

CORPORATE OFFICE PROPERTIES TRUST

Form 10-Q

July 30, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to

Commission file number 1-14023 (Corporate Office Properties Trust)

Commission file number 333-189188 (Corporate Office Properties, L.P.)

Corporate Office Properties Trust

Corporate Office Properties, L.P.

(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust	Maryland (State or other jurisdiction of incorporation or organization)	23-2947217 (IRS Employer Identification No.)
-----------------------------------	---	--

Corporate Office Properties, L.P.	Delaware (State or other jurisdiction of incorporation or organization)	23-2930022 (IRS Employer Identification No.)
-----------------------------------	---	--

6711 Columbia Gateway Drive, Suite 300, Columbia, MD	21046
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (443) 285-5400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Corporate Office Properties Trust  Yes  No

Corporate Office Properties, L.P.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Corporate Office Properties Trust  Yes  No

Corporate Office Properties, L.P.  Yes  No



## Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Corporate Office Properties Trust  Yes  No

Corporate Office Properties, L.P.  Yes  No

As of July 18, 2014, 87,678,106 of Corporate Office Properties Trust’s Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

### EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2014 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of June 30, 2014, COPT owned approximately 95.7% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP. The remaining common and preferred units are owned by certain trustees of COPT and certain non-affiliated investors. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in this Form 10-Q. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. COPT is a real estate investment trust, whose only material asset is its ownership of partnership interests of COPLP. As a result, COPT does not conduct business itself, other than acting as the sole general partner of COPLP, issuing public equity from time to time and guaranteeing certain debt of COPLP. COPT itself is not directly obligated under any indebtedness but guarantees some of the debt of COPLP. COPLP owns substantially all of the assets of COPT either directly or through its subsidiaries, conducts almost all of the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by COPT, which are contributed to COPLP in exchange for partnership units, COPLP generates the capital required by COPT’s business through COPLP’s operations, by COPLP’s direct or indirect incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests and shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of COPT and those of COPLP. The common limited partnership interests in COPLP not owned by COPT are accounted for as partners' capital in COPLP's consolidated financial statements and as noncontrolling interests in COPT's consolidated financial statements. COPLP's consolidated financial statements also reflect COPT's noncontrolling interests in certain real estate partnerships, limited liability companies ("LLCs"), business trusts and corporations; the differences between shareholders' equity, partners' capital and noncontrolling interests result from the differences in the equity issued at the COPT and COPLP levels and in COPT's noncontrolling interests in these real estate partnerships, LLCs, business trusts and corporations. The only other significant differences between the consolidated financial statements of COPT and those of COPLP are assets in connection with a non-qualified elective deferred compensation plan

---

(comprised primarily of mutual funds and equity securities) and the corresponding liability to the plan's participants that are held directly by COPT.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

- combined reports better reflect how management and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:
  - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries; and
  - Note 16, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries;
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT"; and
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPLP."

This report also includes separate sections under Part I, Item 4. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of COPT and COPLP to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that COPT and COPLP are compliant with Rule 13a-15 and Rule 15d-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

---

## TABLE OF CONTENTS

## FORM 10-Q

	PAGE
<u>PART I: FINANCIAL INFORMATION</u>	
<u>Item 1: Financial Statements:</u>	
Consolidated Financial Statements of <u>Corporate Office Properties Trust</u>	
<u>Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	7
Consolidated Financial Statements of <u>Corporate Office Properties, L.P.</u>	
<u>Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 (unaudited)</u>	9
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 (unaudited)</u>	10
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	11
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	12
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	13
Notes to Consolidated Financial Statements (unaudited)	15
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 4: Controls and Procedures</u>	49
<u>PART II: OTHER INFORMATION</u>	
<u>Item 1: Legal Proceedings</u>	50
<u>Item 1A: Risk Factors</u>	50
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 3: Defaults Upon Senior Securities</u>	50
<u>Item 4: Mine Safety Disclosures</u>	50
<u>Item 5: Other Information</u>	50
<u>Item 6: Exhibits</u>	50
<u>SIGNATURES</u>	52

