property managers, leasing consultants and maintenance staff.

(2) Utilities – Represents gross expenses prior to any recoveries under the Resident Utility Billing System (“RUBS”). Recoveries are reflected in rental income.

(3) Repairs and maintenance – Includes general maintenance costs, apartment unit turnover costs including interior painting, routine landscaping, security, exterminating, fire protection, snow removal, elevator, roof and parking lot repairs and other miscellaneous building repair costs.

(4) Property management costs – Includes payroll and related expenses for departments, or portions of departments, that directly support on-site management. These include such departments as regional and corporate property management, property accounting, human resources, training, marketing and revenue management, procurement, real estate tax, property legal services and information technology.

(5) Other on-site operating expenses – Includes ground lease costs and administrative costs such as office supplies, telephone and data charges and association and business licensing fees.

The following table presents a reconciliation of operating income per the consolidated statements of operations and comprehensive income to NOI for the Six-Month 2014 Same Store Properties:

	Six Months Ended June 30, 2014	2013
	(Amounts in thousands)	
Operating income	$427,556	$168,223
Adjustments:		
Archstone pre-ownership operating results	—	55,694
Non-same store operating results	(18,429)	426
Fee and asset management revenue	(5,519)	(4,833)
Fee and asset management expense	3,040	3,223
Depreciation	375,303	519,526
General and administrative	31,328	32,580
Same store NOI	$813,279	$774,839

For properties that the Company acquired prior to January 1, 2013 and expects to continue to own through December 31, 2014 as well as the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company, the Company anticipates the following same store results for the full year ending December 31, 2014:

Table of Contents

2014 Same Store Assumptions	
Physical occupancy	95.5%
Revenue change	3.9% to 4.1%
Expense change	2.25% to 2.75%
NOI change	4.5% to 5.0%

The Company anticipates consolidated rental acquisitions of $500.0 million and consolidated rental dispositions of $500.0 million and expects that acquisitions will have a 1.00% lower cap rate than dispositions for the full year ending December 31, 2014.

These 2014 assumptions are based on current expectations and are forward-looking.

Non-same store operating results increased approximately $18.9 million and consist primarily of properties acquired in calendar years 2013 and 2014 as well as operations from the Company's completed development properties, but exclude the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company. This increase primarily resulted from:

Development and newly stabilized development properties in lease-up of $6.1 million;
Operating properties acquired in 2013 and 2014 of $4.9 million (excluding operating properties acquired in the Archstone Acquisition);
Other miscellaneous properties (including three master-leased properties acquired in the Archstone Acquisition) of $2.2 million; and
Operating activities from other miscellaneous operations.

See also Note 13 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses, increased approximately $0.9 million or 54.0% primarily as a result of higher revenue earned on management of the Company's military housing ventures at Fort Lewis and McChord Air Force base and higher fees earned on management of the Company's unconsolidated development joint ventures.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company's properties as well as management fees paid to any third party management companies. These expenses decreased approximately $1.8 million or 4.1%. This decrease is primarily attributable to a decrease in payroll-related costs, a decrease in computer operations due to the modernization of employee technology in 2013 and a decrease in office rent.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, decreased approximately $144.2 million or 27.8% primarily as a result of in-place residential lease intangibles which are generally amortized over a six month period and can significantly elevate depreciation expense following an acquisition, especially during 2013 as a direct result of the Archstone Acquisition, partially offset by additional depreciation expense on properties acquired in 2014, development properties placed in service and capital expenditures for all properties owned.

General and administrative expenses from continuing operations, which include corporate operating expenses, decreased approximately $1.3 million or 3.8% primarily due to a decrease in payroll-related costs, partially offset by an increase in office rent. The Company anticipates that general and administrative expenses will approximate $50.0 million to $52.0 million for the year ending December 31, 2014. The above assumption is based on current expectations and is forward-looking.

Interest and other income from continuing operations increased approximately $1.9 million primarily due to the settlement of various litigation/insurance claims totaling $2.3 million during the six months ended June 30, 2014 that did not occur in 2013. The Company anticipates that interest and other income, excluding the $2.3 million in settlements discussed above, will approximate $0.5 million for the year ending December 31, 2014. The above assumption is based on current expectations and is forward-looking.

Other expenses from continuing operations decreased approximately $21.2 million or 90.6% primarily due to the closing of the Archstone Acquisition during the six months ended June 30, 2013 and the significant decline in transaction activity during the six months ended June 30, 2014.

Table of Contents

Interest expense from continuing operations, including amortization of deferred financing costs, decreased approximately $93.8 million or 28.5% primarily as a result of $78.8 million of debt extinguishment costs incurred on early debt prepayments and write-offs of unamortized deferred financing costs in 2013 on existing mortgage notes payable to manage the Company's post Archstone 2017 maturities profile and higher capitalized interest in 2014. During the six months ended June 30, 2014, the Company capitalized interest costs of approximately $25.0 million as compared to $20.0 million for the six months ended June 30, 2013. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the six months ended June 30, 2014 was 4.72% as compared to 5.03% (excluding prepayment penalties) for the six months ended June 30, 2013. The Company anticipates that interest expense from continuing operations will approximate $456.7 million to $465.1 million for the year ending December 31, 2014. The above assumption is based on current expectations and is forward-looking.

Income and other tax expense from continuing operations increased approximately $0.1 million or 6.4% primarily due to increases and timing of all other taxes. The Company anticipates that income and other tax expense will approximate $1.0 million to $2.0 million for the year ending December 31, 2014. The above assumption is based on current expectations and is forward-looking.
Loss from investments in unconsolidated entities decreased by $45.5 million or 83.5% primarily due to indirect costs incurred in 2013 from the Archstone Acquisition through the Company's joint ventures with AVB such as severance and retention bonuses that did not reoccur in 2014.

Net gain on sales of land parcels decreased approximately $13.8 million or 94.6% due to the gain on sale of five land parcels during the six months ended June 30, 2013 as compared to one land sale during the six months ended June 30, 2014.

Discontinued operations, net decreased approximately $1.6 billion between the periods under comparison. This decrease is primarily due to substantially higher sales volume during the six months ended June 30, 2013 compared to the same period in 2014. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

Net gain on sales of real estate properties increased $14.9 million as a result of the sale of one consolidated apartment property during the six months ended June 30, 2014 that did not meet the new criteria for reporting discontinued operations. See Notes 2 and 11 in the Notes to Consolidated Financial Statements for further discussion.

Comparison of the quarter ended June 30, 2014 to the quarter ended June 30, 2013

For the quarter ended June 30, 2014, the Company reported diluted earnings per share/unit of $0.31 compared to $0.90 per share/unit in the same period of 2013. The difference is primarily due to approximately $374.9 million in higher gains on property sales in 2013 vs. 2014, partially offset by higher depreciation in 2013 as a direct result of in-place residential lease intangibles acquired in the Archstone Transaction.

For the quarter ended June 30, 2014, income from continuing operations increased approximately $160.8 million when compared to the quarter ended June 30, 2013. The increase in continuing operations is discussed below.