## PART I: FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## Corporate Office Properties Trust and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Properties, net:		
Operating properties, net	\$2,724,242	\$ 2,702,693
Projects in development or held for future development	530,000	511,608
Total properties, net	3,254,242	3,214,301
Assets held for sale, net	22,868	—
Cash and cash equivalents	76,216	54,373
Restricted cash and marketable securities	11,689	11,448
Accounts receivable (net of allowance for doubtful accounts of \$2,282 and \$2,976, respectively)	30,911	27,000
Deferred rent receivable (net of allowance of \$1,491 and \$2,126, respectively)	93,270	89,456
Intangible assets on real estate acquisitions, net	51,645	59,258
Deferred leasing and financing costs, net	65,251	66,267
Mortgage and other investing receivables	56,549	53,663
Prepaid expenses and other assets	46,859	54,186
Total assets	\$3,709,500	\$ 3,629,952
Liabilities and equity		
Liabilities:		
Debt, net	\$2,099,343	\$ 1,927,703
Accounts payable and accrued expenses	105,205	98,785
Rents received in advance and security deposits	27,520	31,492
Dividends and distributions payable	28,342	29,080
Deferred revenue associated with operating leases	12,355	10,369
Interest rate derivatives	3,236	3,309
Other liabilities	14,818	14,207
Total liabilities	2,290,819	2,114,945
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	18,901	17,758
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized; issued and outstanding of 7,431,667 at June 30, 2014 and 9,431,667 at December 31, 2013)	199,083	249,083
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 87,668,308 at June 30, 2014 and 87,394,512 at December 31, 2013)	877	874
Additional paid-in capital	1,819,436	1,814,015
Cumulative distributions in excess of net income	(688,033 )	(641,868 )
Accumulated other comprehensive (loss) income	(761 )	3,480

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Total Corporate Office Properties Trust's shareholders' equity	1,330,602	1,425,584
Noncontrolling interests in subsidiaries:		
Common units in COPLP	50,323	53,468
Preferred units in COPLP	8,800	8,800
Other consolidated entities	10,055	9,397
Noncontrolling interests in subsidiaries	69,178	71,665
Total equity	1,399,780	1,497,249
Total liabilities, redeemable noncontrolling interest and equity	\$3,709,500	\$ 3,629,952

See accompanying notes to consolidated financial statements.

3

---



Corporate Office Properties Trust and Subsidiaries  
Consolidated Statements of Operations  
(in thousands, except per share data)  
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Rental revenue	\$94,332	\$94,421	\$192,367	\$186,270
Tenant recoveries and other real estate operations revenue	21,627	21,311	48,469	41,419
Construction contract and other service revenues	23,861	20,795	45,651	35,057
Total revenues	139,820	136,527	286,487	262,746
Expenses				
Property operating expenses	43,772	41,333	93,544	81,721
Depreciation and amortization associated with real estate operations	30,895	27,673	74,491	54,683
Construction contract and other service expenses	23,136	19,382	41,760	32,859
Impairment losses	1,302	—	1,302	—
General, administrative and leasing expenses	7,528	6,583	15,671	14,403
Business development expenses and land carry costs	1,351	1,327	2,677	2,686
Total operating expenses	107,984	96,298	229,445	186,352
Operating income	31,836	40,229	57,042	76,394
Interest expense	(23,478)	) (21,102)	) (44,305)	) (41,392)
Interest and other income	1,299	2,006	2,584	2,952
Loss on early extinguishment of debt	(270)	) (21,470)	) (270)	) (26,654)
Income (loss) from continuing operations before equity in (loss) income of unconsolidated entities and income taxes	9,387	(337)	) 15,051	11,300
Equity in (loss) income of unconsolidated entities	(47)	) 126	13	167
Income tax expense	(92)	) (21)	) (156)	) (37)
Income (loss) from continuing operations	9,248	(232)	) 14,908	11,430
Discontinued operations	(198)	) (4,502)	) (187)	) (3,241)
Income (loss) before gain on sales of real estate	9,050	(4,734)	) 14,721	8,189
Gain on sales of real estate	—	329	—	2,683
Net income (loss)	9,050	(4,405)	) 14,721	10,872
Net (income) loss attributable to noncontrolling interests:				
Common units in COPLP	(158)	) 671	(174)	) 242
Preferred units in COPLP	(165)	) (165)	) (330)	) (330)
Other consolidated entities	(837)	) (1,466)	) (1,586)	) (1,129)
Net income (loss) attributable to COPT	7,890	(5,365)	) 12,631	9,655
Preferred share dividends	(4,344)	) (4,885)	) (8,834)	) (10,991)
Issuance costs associated with redeemed preferred shares	(1,769)	) (2,904)	) (1,769)	) (2,904)
Net income (loss) attributable to COPT common shareholders	\$1,777	\$(13,154)	) \$2,028	\$(4,240)
Net income (loss) attributable to COPT:				
Income (loss) from continuing operations	\$8,077	\$(990)	) \$12,805	\$12,859
Discontinued operations, net	(187)	) (4,375)	) (174)	) (3,204)
Net income (loss) attributable to COPT	\$7,890	\$(5,365)	) \$12,631	\$9,655
Basic earnings per common share (1)				
Income (loss) from continuing operations	\$0.02	\$(0.10)	) \$0.02	\$(0.02)