Revenues from the Second Quarter 2014 Same Store Properties increased $24.7 million primarily as a result of an increase in average rental rates charged to residents, slightly higher occupancy and a decrease in turnover. Expenses from the Second Quarter 2014 Same Store Properties increased $2.9 million primarily due to an increase in real estate taxes, partially offset by lower property management costs. The following tables provide comparative same store results and statistics for the Second Quarter 2014 Same Store Properties:

55

Table of Contents

Second Quarter 2014 vs. Second Quarter 2013
Same Store Results/Statistics for 100,648 Same Store Apartment Units
$ in thousands (except for Average Rental Rate)

	Results			Statistics		
Description	Revenues	Expenses	NOI	Average Rental Rate (1)	Occupancy	Turnover
Q2 2014	$626,746	$208,086	$418,660	$2,168	95.8 %	14.2 %
Q2 2013	$602,046	$205,213	$396,833	$2,088	95.6 %	14.4 %
Change	$24,700	$2,873	$21,827	$80	0.2 %	(0.2 %)
Change	4.1 %	1.4 %	5.5 %	3.8 %		

Note: Same store results/statistics include 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied apartment units for the period.

The following table provides comparative same store operating expenses for the Second Quarter 2014 Same Store Properties:

Second Quarter 2014 vs. Second Quarter 2013
Same Store Operating Expenses for 100,648 Same Store Apartment Units
$ in thousands

	Actual Q2 2014	Actual Q2 2013	$ Change	% Change	% of Actual Q2 2014 Operating Expenses
Real estate taxes	$73,076	$68,776	$4,300	6.3 %	35.1 %
On-site payroll (1)	43,933	43,313	620	1.4 %	21.1 %
Utilities (2)	28,495	28,403	92	0.3 %	13.7 %
Repairs and maintenance (3)	27,116	26,787	329	1.2 %	13.0 %
Property management costs (4)	18,802	19,867	(1,065)	(5.4 %)	9.1 %
Insurance	6,230	6,305	(75)	(1.2 %)	3.0 %
Leasing and advertising	2,500	3,110	(610)	(19.6 %)	1.2 %
Other on-site operating expenses (5)	7,934	8,652	(718)	(8.3 %)	3.8 %
Same store operating expenses	$208,086	$205,213	$2,873	1.4 %	100.0 %

(1) On-site payroll – Includes payroll and related expenses for on-site personnel including property managers, leasing consultants and maintenance staff.
(2) Utilities – Represents gross expenses prior to any recoveries under the Resident Utility Billing System (“RUBS”). Recoveries are reflected in rental income.
(3) Repairs and maintenance – Includes general maintenance costs, apartment unit turnover costs including interior painting, routine landscaping, security, exterminating, fire protection, snow removal, elevator, roof and parking lot repairs and other miscellaneous building repair costs.
(4)

Property management costs – Includes payroll and related expenses for departments, or portions of departments, that directly support on-site management. These include such departments as regional and corporate property management, property accounting, human resources, training, marketing and revenue management, procurement, real estate tax, property legal services and information technology.

(5) Other on-site operating expenses – Includes ground lease costs and administrative costs such as office supplies, telephone and data charges and association and business licensing fees.

The following table presents a reconciliation of operating income per the consolidated statements of operations and comprehensive income to NOI for the Second Quarter 2014 Same Store Properties:

56

Table of Contents

	Quarter Ended June 30,	
	2014	2013
	(Amounts in thousands)	
Operating income	$228,304	$63,977
Adjustments:		
Non-same store operating results	(12,108)	(5,437)
Fee and asset management revenue	(2,802)	(2,673)
Fee and asset management expense	1,378	1,577
Depreciation	190,136	323,304
General and administrative	13,752	16,085
Same store NOI	$418,660	$396,833

Non-same store operating results increased approximately $6.7 million and consist primarily of properties acquired in calendar years 2013 and 2014 as well as operations from the Company's completed development properties, but exclude the 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company. This increase primarily resulted from:

Development and newly stabilized development properties in lease-up of $3.6 million;
Operating properties acquired in 2013 and 2014 of $2.3 million (excluding operating properties acquired in the Archstone Acquisition);
Operating activities from other miscellaneous operations; and
Partially offset by a decrease in other miscellaneous properties (including three master-leased properties acquired in the Archstone Acquisition) of $0.4 million.

See also Note 13 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses, increased approximately $0.3 million or 29.9% primarily as a result of higher fees earned on management of the Company's unconsolidated joint ventures.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company's properties as well as management fees paid to any third party management companies. These expenses decreased approximately $1.5 million or 6.7%. This decrease is primarily attributable to a decrease in payroll-related costs and a decrease in office rent.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, decreased approximately $133.2 million or 41.2% primarily as a result of in-place residential lease intangibles which are generally amortized over a six month period and can significantly elevate depreciation expense following an acquisition, especially during 2013 as a direct result of the Archstone Acquisition, partially offset by additional depreciation expense on properties acquired in 2014, development properties placed in service and capital expenditures for all properties owned.

General and administrative expenses from continuing operations, which include corporate operating expenses, decreased approximately $2.3 million or 14.5% primarily due to a decrease in payroll-related costs, partially offset by an increase in office rent.

Interest and other income from continuing operations increased approximately $1.6 million primarily due to the settlement of various litigation/insurance claims during the quarter ended June 30, 2014 that did not occur in 2013.

Other expenses from continuing operations decreased approximately $0.1 million or 6.0% primarily due to the closing of the Archstone Acquisition during 2013, partially offset by an increased focus on sourcing new development activities during 2014.

Interest expense from continuing operations, including amortization of deferred financing costs, decreased approximately $8.2 million or 6.5% primarily as a result of the repayment of the Company's $750.0 million unsecured term loan facility in June 2014, the repayment of $963.5 million of 5.883% mortgage debt (which was assumed as part of the Archstone Transaction) in October 2013 and the partial paydown of $825.0 million of 6.256% mortgage debt (which was assumed as part of the Archstone Transaction) in October 2013 as well as higher capitalized interest in 2014, partially offset by interest expense on $1.2 billion of

Table of Contents

unsecured notes that closed in June 2014 and an $800.0 million loan pool that closed in October 2013. During the quarter ended June 30, 2014, the Company capitalized interest costs of approximately $12.2 million as compared to $11.6 million for the quarter ended June 30, 2013. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the quarter ended June 30, 2014 was 4.75% as compared to 4.65% for the quarter ended June 30, 2013.

Income and other tax expense from continuing operations increased approximately $0.2 million or 50.9% primarily due to increases and timing of all other taxes.

Loss from investments in unconsolidated entities decreased by $0.6 million or 6.8% primarily due to indirect costs incurred in 2013 from the Archstone Acquisition through the Company's joint ventures with AVB such as severance and retention bonuses that have significantly decreased in 2014.

Net gain on sales of land parcels decreased approximately $13.8 million or 94.4% due to the gain on sale of five land parcels during the quarter ended June 30, 2013 as compared to one land sale during the quarter ended June 30, 2014.

Discontinued operations, net decreased approximately $394.7 million between the periods under comparison. This decrease is primarily due to substantially higher sales volume during the quarter ended June 30, 2013 compared to the same period in 2014. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

Net gain on sales of real estate properties increased $14.9 million as a result of the sale of one consolidated apartment property during the quarter ended June 30, 2014 that did not meet the new criteria for reporting discontinued operations. See Notes 2 and 11 in the Notes to Consolidated Financial Statements for further discussion.

Liquidity and Capital Resources

EQR issues public equity from time to time and guarantees certain debt of ERPOP. EQR does not have any indebtedness as all debt is incurred by the Operating Partnership.
As of January 1, 2014, the Company had approximately $53.5 million of cash and cash equivalents and it had $2.35 billion available under its revolving credit facility (net of $34.9 million which was restricted/dedicated to support letters of credit and net of $115.0 million outstanding). After taking into effect the various transactions discussed in the following paragraphs and the net cash provided by operating activities, the Company’s cash and cash equivalents balance at June 30, 2014 was approximately $76.1 million and the amount available on its revolving credit facility was $2.47 billion (net of $34.8 million which was restricted/dedicated to support letters of credit).
During the six months ended June 30, 2014, the Company generated proceeds from various transactions, which included the following:

Disposed of one consolidated property and a portion of a land parcel, receiving net proceeds of approximately $48.4 million;
Issued $450.0 million of five-year 2.375% fixed rate public notes, receiving net proceeds of $449.6 million before underwriting fees and other expenses, at an all-in effective interest rate of 2.52%;
Issued $750.0 million of thirty-year 4.50% fixed rate public notes, receiving net proceeds of $744.7 million before underwriting fees, hedge termination costs and other expenses, at an all-in effective interest rate of 4.57%;
Received approximately $64.7 million representing the Company's pro rata share of the proceeds/distributions that have been repatriated to the Residual JV as a result of the disposition of the majority of the remaining German real estate assets that were acquired by the Residual JV as part of the Archstone Acquisition (see Note 6); and
Issued approximately 0.9 million Common Shares related to share option exercises and ESPP purchases and received net proceeds of $27.9 million, which were contributed to the capital of the Operating Partnership in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis).

During the six months ended June 30, 2014, the above proceeds along with net cash flow from operations and availability on the Company's revolving line of credit were primarily utilized to:

Acquire three rental properties, one land parcel and additional development rights at one of its existing land sites for approximately $265.5 million;
Invest $245.7 million primarily in development projects;
Repay $9.1 million of mortgage loans;

Repay its $750.0 million unsecured term loan facility in conjunction with the note issuances discussed above; and
Repurchase 31,240 Common Shares, utilizing cash of $1.8 million (See Note 3).

On February 27, 2013, the Company issued 34,468,085 Common Shares to an affiliate of Lehman Brothers Holdings Inc. as partial consideration for the portion of the Archstone Portfolio acquired by the Company. The shares had a total value of $1.9 billion based on the February 27, 2013 closing price of EQR Common Shares of $55.99 per share. Concurrent with this transaction, ERPOP issued 34,468,085 OP Units to EQR. On March 7, 2013, EQR filed a shelf registration statement relating to the resale of these shares by the selling shareholders. Lehman has since sold all of these Common Shares.

In September 2009, EQR announced the establishment of an At-The-Market ("ATM") share offering program which would allow EQR to sell Common Shares from time to time into the existing trading market at current market prices as well as through negotiated transactions. Per the terms of ERPOP's partnership agreement, EQR contributes the net proceeds from all equity offerings to the capital of ERPOP in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis). EQR may, but shall have no obligation to, sell Common Shares through the ATM share offering program in amounts and at times to be determined by EQR. Actual sales will depend on a variety of factors to be determined by EQR from time to time, including (among others) market conditions, the trading price of EQR's Common Shares and determinations of the appropriate sources of funding for EQR. On July 30, 2013, the Board of Trustees approved an increase to the amount of shares which may be offered under the ATM program to 13.0 million Common Shares and extended the program maturity to July 2016. EQR has not issued any shares under this program since September 14, 2012. Through July 31, 2014, EQR has cumulatively issued approximately 16.7 million Common Shares at an average price of $48.53 per share for total consideration of approximately $809.9 million.

Depending on its analysis of market prices, economic conditions and other opportunities for the investment of available capital, EQR may repurchase its Common Shares pursuant to its existing share repurchase program authorized by the Board of Trustees. Effective July 30, 2013, the Board of Trustees approved an increase and modification to the Company's share repurchase program to allow for the potential repurchase of up to 13.0 million shares. EQR repurchased approximately $1.8 million (31,240 shares at a price of $56.87 per share) of its Common Shares (all related to the vesting of employees' restricted shares) during the six months ended June 30, 2014. No open market repurchases have occurred since 2008. As of July 31, 2014, EQR has remaining authorization to repurchase an additional 12,968,760 of its shares. See Note 3 in the Notes to Consolidated Financial Statements for further discussion.

Depending on its analysis of prevailing market conditions, liquidity requirements, contractual restrictions and other factors, the Company may from time to time seek to repurchase and retire its outstanding debt in open market or privately negotiated transactions.

The Company's total debt summary and debt maturity schedules as of June 30, 2014 are as follows:

Table of Contents

Debt Summary as of June 30, 2014
(Amounts in thousands)

	Amounts (1)	% of Total	Weighted Average Rates (1)	Weighted Average Maturities (years)
Secured	$5,158,091	46.5 %	4.23 %	7.9
Unsecured	5,923,952	53.5 %	4.74 %	7.8
Total	$11,082,043	100.0 %	4.50 %	7.9
Fixed Rate Debt:				
Secured – Conventional	$4,375,827	39.5 %	4.85 %	6.4
Unsecured – Public	5,472,950	49.4 %	5.53 %	8.0
Fixed Rate Debt	9,848,777	88.9 %	5.20 %	7.4
Floating Rate Debt:				
Secured – Conventional	56,738	0.5 %	2.25 %	0.3
Secured – Tax Exempt	725,526	6.5 %	0.66 %	16.7
Unsecured – Public (2)	451,002	4.1 %	1.32 %	5.0
Unsecured – Revolving Credit Facility	—	—	0.96 %	3.8
Floating Rate Debt	1,233,266	11.1 %	1.02 %	11.8
Total	$11,082,043	100.0 %	4.50 %	7.9

(1) Net of the effect of any derivative instruments. Weighted average rates are for the six months ended June 30, 2014.
(2) Fair value interest rate swaps convert the $450.0 million 2.375% notes due July 1, 2019 to a floating interest rate of 90-Day LIBOR plus 0.61%.
Note: The Company capitalized interest of approximately $25.0 million and $20.0 million during the six months ended June 30, 2014 and 2013, respectively. The Company capitalized interest of approximately $12.2 million and $11.6 million during the quarters ended June 30, 2014 and 2013, respectively.