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Discontinued operations	0.00	(0.06 )	0.00	(0.03 )
Net income (loss) attributable to COPT common shareholders	\$0.02	\$(0.16 )	\$0.02	\$(0.05 )
Diluted earnings per common share (1)				
Income (loss) from continuing operations	\$0.02	\$(0.10 )	\$0.02	\$(0.02 )
Discontinued operations	0.00	(0.06 )	0.00	(0.03 )
Net income (loss) attributable to COPT common shareholders	\$0.02	\$(0.16 )	\$0.02	\$(0.05 )
Dividends declared per common share	\$0.275	\$0.275	\$0.550	\$0.550

(1) Basic and diluted earnings per common share are calculated based on amounts attributable to common shareholders of Corporate Office Properties Trust.

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries  
Consolidated Statements of Comprehensive Income  
(in thousands)  
(unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$9,050	\$(4,405)	\$14,721	\$10,872
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(3,630)	7,830	(5,753)	8,292
Losses on interest rate derivatives included in interest expense	719	674	1,414	1,332
Other comprehensive (loss) income	(2,911)	8,504	(4,339)	9,624
Comprehensive income	6,139	4,099	10,382	20,496
Comprehensive income attributable to noncontrolling interests	(1,081)	(1,422)	(1,992)	(1,774)
Comprehensive income attributable to COPT	\$5,058	\$2,677	\$8,390	\$18,722

See accompanying notes to consolidated financial statements.

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Corporate Office Properties Trust and Subsidiaries  
 Consolidated Statements of Equity  
 (Dollars in thousands)  
 (unaudited)

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at December 31, 2012 (80,952,986 common shares outstanding)	\$ 333,833	\$ 809	\$ 1,653,672	\$ (617,455 )	\$ (5,435 )	\$ 71,075	\$ 1,436,499
Redemption of preferred shares (3,390,000 shares)	(84,750 )	—	2,904	(2,904 )	—	—	(84,750 )
Conversion of common units to common shares (279,019 shares)	—	3	3,575	—	—	(3,578 )	—
Common shares issued to the public (4,485,000 shares)	—	45	117,868	—	—	—	117,913
Exercise of share options (32,756 shares)	—	—	636	—	—	—	636
Share-based compensation	—	1	3,847	—	—	—	3,848
Restricted common share redemptions (68,762 shares)	—	—	(1,784 )	—	—	—	(1,784 )
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(2,495 )	—	—	2,495	—
Comprehensive income	—	—	—	9,655	9,066	1,490	20,211
Dividends	—	—	—	(58,188 )	—	—	(58,188 )
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(2,422 )	(2,422 )
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	85	85
Distributions to noncontrolling interest in other consolidated entities	—	—	—	—	—	(8 )	(8 )
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(5,631 )	—	—	—	(5,631 )
Tax loss from share-based compensation	—	—	(122 )	—	—	—	(122 )
Balance at June 30, 2013 (85,845,403 common shares outstanding)	\$ 249,083	\$ 858	\$ 1,772,470	\$ (668,892 )	\$ 3,631	\$ 69,137	\$ 1,426,287
	\$ 249,083	\$ 874	\$ 1,814,015	\$ (641,868 )	\$ 3,480	\$ 71,665	\$ 1,497,249