Debt Maturity Schedule as of June 30, 2014
(Amounts in thousands)

Year	Fixed Rate (1)	Floating Rate (1)	Total	% of Total	Weighted Average Rates on Fixed Rate Debt (1)	Weighted Average Rates on Total Debt (1)
2014	$505,831	$48,753	$554,584	5.0 %	5.25 %	5.02 %
2015	420,712	—	420,712	3.8 %	6.28 %	6.28 %
2016	1,193,107	—	1,193,107	10.8 %	5.34 %	5.34 %
2017	1,346,581	456	1,347,037	12.1 %	6.16 %	6.16 %
2018	84,196	97,659	181,855	1.6 %	5.61 %	3.13 %
2019	806,469	472,218	1,278,687	11.5 %	5.48 %	3.76 %
2020	1,678,413	809	1,679,222	15.2 %	5.49 %	5.49 %
2021	1,195,041	856	1,195,897	10.8 %	4.63 %	4.64 %
2022	228,716	905	229,621	2.1 %	3.17 %	3.18 %
2023	1,302,847	956	1,303,803	11.8 %	3.75 %	3.75 %
2024+	1,046,561	674,988	1,721,549	15.5 %	4.99 %	3.21 %
Premium/(Discount)	40,303	(64,334)	(24,031)	(0.2 %)	N/A	N/A
Total	$9,848,777	$1,233,266	$11,082,043	100.0 %	5.14 %	4.63 %

(1) Net of the effect of any derivative instruments. Weighted average rates are as of June 30, 2014.

The following table provides a summary of the Company's unsecured debt as of June 30, 2014:

60

Table of Contents

Unsecured Debt Summary as of June 30, 2014
(Amounts in thousands)

	Coupon Rate	Due Date		Face Amount	Unamortized Premium/ (Discount)	Net Balance
Fixed Rate Notes:						
	5.250%	09/15/14		$500,000	$(13)	$499,987
	6.584%	04/13/15		300,000	(83)	299,917
	5.125%	03/15/16		500,000	(90)	499,910
	5.375%	08/01/16		400,000	(386)	399,614
	5.750%	06/15/17		650,000	(1,526)	648,474
	7.125%	10/15/17		150,000	(213)	149,787
	2.375%	07/01/19	(1)	450,000	(450)	449,550
Fair Value Derivative Adjustments			(1)	(450,000)	450	(449,550)
	4.750%	07/15/20		600,000	(2,747)	597,253
	4.625%	12/15/21		1,000,000	(2,826)	997,174
	3.000%	04/15/23		500,000	(3,894)	496,106
	7.570%	08/15/26		140,000	—	140,000
	4.500%	07/01/44		750,000	(5,272)	744,728
				5,490,000	(17,050)	5,472,950
Floating Rate Notes:						
		07/01/19	(1)	450,000	(450)	449,550
Fair Value Derivative Adjustments		07/01/19	(1)	1,452	—	1,452
				451,452	(450)	451,002
Revolving Credit Facility:	LIBOR+1.05%	04/01/18	(2)(3)	—	—	—
Total Unsecured Debt				$5,941,452	$(17,500)	$5,923,952

(1) Fair value interest rate swaps convert the $450.0 million 2.375% notes due July 1, 2019 to a floating interest rate of 90-Day LIBOR plus 0.61%.
(2) Facility is private. All other unsecured debt is public.
(3) Represents the Company's $2.5 billion unsecured revolving credit facility maturing April 1, 2018. The interest rate on advances under the credit facility will generally be LIBOR plus a spread (currently 1.05%) and an annual facility fee (currently 15 basis points). Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt. As of June 30, 2014, there was approximately $2.47 billion available on the Company's unsecured revolving credit facility.

An unspecified amount of equity and debt securities remains available for issuance by EQR and ERPOP under a universal shelf registration statement that automatically became effective upon filing with the SEC on July 30, 2013 and expires on July 30, 2016. In July 2013, the Board of Trustees also approved an increase to the amount of shares which may be offered under the ATM program to 13.0 million Common Shares and extended the program maturity to July 2016. Per the terms of ERPOP’s partnership agreement, EQR contributes the net proceeds of all equity offerings to the capital of ERPOP in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis) or preference units (on a one-for-one preferred share per preference unit basis).

The Company’s “Consolidated Debt-to-Total Market Capitalization Ratio” as of June 30, 2014 is presented in the following table. The Company calculates the equity component of its market capitalization as the sum of (i) the total outstanding Common Shares and assumed conversion of all Units at the equivalent market value of the closing price of the Company's Common Shares on the New York Stock Exchange and (ii) the liquidation value of all perpetual preferred shares outstanding.

Table of Contents

Equity Residential
Capital Structure as of June 30, 2014
(Amounts in thousands except for share/unit and per share amounts)

Secured Debt				$5,158,091	46.5	%		
Unsecured Debt				5,923,952	53.5	%		
Total Debt				11,082,043	100.0	%	31.8	%
Common Shares (includes Restricted Shares)	361,562,007	96.2	%					
Units (includes OP Units and LTIP Units)	14,336,826	3.8	%					
Total Shares and Units	375,898,833	100.0	%					
Common Share Price at June 30, 2014	$63.00							
				23,681,626	99.8	%		
Perpetual Preferred Equity (see below)				50,000	0.2	%		
Total Equity				23,731,626	100.0	%	68.2	%
Total Market Capitalization				$34,813,669			100.0	%

Equity Residential
Perpetual Preferred Equity as of June 30, 2014
(Amounts in thousands except for share and per share amounts)

Series	Redemption Date	Outstanding Shares	Liquidation Value	Annual Dividend Per Share	Annual Dividend Amount
Preferred Shares:					
8.29% Series K	12/10/26	1,000,000	$50,000	$4.145	$4,145
Total Perpetual Preferred Equity		1,000,000	$50,000		$4,145

The Operating Partnership's "Consolidated Debt-to-Total Market Capitalization Ratio" as of June 30, 2014 is presented in the following table. The Operating Partnership calculates the equity component of its market capitalization as the sum of (i) the total outstanding Units at the equivalent market value of the closing price of the Company's Common Shares on the New York Stock Exchange and (ii) the liquidation value of all perpetual preference units outstanding.

ERP Operating Limited Partnership
Capital Structure as of June 30, 2014
(Amounts in thousands except for unit and per unit amounts)

Secured Debt		$5,158,091	46.5	%		
Unsecured Debt		5,923,952	53.5	%		
Total Debt		11,082,043	100.0	%	31.8	%
Total outstanding Units	375,898,833					
Common Share Price at June 30, 2014	$63.00					
		23,681,626	99.8	%		
Perpetual Preference Units (see below)		50,000	0.2	%		
Total Equity		23,731,626	100.0	%	68.2	%
Total Market Capitalization		$34,813,669			100.0	%

Table of Contents

ERP Operating Limited Partnership
Perpetual Preference Units as of June 30, 2014
(Amounts in thousands except for unit and per unit amounts)

Series	Redemption Date	Outstanding Units	Liquidation Value	Annual Dividend Per Unit	Annual Dividend Amount
Preference Units:					
8.29% Series K	12/10/26	1,000,000	$50,000	$4.145	$4,145
Total Perpetual Preference Units		1,000,000	$50,000		$4,145

The Company generally expects to meet its short-term liquidity requirements, including capital expenditures related to maintaining its existing properties and scheduled unsecured note and mortgage note repayments, through its working capital, net cash provided by operating activities and borrowings under the Company’s revolving credit facility. Under normal operating conditions, the Company considers its cash provided by operating activities to be adequate to meet operating requirements and payments of distributions.

The Company has a flexible dividend policy which it believes will generate payouts closely aligned with the actual annual operating results of the Company’s core business and provide transparency to investors. Beginning in 2014, the Company's annual dividend will be paid based on 65% of the midpoint of the range of Normalized FFO guidance customarily provided as part of the Company's fourth quarter earnings release. The Company expects the annual dividend payout will be $2.00 per share and the Company intends to pay four quarterly dividends of $0.50 per share in 2014. All future dividends remain subject to the discretion of the Board of Trustees. The above assumption is based on current expectations and is forward-looking. While our current dividend policy makes it less likely we will over distribute, it will also lead to a dividend reduction more quickly should operating results deteriorate. However, whether due to changes in the dividend policy or otherwise, there may be times when the Company experiences shortfalls in its coverage of distributions, which may cause the Company to consider reducing its distributions and/or using the proceeds from property dispositions or additional financing transactions to make up the difference. Should these shortfalls occur for lengthy periods of time or be material in nature, the Company's financial condition may be adversely affected and it may not be able to maintain its current distribution levels. The Company believes that its expected 2014 operating cash flow will be sufficient to cover capital expenditures and distributions.

The Company also expects to meet its long-term liquidity requirements, such as scheduled unsecured note and mortgage debt maturities, property acquisitions, financing of construction and development activities through the issuance of secured and unsecured debt and equity securities, including additional OP Units, proceeds received from the disposition of certain properties and joint ventures and cash generated from operations after all distributions. In addition, the Company has significant unencumbered properties available to secure additional mortgage borrowings in the event that the public capital markets are unavailable or the cost of alternative sources of capital is too high. The fair value of and cash flow from these unencumbered properties are in excess of the requirements the Company must maintain in order to comply with covenants under its unsecured notes and line of credit. Of the $27.3 billion in investment in real estate on the Company’s balance sheet at June 30, 2014, $18.6 billion or 68.1% was unencumbered. However, there can be no assurances that these sources of capital will be available to the Company in the future on acceptable terms or otherwise.

ERPOP’s credit ratings from Standard & Poor’s (“S&P”), Moody’s and Fitch for its outstanding senior debt are BBB+ (positive outlook), Baa1 and BBB+, respectively. EQR’s equity ratings from S&P, Moody’s and Fitch for its outstanding preferred equity are BBB+ (positive outlook), Baa2 and BBB-, respectively.

On January 11, 2013, the Company replaced its existing $1.75 billion facility with a $2.5 billion unsecured revolving credit facility maturing April 1, 2018. The Company has the ability to increase available borrowings by an additional $500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. The interest rate on advances under the facility will generally be LIBOR plus a spread (currently 1.05%) and the Company pays an annual facility fee (currently 15 basis points). Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt. As of July 31, 2014, there was available borrowings of $2.34 billion (net of $34.8 million which was restricted/dedicated to support letters of credit and net of $126.0 million outstanding) on the revolving credit facility. This facility may, among other potential uses, be used to fund property acquisitions, costs for certain properties under development and short-term liquidity requirements.

See Note 14 in the Notes to Consolidated Financial Statements for discussion of the events which occurred subsequent to June 30, 2014.

Table of Contents

Capitalization of Fixed Assets and Improvements to Real Estate

Our policy with respect to capital expenditures is generally to capitalize expenditures that improve the value of the property or extend the useful life of the component asset of the property. We track improvements to real estate in two major categories and several subcategories:

Replacements (inside the apartment unit). These include:
flooring such as carpets, hardwood, vinyl or tile;
appliances;
mechanical equipment such as individual furnace/air units, hot water heaters, etc;
furniture and fixtures such as kitchen/bath cabinets, light fixtures, ceiling fans, sinks, tubs, toilets, mirrors, countertops, etc; and
blinds.
All replacements are depreciated over a five to ten-year estimated useful life. We expense as incurred all make-ready maintenance and turnover costs such as cleaning, interior painting of individual apartment units and the repair of any replacement item noted above.

Building improvements (outside the apartment unit). These include:
roof replacement and major repairs;
paving or major resurfacing of parking lots, curbs and sidewalks;
amenities and common areas such as pools, exterior sports and playground equipment, lobbies, clubhouses, laundry rooms, alarm and security systems and offices;
major building mechanical equipment systems;
interior and exterior structural repair and exterior painting and siding;
major landscaping and grounds improvement; and
vehicles and office and maintenance equipment.
All building improvements are depreciated over a five to fifteen-year estimated useful life. We capitalize building improvements and upgrades only if the item: (i) exceeds $2,500 (selected projects must exceed $10,000); (ii) extends the useful life of the asset; and (iii) improves the value of the asset.
For the six months ended June 30, 2014, our actual improvements to real estate totaled approximately $76.9 million. This includes the following (amounts in thousands except for apartment unit and per apartment unit amounts):

Capital Expenditures to Real Estate
For the Six Months Ended June 30, 2014

	Total Apartment Units (1)	Replacements (2)	Avg. Per Apartment Unit	Building Improvements	Avg. Per Apartment Unit	Total	Avg. Per Apartment Unit
Same Store Properties (3)	100,648	$ 34,742	$345	$39,656	$394	$74,398	$739
Non-Same Store Properties (4)	4,167	112	34	2,312	698	2,424	732
Other (5)	—	86		4		90	
Total	104,815	$ 34,940		$41,972		$76,912	

(1) Total Apartment Units – Excludes 1,669 unconsolidated apartment units and 5,007 military housing apartment units for which repairs and maintenance expenses and capital expenditures to real estate are self-funded and do not consolidate into the Company's results.
(2)

Replacements – Includes new expenditures inside the apartment units such as appliances, mechanical equipment, fixtures and flooring, including carpeting. Replacements for same store properties also include $19.6 million spent during the six months ended June 30, 2014 on apartment unit renovations/rehabs (primarily kitchens and baths) on 2,253 same store apartment units (equating to about $8,700 per apartment unit rehabbed) designed to reposition these assets for higher rental levels in their respective markets.

(3) Same Store Properties – Primarily includes all properties acquired or completed and stabilized prior to January 1, 2013, less properties subsequently sold. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(4) Non-Same Store Properties – Primarily includes all properties acquired during 2013 and 2014, plus any properties in lease-up and not stabilized as of January 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company. Per apartment unit amounts are based on a weighted average of 3,313 apartment units.