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Balance at December 31, 2013 (87,394,512 common shares outstanding)							
Redemption of preferred shares (2,000,000 shares)	(50,000 )	—	1,769	(1,769 )	—	—	(50,000 )
Conversion of common units to common shares (78,498 shares)	—	—	1,047	—	—	(1,047 )	—
Costs associated with common shares issued to the public	—	—	(7 )	—	—	—	(7 )
Exercise of share options (51,289 shares)	—	—	1,185	—	—	—	1,185
Share-based compensation	—	3	3,542	—	—	—	3,545
Restricted common share redemptions (49,454 shares)	—	—	(1,326 )	—	—	—	(1,326 )
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(72 )	—	—	72	—
Comprehensive income	—	—	—	12,631	(4,241 )	976	9,366
Dividends	—	—	—	(57,027 )	—	—	(57,027 )
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(2,483 )	(2,483 )
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	3	3
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(8 )	(8 )
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(717 )	—	—	—	(717 )
Balance at June 30, 2014 (87,668,308 common shares outstanding)	\$ 199,083	\$ 877	\$ 1,819,436	\$ (688,033 )	\$ (761 )	\$ 69,178	\$ 1,399,780

See accompanying notes to consolidated financial statements.

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

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

	For the Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities		
Revenues from real estate operations received	\$232,877	\$233,068
Construction contract and other service revenues received	35,105	28,898
Property operating expenses paid	(78,621)	(75,566)
Construction contract and other service expenses paid	(34,588)	(33,404)
General, administrative, leasing, business development and land carry costs paid	(16,904)	(14,988)
Interest expense paid	(35,365)	(41,825)
Previously accreted interest expense paid	—	(11,116)
Payments in connection with early extinguishment of debt	(104)	(23,932)
Interest and other income received	346	390
Income taxes refund	204	6
Net cash provided by operating activities	102,950	61,531
Cash flows from investing activities		
Construction, development and redevelopment	(105,459)	(99,779)
Tenant improvements on operating properties	(10,842)	(10,496)
Other capital improvements on operating properties	(16,482)	(11,738)
Proceeds from dispositions of properties	1,971	12,344
Mortgage and other loan receivables funded	(565)	(2,756)
Leasing costs paid	(7,772)	(6,048)
Other	(892)	3,144
Net cash used in investing activities	(140,041)	(115,329)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	115,000	374,000
Unsecured senior notes	297,342	347,081
Other debt proceeds	9,931	80,232
Repayments of debt		
Revolving Credit Facility	(115,000)	(226,000)
Scheduled principal amortization	(3,437)	(5,003)
Other debt repayments	(133,010)	(486,803)
Deferred financing costs paid	(653)	(2,099)
Net proceeds from issuance of common shares	1,178	118,768
Redemption of preferred shares	(50,000)	(84,750)
Common share dividends paid	(48,118)	(45,852)
Preferred share dividends paid	(9,626)	(12,355)
Distributions paid to noncontrolling interests in COPLP	(2,641)	(2,503)
Restricted share redemptions	(1,326)	(1,784)
Other	(706)	(532)
Net cash provided by financing activities	58,934	52,400
Net increase (decrease) in cash and cash equivalents	21,843	(1,398)
Cash and cash equivalents		
Beginning of period	54,373	10,594

End of period	\$76,216	\$9,196
See accompanying notes to consolidated financial statements.		

7

---

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

	For the Six Months Ended	
	June 30,	
	2014	2013
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 14,721	\$ 10,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	75,839	58,244
Impairment losses	1,329	9,052
Settlement of previously accreted interest expense	—	(11,116 )
Amortization of deferred financing costs	2,289	2,971
Increase in deferred rent receivable	(1,754 )	(6,598 )
Amortization of net debt discounts	400	1,328
Loss (gain) on sales of real estate	4	(2,683 )
Share-based compensation	3,056	3,296
Loss on early extinguishment of debt	282	2,722
Other	(1,664 )	(2,472 )
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,916 )	(4,384 )
Increase in restricted cash and marketable securities	(113 )	(969 )
Decrease in prepaid expenses and other assets	3,213	5,884
Increase (decrease) in accounts payable, accrued expenses and other liabilities	13,236	(1,079 )
Decrease in rents received in advance and security deposits	(3,972 )	(3,537 )
Net cash provided by operating activities	\$ 102,950	\$ 61,531
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$ (7,153 )	\$ (12,750 )
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive (loss) income and noncontrolling interests	\$ (4,369 )	\$ 9,592
Dividends/distribution payable	\$ 28,342	\$ 28,602
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 1,047	\$ 3,578
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$ 72	\$ 2,495
Increase in redeemable noncontrolling interest and decrease in shareholders' equity to carry redeemable noncontrolling interest at fair value	\$ 717	\$ 5,631

See accompanying notes to consolidated financial statements.



Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Corporate Office Properties, L.P. and Subsidiaries  
 Consolidated Balance Sheets  
 (in thousands, except unit data)  
 (unaudited)

	June 30, 2014	December 31, 2013
Assets		
Properties, net:		
Operating properties, net	\$2,724,242	\$2,702,693
Projects in development or held for future development	530,000	511,608
Total properties, net	3,254,242	3,214,301
Assets held for sale, net	22,868	—
Cash and cash equivalents	76,216	54,373
Restricted cash and marketable securities	4,068	3,981
Accounts receivable (net of allowance for doubtful accounts of \$2,282 and \$2,976, respectively)	30,911	27,000
Deferred rent receivable (net of allowance of \$1,491 and \$2,126, respectively)	93,270	89,456
Intangible assets on real estate acquisitions, net	51,645	59,258
Deferred leasing and financing costs, net	65,251	66,267
Mortgage and other investing receivables	56,549	53,663
Prepaid expenses and other assets	46,859	54,186
Total assets	\$3,701,879	\$3,622,485
Liabilities and equity		
Liabilities:		
Debt, net	\$2,099,343	\$1,927,703
Accounts payable and accrued expenses	105,205	98,785
Rents received in advance and security deposits	27,520	31,492
Distributions payable	28,342	29,080
Deferred revenue associated with operating leases	12,355	10,369
Interest rate derivatives	3,236	3,309
Other liabilities	7,197	6,740
Total liabilities	2,283,198	2,107,478
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	18,901	17,758
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at June 30, 2014 and 9,431,667 at December 31, 2013	199,083	249,083
Limited partner, 352,000 preferred units outstanding at June 30, 2014 and December 31, 2013	8,800	8,800
Common units, 87,668,308 and 87,394,512 held by the general partner and 3,899,202 and 3,977,700 held by limited partners at June 30, 2014 and December 31, 2013, respectively	1,182,635	1,226,318
Accumulated other comprehensive (loss) income	(825	) 3,605
Total Corporate Office Properties, L.P.'s equity	1,389,693	1,487,806
Noncontrolling interests in subsidiaries	10,087	9,443

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Total equity	1,399,780	1,497,249
Total liabilities, redeemable noncontrolling interest and equity	\$3,701,879	\$3,622,485
See accompanying notes to consolidated financial statements.		

9

---

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Corporate Office Properties, L.P. and Subsidiaries  
 Consolidated Statements of Operations  
 (in thousands, except per unit data)  
 (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Rental revenue	\$94,332	\$94,421	\$192,367	\$186,270
Tenant recoveries and other real estate operations revenue	21,627	21,311	48,469	41,419
Construction contract and other service revenues	23,861	20,795	45,651	35,057
Total revenues	139,820	136,527	286,487	262,746
Expenses				
Property operating expenses	43,772	41,333	93,544	81,721
Depreciation and amortization associated with real estate operations	30,895	27,673	74,491	54,683
Construction contract and other service expenses	23,136	19,382	41,760	32,859
Impairment losses	1,302	—	1,302	—
General, administrative and leasing expenses	7,528	6,583	15,671	14,403
Business development expenses and land carry costs	1,351	1,327	2,677	2,686
Total operating expenses	107,984	96,298	229,445	186,352
Operating income	31,836	40,229	57,042	76,394
Interest expense	(23,478 )	(21,102 )	(44,305 )	(41,392 )
Interest and other income	1,299	2,006	2,584	2,952
Loss on early extinguishment of debt	(270 )	(21,470 )	(270 )	(26,654 )
Income (loss) from continuing operations before equity in (loss) income of unconsolidated entities and income taxes	9,387	(337 )	15,051	11,300
Equity in (loss) income of unconsolidated entities	(47 )	126	13	167
Income tax expense	(92 )	(21 )	(156 )	(37 )
Income (loss) from continuing operations	9,248	(232 )	14,908	11,430
Discontinued operations	(198 )	(4,502 )	(187 )	(3,241 )
Income before gain on sales of real estate	9,050	(4,734 )	14,721	8,189
Gain on sales of real estate	—	329	—	2,683
Net income (loss)	9,050	(4,405 )	14,721	10,872
Net income attributable to noncontrolling interests in consolidated entities	(837 )	(1,473 )	(1,574 )	(1,137 )
Net income (loss) attributable to COPLP	8,213	(5,878 )	13,147	9,735
Preferred unit distributions	(4,509 )	(5,050 )	(9,164 )	(11,321 )
Issuance costs associated with redeemed preferred units	(1,769 )	(2,904 )	(1,769 )	(2,904 )
Net income (loss) attributable to COPLP common unitholders	\$1,935	\$(13,832 )	\$2,214	\$(4,490 )
Net income (loss) attributable to COPLP:				
Income (loss) from continuing operations	\$8,408	\$(1,311 )	\$13,329	\$13,074
Discontinued operations, net	(195 )	(4,567 )	(182 )	(3,339 )
Net income (loss) attributable to COPLP	\$8,213	\$(5,878 )	\$13,147	\$9,735
Basic earnings per common unit (1)				
Income (loss) from continuing operations	\$0.02	\$(0.10 )	\$0.02	\$(0.02 )
Discontinued operations	0.00	(0.06 )	0.00	(0.03 )
Net income (loss) attributable to COPLP common unitholders	\$0.02	\$(0.16 )	\$0.02	\$(0.05 )
Diluted earnings per common unit (1)				