Table of Contents

(5) Other – Primarily includes expenditures for properties sold.

For 2014, the Company estimates that it will spend approximately $1,700 per apartment unit of capital expenditures, inclusive of apartment unit renovation/rehab costs, or $1,250 per apartment unit excluding apartment unit renovation/rehab costs. In 2014, the Company expects to spend approximately $45.0 million for all unit renovation/rehab costs (primarily on same store properties) at a weighted average cost of $8,500 per apartment unit rehabbed. These anticipated amounts represent an increase in the cost per unit over 2013, which is primarily driven by increases in building improvement costs (i.e. roofs, mechanical systems and siding) for the Archstone assets as well as certain large building improvement projects the Company had planned to complete in 2013 but will not finalize until 2014. The Company is accelerating its rehab/renovation efforts in 2014 with plans to continue to create value from our properties by doing those rehabs that meet our investment parameters. The above assumptions are based on current expectations and are forward-looking.

During the six months ended June 30, 2014, the Company’s total non-real estate capital additions, such as computer software, computer equipment, and furniture and fixtures and leasehold improvements to the Company’s property management offices and its corporate offices, were approximately $1.8 million. The Company expects to fund approximately $0.9 million in total additions to non-real estate property for the remainder of 2014. The above assumption is based on current expectations and is forward-looking.

Improvements to real estate and additions to non-real estate property are generally funded from net cash provided by operating activities and from investment cash flow.

Derivative Instruments

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments. The Company may also use derivatives to manage its exposure to foreign exchange rates or manage commodity prices in the daily operations of the business.

The Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the Company has not sustained a material loss from these instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives it currently has in place.

See Note 9 in the Notes to Consolidated Financial Statements for additional discussion of derivative instruments at June 30, 2014.

Other

Total distributions paid in July 2014 amounted to $187.9 million (excluding distributions on Partially Owned Properties), which included certain distributions declared during the second quarter ended June 30, 2014.

Off-Balance Sheet Arrangements and Contractual Obligations

Archstone Acquisition

On February 27, 2013, in conjunction with the Archstone Acquisition, the Company acquired unconsolidated interests in several joint ventures. The Company does not believe that these investments have a materially different impact upon its liquidity, cash flows, capital resources, credit or market risk than its other consolidated operating and/or development activities. Details of these interests follow by project:

San Norterra – This venture developed certain land parcels into a 388 unit apartment building located in Phoenix, Arizona and was completed and stabilized during the quarter ended June 30, 2014. The Company has an 85% equity interest with an initial basis of $16.9 million. Total project costs were approximately $52.8 million and construction was partially funded with a construction loan that was guaranteed by the partner and non-recourse to the Company. The loan has a maximum debt commitment of $34.8 million and a current unconsolidated outstanding balance of $33.0 million; the loan bears interest at LIBOR plus 2.00% and matures January 6, 2015. The partner is the managing member and developed the project. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Table of Contents

Waterton Tenside – This venture was formed to develop and operate a 336 unit apartment property located in Atlanta, Georgia. The Company has a 20% equity interest with an initial basis of $5.1 million. The partner is the managing member and developed the project. The project is encumbered by a non-recourse mortgage loan that has a current outstanding balance of $30.3 million, bears interest at 3.66% and matures December 1, 2018. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Parc on Powell (formerly known as 1333 Powell) – This venture is currently developing certain land parcels into a 176 unit apartment building located in Emeryville, California. The Company has a 5% equity interest with an initial obligation of approximately $2.1 million. Total project costs are expected to be approximately $75.0 million and construction is being partially funded with a construction loan. The loan has a maximum debt commitment of $39.5 million and a current unconsolidated outstanding balance of $22.0 million; the loan bears interest at LIBOR plus 2.25% and matures August 14, 2015. The Company has given a repayment guaranty on the construction loan of 50% of the outstanding balance, up to a maximum of $19.7 million, and has given certain construction cost overrun guarantees. The partner is the managing member. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

On February 27, 2013, in connection with the Archstone Acquisition, subsidiaries of the Company and AVB entered into three limited liability company agreements (collectively, the “Residual JV”). The Residual JV owns certain non-core Archstone assets, such as interests in a six property portfolio of apartment buildings and succeeded to certain residual Archstone liabilities, such as liability for various employment-related matters. The Residual JV is owned 60% by the Company and 40% by AVB and the Company's initial investment was $147.6 million. The Residual JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Residual JV is unconsolidated and recorded using the equity method of accounting.

During the six months ended June 30, 2014, the Company closed on the sale of its unconsolidated interest in the German portfolio fund and the German management company, representing the sale of the majority of the remaining German real estate assets that were acquired by the Residual JV as part of the Archstone Acquisition. The Company's pro rata share of the proceeds/distributions that have been repatriated to the Residual JV and received by the Company as a result of the German dispositions was approximately $64.7 million during the six months ended June 30, 2014 and $83.6 million cumulatively since the closing of the Archstone Acquisition.

On February 27, 2013, in connection with the Archstone Acquisition, a subsidiary of the Company and AVB entered into a limited liability company agreement (the “Legacy JV”), through which they assumed obligations of Archstone in the form of preferred interests, some of which are governed by tax protection arrangements. During the year ended December 31, 2013, the Company purchased with AVB $65.0 million (of which the Company's 60% share was $39.0 million) of the preferred interests assumed by Legacy JV. At June 30, 2014, the remaining preferred interests have an aggregate liquidation value of $76.8 million, our share of which is included in other liabilities in the accompanying consolidated balance sheets. Obligations of the Legacy JV are borne 60% by the Company and 40% by AVB. The Legacy JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Legacy JV is unconsolidated and recorded using the equity method of accounting.

Other

The Company admitted an 80% institutional partner to two separate entities/transactions (Nexus Sawgrass in December 2010 and Domain in August 2011), each owning a developable land parcel, in exchange for $40.1 million in cash and retained a 20% equity interest in both of these entities. These projects are now unconsolidated. Details of these projects follow:

- Nexus Sawgrass – This development project is substantially complete. Total project costs are expected to be approximately $79.0 million and construction was predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of $48.7 million and a current unconsolidated outstanding balance of $48.6 million; the loan bears interest at 5.60% and matures January 1, 2021.
- Domain – This development project is substantially complete. Total project costs are expected to be approximately $155.8 million and construction is predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of $98.6 million and a current unconsolidated outstanding balance of $96.4 million; the loan bears interest at 5.75% and matures January 1, 2022.

Table of Contents

While the Company is the managing member of both of the joint ventures, was responsible for constructing both of the projects and has given certain construction cost overrun guarantees, the joint venture partner has significant participating rights and has active involvement in and oversight of the ongoing projects. The Company currently has no further funding obligations related to these projects. The Company's strategy with respect to these ventures was to reduce its financial risk related to the development of the properties. However, management does not believe that these investments have a materially different impact upon the Company's liquidity, cash flows, capital resources, credit or market risk than its other consolidated development activities.

As of June 30, 2014, the Company has 12 consolidated projects (including Prism at Park Avenue South in New York City which the Company is jointly developing with Toll Brothers – see Note 12 in the Notes to Consolidated Financial Statements for further discussion) totaling 3,871 apartment units and one unconsolidated project totaling 176 apartment units in various stages of development with estimated completion dates ranging through September 30, 2016, as well as other completed development projects that are in various stages of lease up or are stabilized. The development agreements currently in place are discussed in detail in Note 12 of the Company’s Consolidated Financial Statements.

See also Notes 2 and 6 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company’s investments in partially owned entities.

The Company’s contractual obligations for the next five years and thereafter have not changed materially from the amounts and disclosures included in the Company’s annual report on Form 10-K. See the updated debt maturity schedule included in Liquidity and Capital Resources for further discussion.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or different presentation of our financial statements.

The Company has identified five significant accounting policies as critical accounting policies. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant judgments and estimates. With respect to these critical accounting policies, management believes that the application of judgments and estimates is consistently applied and produces financial information that fairly presents the results of operations for all periods presented. The five critical accounting policies are:

Acquisition of Investment Properties

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets, including its investments in real estate, for indicators of impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal and environmental concerns, as well as the Company's ability to hold and its intent with regard to each asset. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment loss is warranted.

Depreciation of Investment in Real Estate

The Company depreciates the building component of its investment in real estate over a 30-year estimated useful life, building improvements over a 5-year to 15-year estimated useful life and both the furniture, fixtures and equipment and replacement components over a 5-year to 10-year estimated useful life, all of which are judgmental determinations.

Table of Contents

Cost Capitalization
See the Capitalization of Fixed Assets and Improvements to Real Estate section for a discussion of the Company's policy with respect to capitalization vs. expensing of fixed asset/repair and maintenance costs. In addition, the Company capitalizes an allocation of the payroll and associated costs of employees directly responsible for and who spend their time on the execution and supervision of major capital and/or renovation projects. These costs are reflected on the balance sheets as increases to depreciable property.

For all development projects, the Company uses its professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. The Company capitalizes interest, real estate taxes and insurance and payroll and associated costs for those individuals directly responsible for and who spend their time on development activities, with capitalization ceasing no later than 90 days following issuance of the certificate of occupancy. These costs are reflected on the balance sheets as construction-in-progress for each specific property. The Company expenses as incurred all payroll costs of on-site employees working directly at our properties, except as noted above on our development properties prior to certificate of occupancy issuance and on specific major renovations at selected properties when additional incremental employees are hired.

During the six months ended June 30, 2014 and 2013, the Company capitalized $10.3 million and $8.4 million, respectively, of payroll and associated costs of employees directly responsible for and who spend their time on the execution and supervision of development activities as well as major capital and/or renovation projects.

Fair Value of Financial Instruments, Including Derivative Instruments

The valuation of financial instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. The Company, where possible, bases the fair values of its financial instruments, including its derivative instruments, on listed market prices and third party quotes. Where these are not available, the Company bases its estimates on current instruments with similar terms and maturities or on other factors relevant to the financial instruments.

Funds From Operations and Normalized Funds From Operations

For the six months ended June 30, 2014, Funds From Operations ("FFO") available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units increased $202.7 million, or 57.3%, and $68.1 million, or 13.8%, respectively, as compared to the six months ended June 30, 2013.

For the quarter ended June 30, 2014, FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units increased $16.2 million, or 5.9% and $28.6 million, or 10.7%, respectively, as compared to the quarter ended June 30, 2013.

The following is the Company's and the Operating Partnership's reconciliation of net income to FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units for the six months and quarters ended June 30, 2014 and 2013:

Table of Contents

Funds From Operations and Normalized Funds From Operations
(Amounts in thousands)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2014	2013	2014	2013
Net income	$200,452	$1,397,766	$117,720	$336,732
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,092)	790	(588)	815
Preferred distributions	(2,072)	(2,072)	(1,036)	(1,036)
Net income available to Common Shares and Units / Units	197,288	1,396,484	116,096	336,511
Adjustments:				
Depreciation	375,303	519,526	190,136	323,304
Depreciation – Non-real estate additions	(2,348)	(2,473)	(1,160)	(1,257)
Depreciation – Partially Owned Properties	(2,140)	(3,550)	(1,072)	(2,275)
Depreciation – Unconsolidated Properties	3,436	1,042	1,833	782
Net (gain) on sales of real estate properties	(14,903)	—	(14,903)	—
Discontinued operations:				
Depreciation	—	30,962	—	7,146
Net (gain) on sales of discontinued operations	(224)	(1,588,874)	(153)	(389,952)
Net incremental gain on sales of condominium units	—	7	—	7
Gain on sale of Equity Corporate Housing (ECH)	—	601	—	351
FFO available to Common Shares and Units / Units (1) (3) (4)	556,412	353,725	290,777	274,617
Adjustments:				
Asset impairment and valuation allowances	—	—	—	—
Property acquisition costs and write-off of pursuit costs	7,877	76,116	7,403	8,448
Debt extinguishment (gains) losses, including prepayment penalties, preferred share/preference unit redemptions and non-cash convertible debt discounts	491	78,820	491	(823)
(Gains) losses on sales of non-operating assets, net of income and other tax expense (benefit)	(851)	(15,224)	(860)	(14,974)
Other miscellaneous non-comparable items	(2,390)	—	(1,927)	—
Normalized FFO available to Common Shares and Units / Units (2) (3) (4)	$561,539	$493,437	$295,884	$267,268
FFO (1) (3)	$558,484	$355,797	$291,813	$275,653
Preferred/preference distributions	(2,072)	(2,072)	(1,036)	(1,036)
FFO available to Common Shares and Units / Units (1) (3) (4)	$556,412	$353,725	$290,777	$274,617
Normalized FFO (2) (3)	$563,611	$495,509	$296,920	$268,304
Preferred/preference distributions	(2,072)	(2,072)	(1,036)	(1,036)

Normalized FFO available to Common Shares and Units / Units (2) (3) (4)	$561,539	$493,437	$295,884	$267,268

(1) The National Association of Real Estate Investment Trusts ("NAREIT") defines funds from operations ("FFO") (April 2002 White Paper) as net income (computed in accordance with accounting principles generally accepted in the United States ("GAAP")), excluding gains (or losses) from sales and impairment write-downs of depreciable operating properties, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. The April 2002 White Paper states that gain or loss on sales of property is excluded from FFO for previously depreciated operating properties only. Once the Company commences the conversion of apartment units to condominiums, it simultaneously discontinues depreciation of such property.