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Income (loss) from continuing operations	\$0.02	\$(0.10	)	\$0.02	\$(0.02	)
Discontinued operations	0.00	(0.06	)	0.00	(0.03	)
Net income (loss) attributable to COPLP common unitholders	\$0.02	\$(0.16	)	\$0.02	\$(0.05	)
Distributions declared per common unit	\$0.275	\$0.275		\$0.550	\$0.550	

(1) Basic and diluted earnings per common unit are calculated based on amounts attributable to common unitholders of Corporate Office Properties, L.P.

See accompanying notes to consolidated financial statements.

Corporate Office Properties, L.P. and Subsidiaries  
 Consolidated Statements of Comprehensive Income  
 (in thousands)  
 (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$9,050	\$(4,405)	) \$14,721	\$10,872
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(3,630)	) 7,830	(5,753)	) 8,292
Losses on interest rate derivatives included in interest expense	719	674	1,414	1,332
Other comprehensive (loss) income	(2,911)	) 8,504	(4,339)	) 9,624
Comprehensive income	6,139	4,099	10,382	20,496
Comprehensive income attributable to noncontrolling interests	(884)	) (1,579)	) (1,666)	) (1,289)
Comprehensive income attributable to COPLP	\$5,255	\$2,520	\$8,716	\$19,207

See accompanying notes to consolidated financial statements.

Corporate Office Properties, L.P. and Subsidiaries  
Consolidated Statements of Equity  
(Dollars in thousands)  
(unaudited)

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2012	352,000	\$8,800	12,821,667	\$333,833	85,020,528	\$1,089,391	\$(5,708)	\$10,183	\$1,436,499
Redemption of preferred units resulting from redemption of preferred shares	—	—	(3,390,000)	(84,750)	—	—	—	—	(84,750)
Issuance of common units resulting from public issuance of common shares	—	—	—	—	4,485,000	117,913	—	—	117,913
Issuance of common units resulting from exercise of share options	—	—	—	—	32,756	636	—	—	636
Share-based compensation	—	—	—	—	164,404	3,848	—	—	3,848
Restricted common unit redemptions	—	—	—	—	(68,762)	(1,784)	—	—	(1,784)
Comprehensive loss	—	330	—	10,991	—	(1,586)	9,471	1,005	20,211
Distributions to owners of common and preferred units	—	(330)	—	(10,991)	—	(49,289)	—	—	(60,610)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(8)	(8)
Contributions from noncontrolling	—	—	—	—	—	—	—	85	85

Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

interests in subsidiaries									
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(5,631 )	—	—	(5,631 )
Tax loss from share-based compensation	—	—	—	—	—	(122 )	—	—	(122 )
Balance at June 30, 2013	352,000	\$8,800	9,431,667	\$249,083	89,633,926	\$1,153,376	\$3,763	\$11,265	\$1,426,287
Balance at December 31, 2013	352,000	\$8,800	9,431,667	\$249,083	91,372,212	\$1,226,318	\$3,605	\$9,443	\$1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000 )	(50,000 )	—	—	—	—	(50,000 )
Costs associated with common shares issued to the public	—	—	—	—	—	(7 )	—	—	(7 )
Issuance of common units resulting from exercise of share options	—	—	—	—	51,289	1,185	—	—	1,185
Share-based compensation	—	—	—	—	193,463	3,545	—	—	3,545
Restricted common unit redemptions	—	—	—	—	(49,454 )	(1,326 )	—	—	(1,326 )
Comprehensive income	—	330	—	8,834	—	3,983	(4,430 )	649	9,366
Distributions to owners of common and preferred units	—	(330 )	—	(8,834 )	—	(50,346 )	—	—	(59,510 )
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(8 )	(8 )
Contributions from noncontrolling	—	—	—	—	—	—	—	3	3

interests in  
 subsidiaries  
 Adjustment to  
 arrive at fair  
 value of  
 redeemable  
 noncontrolling  
 interest

—	—	—	—	—	(717	)	—	—	(717	)
---	---	---	---	---	------	---	---	---	------	---

Balance at June  
 30, 2014

352,000	\$8,800	7,431,667	\$199,083	91,567,510	\$1,182,635	\$(825	)	\$10,087	\$1,399,780
---------	---------	-----------	-----------	------------	-------------	--------	---	----------	-------------

See accompanying notes to consolidated financial statements.



Edgar Filing: CORPORATE OFFICE PROPERTIES TRUST - Form 10-Q

Corporate Office Properties, L.P. and Subsidiaries  
 Consolidated Statements of Cash Flows  
 (in thousands)  
 (unaudited)

	For the Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities		
Revenues from real estate operations received	\$232,877	\$233,068
Construction contract and other service revenues received	35,105	28,898
Property operating expenses paid	(78,621)	(75,566)
Construction contract and other service expenses paid	(34,588)	(33,404)
General, administrative, leasing, business development and land carry costs paid	(16,904)	(14,988)
Interest expense paid	(35,365)	(41,825)
Previously accreted interest expense paid	—	(11,116)
Payments in connection with early extinguishment of debt	(104)	(23,932)
Interest and other income received	346	390
Income taxes refund	204	6
Net cash provided by operating activities	102,950	61,531
Cash flows from investing activities		
Construction, development and redevelopment	(105,459)	(99,779)
Tenant improvements on operating properties	(10,842)	(10,496)
Other capital improvements on operating properties	(16,482)	(11,738)
Proceeds from dispositions of properties	1,971	12,344
Mortgage and other loan receivables funded	(565)	(2,756)
Leasing costs paid	(7,772)	(6,048)
Other	(892)	3,144
Net cash used in investing activities	(140,041)	(115,329)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	115,000	374,000
Unsecured senior notes	297,342	347,081
Other debt proceeds	9,931	80,232
Repayments of debt		
Revolving Credit Facility	(115,000)	(226,000)
Scheduled principal amortization	(3,437)	(5,003)
Other debt repayments	(133,010)	(486,803)
Deferred financing costs paid	(653)	(2,099)
Net proceeds from issuance of common units	1,178	118,768
Redemption of preferred units	(50,000)	(84,750)
Common unit distributions paid	(50,429)	(48,025)
Preferred unit distributions paid	(9,956)	(12,685)
Restricted unit redemptions	(1,326)	(1,784)
Other	(706)	(532)
Net cash provided by financing activities	58,934	52,400
Net increase (decrease) in cash and cash equivalents	21,843	(1,398)
Cash and cash equivalents		
Beginning of period	54,373	10,594
End of period	\$76,216	\$9,196

See accompanying notes to consolidated financial statements.