(2) Normalized funds from operations ("Normalized FFO") begins with FFO and excludes:
the impact of any expenses relating to non-operating asset impairment and valuation allowances;
property acquisition and other transaction costs related to mergers and acquisitions and pursuit cost write-offs;
gains and losses from early debt extinguishment, including prepayment penalties, preferred share/preference unit redemptions and the cost related to the implied option value of non-cash convertible debt discounts;
gains and losses on the sales of non-operating assets, including gains and losses from land parcel and condominium sales, net of the effect of income tax benefits or expenses; and
other miscellaneous non-comparable items.

Table of Contents

(3) The Company believes that FFO and FFO available to Common Shares and Units / Units are helpful to investors as supplemental measures of the operating performance of a real estate company, because they are recognized measures of performance by the real estate industry and by excluding gains or losses related to dispositions of depreciable property and excluding real estate depreciation (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO and FFO available to Common Shares and Units / Units can help compare the operating performance of a company's real estate between periods or as compared to different companies. The Company also believes that Normalized FFO and Normalized FFO available to Common Shares and Units / Units are helpful to investors as supplemental measures of the operating performance of a real estate company because they allow investors to compare the Company's operating performance to its performance in prior reporting periods and to the operating performance of other real estate companies without the effect of items that by their nature are not comparable from period to period and tend to obscure the Company's actual operating results. FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units do not represent net income, net income available to Common Shares / Units or net cash flows from operating activities in accordance with GAAP. Therefore, FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units should not be exclusively considered as alternatives to net income, net income available to Common Shares / Units or net cash flows from operating activities as determined by GAAP or as a measure of liquidity. The Company's calculation of FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units may differ from other real estate companies due to, among other items, variations in cost capitalization policies for capital expenditures and, accordingly, may not be comparable to such other real estate companies.

(4) FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units are calculated on a basis consistent with net income available to Common Shares / Units and reflects adjustments to net income for preferred distributions and premiums on redemption of preferred shares/preference units in accordance with accounting principles generally accepted in the United States. The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units are collectively referred to as the "Noncontrolling Interests – Operating Partnership". Subject to certain restrictions, the Noncontrolling Interests – Operating Partnership may exchange their OP Units for Common Shares on a one-for-one basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's and the Operating Partnership's market risk has not changed materially from the amounts and information reported in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk, to the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2013. See the Current Environment section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations relating to market risk and the current economic environment. See also Note 9 in the Notes to Consolidated Financial Statements for additional discussion of derivative and other fair value instruments.

Item 4. Controls and Procedures

Equity Residential

(a) Evaluation of Disclosure Controls and Procedures:
Effective as of June 30, 2014, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on

that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

(b) Changes in Internal Control over Financial Reporting:
There were no changes to the internal control over financial reporting of the Company identified in connection with the Company’s evaluation referred to in Item 4(a) above that occurred during the second quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ERP Operating Limited Partnership

(a) Evaluation of Disclosure Controls and Procedures:
Effective as of June 30, 2014, the Operating Partnership carried out an evaluation, under the supervision and with the participation of the Operating Partnership’s management, including the Chief Executive Officer and Chief Financial Officer of EQR, of the effectiveness of the Operating Partnership’s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Operating Partnership in its Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Table of Contents

(b) Changes in Internal Control over Financial Reporting:
There were no changes to the internal control over financial reporting of the Operating Partnership identified in connection with the Operating Partnership's evaluation referred to in Item 4(a) above that occurred during the second quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and the Operating Partnership do not believe that there have been any material developments in the legal proceedings that were discussed in Part I, Item 3 of the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 1A. Risk Factors

There have been no material changes to the risk factors that were discussed in Part I, Item 1A of the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Common Shares Issued in the Quarter Ended June 30, 2014 - Equity Residential

During the quarter ended June 30, 2014, EQR issued 38,493 Common Shares in exchange for 38,493 OP Units held by various limited partners of the Operating Partnership. OP Units are generally exchangeable into Common Shares on a one-for-one basis or, at the option of the Operating Partnership, the cash equivalent thereof, at any time one year after the date of issuance. These shares were either registered under the Securities Act of 1933, as amended (the "Securities Act"), or issued in reliance on an exemption from registration under Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder, as these were transactions by an issuer not involving a public offering. In light of the manner of the sale and information obtained by EQR from the limited partners in connection with these transactions, EQR believes it may rely on these exemptions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits – See the Exhibit Index

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQUITY RESIDENTIAL

Date: August 7, 2014	By:	/s/ Mark J. Parrell Mark J. Parrell Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: August 7, 2014	By:	/s/ Ian S. Kaufman Ian S. Kaufman Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

ERP OPERATING LIMITED PARTNERSHIP
BY: EQUITY RESIDENTIAL
ITS GENERAL PARTNER

Date: August 7, 2014	By:	/s/ Mark J. Parrell Mark J. Parrell Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: August 7, 2014	By:	/s/ Ian S. Kaufman Ian S. Kaufman Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

The exhibits listed below are filed as part of this report. References to exhibits or other filings under the caption "Location" indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. The Commission file numbers for our Exchange Act filings referenced below are 1-12252 (Equity Residential) and 0-24920 (ERP Operating Limited Partnership).

Exhibit	Description	Location
4.1	Form of 2.375% Note due July 1, 2019.	Included as Exhibit 4.1 to ERP Operating Limited Partnership's Form 8-K dated June 16, 2014, filed on June 18, 2014.
4.2	Form of 4.500% Note due July 1, 2044.	Included as Exhibit 4.2 to ERP Operating Limited Partnership's Form 8-K dated June 16, 2014, filed on June 18, 2014.
12	Computation of Ratio of Earnings to Combined Fixed Charges.	Attached herein.
31.1	Equity Residential – Certification of David J. Neithercut, Chief Executive Officer.	Attached herein.
31.2	Equity Residential – Certification of Mark J. Parrell, Chief Financial Officer.	Attached herein.
31.3	ERP Operating Limited Partnership – Certification of David J. Neithercut, Chief Executive Officer of Registrant's General Partner.	Attached herein.
31.4	ERP Operating Limited Partnership – Certification of Mark J. Parrell, Chief Financial Officer of Registrant's General Partner.	Attached herein.
32.1	Equity Residential – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David J. Neithercut, Chief Executive Officer of the Company.	Attached herein.
32.2	Equity Residential – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mark J. Parrell, Chief Financial Officer of the Company.	Attached herein.
32.3	ERP Operating Limited Partnership – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David J. Neithercut, Chief Executive Officer of Registrant's General Partner.	Attached herein.
32.4	ERP Operating Limited Partnership – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mark J. Parrell, Chief Financial	Attached herein.

	Officer of Registrant's General Partner.	
101	XBRL (Extensible Business Reporting Language). The following materials from Equity Residential's and ERP Operating Limited Partnership's Quarterly Report on Form 10-Q for the period ended June 30, 2014, formatted in XBRL: (i) consolidated balance sheets, (ii) consolidated statements of operations and comprehensive income, (iii) consolidated statements of cash flows, (iv) consolidated statement of changes in equity (Equity Residential), (v) consolidated statement of changes in capital (ERP Operating Limited Partnership) and (vi) notes to consolidated financial statements.	Attached herein.