13

---

Corporate Office Properties, L.P. and Subsidiaries  
Consolidated Statements of Cash Flows (Continued)  
(in thousands)  
(unaudited)

	For the Six Months Ended	
	June 30,	
	2014	2013
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 14,721	\$ 10,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	75,839	58,244
Impairment losses	1,329	9,052
Settlement of previously accreted interest expense	—	(11,116 )
Amortization of deferred financing costs	2,289	2,971
Increase in deferred rent receivable	(1,754 )	(6,598 )
Amortization of net debt discounts	400	1,328
Loss (gain) on sales of real estate	4	(2,683 )
Share-based compensation	3,056	3,296
Loss on early extinguishment of debt	282	2,722
Other	(1,664 )	(2,472 )
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,916 )	(4,384 )
Decrease (increase) in restricted cash and marketable securities	40	(670 )
Decrease in prepaid expenses and other assets	3,213	5,884
Increase (decrease) in accounts payable, accrued expenses and other liabilities	13,083	(1,378 )
Decrease in rents received in advance and security deposits	(3,972 )	(3,537 )
Net cash provided by operating activities	\$ 102,950	\$ 61,531
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$(7,153 )	\$(12,750 )
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive (loss) income and noncontrolling interests	\$(4,369 )	\$9,592
Distributions payable	\$28,342	\$28,602
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$717	\$5,631

See accompanying notes to consolidated financial statements.

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

1. Organization

Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) is a fully-integrated and self-managed real estate investment trust (“REIT”). Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”) is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, “we”, “us” and “our” as used herein refer to each of the Company and the Operating Partnership. We focus primarily on serving the specialized requirements of United States Government agencies and defense contractors, most of whom are engaged in defense information technology and national security related activities. We generally acquire, develop, manage and lease office and data center properties concentrated in large office parks located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of June 30, 2014, our properties included the following:

180 operating office properties totaling 16.9 million square feet (excluding two properties serving as collateral for a nonrecourse mortgage loan which is in default, as discussed further in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of this Quarterly Report on Form 10-Q);

12 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.4 million square feet upon completion;

1,714 acres of land we control that we believe are potentially developable into approximately 19.7 million square feet; and

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

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

Interests in COPLP are in the form of common and preferred units. As of June 30, 2014, COPT owned 95.7% of the outstanding COPLP common units (“common units”) and 95.5% of the outstanding COPLP preferred units (“preferred units”); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation are substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

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

2. Summary of Significant Accounting Policies

## Basis of Presentation

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

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

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

These interim financial statements should be read together with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2013 included in our 2013 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 2013 Annual Report on Form 10-K.

#### Reclassifications

We reclassified certain amounts from prior periods to conform to the current period presentation of our consolidated financial statements with no effect on previously reported net income or equity. These reclassifications occurred in conjunction with the transfer of properties to, and from, discontinued operations during 2013.

#### Prior Out of Period Adjustment

As previously disclosed in our 2013 Annual Report on Form 10-K, during the second quarter of 2013, we identified an error related to the estimated fair value of a redeemable noncontrolling interest in a real estate joint venture. Changes in such fair value are reported as changes in equity with no impact to net income or comprehensive income. The error resulted in an understatement of the line entitled “redeemable noncontrolling interest” in the mezzanine section of our consolidated balance sheet and an overstatement of the line entitled “additional paid-in capital” in the equity section of our consolidation balance sheet of \$3.7 million as of December 31, 2012. We have determined that this adjustment was not material to our financial statements for 2012 or 2013. Accordingly, this change is reported as an out-of-period adjustment in the six months ended June 30, 2013.

#### Recent Accounting Pronouncements

We adopted guidance issued by the Financial Accounting Standards Board (“FASB”) related to the reporting of discontinued operations and disclosures of disposals of components of an entity effective for the quarterly period ended June 30, 2014. This guidance defines a discontinued operation as a component or group of components disposed or classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity’s operations and final result; the guidance states that a strategic shift could include a disposal of a major geographical area of operations, a major line of business, a major equity method investment or other major parts of an entity. The guidance also provides for additional disclosure requirements in connection with both discontinued operations and other dispositions not qualifying as discontinued operations. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. Our adoption of the guidance will result in fewer disposed or held for sale properties being reported as discontinued operations in our results of operations (including properties held for sale as of the end of the current period) but will not otherwise materially affect our consolidated financial statements.

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this guidance for our annual and interim periods beginning January 1, 2017, utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or retrospectively with the cumulative effect of initially applying this

guidance recognized at the date of initial application. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

### 3. Fair Value Measurements

For a description on how we estimate fair value, see Note 3 to the consolidated financial statements in our 2013 Annual Report on Form 10-K.

#### Recurring Fair Value Measurements

Our partner in a real estate joint venture has the right to require us to acquire its interest at fair value beginning in March 2020; accordingly, we classify the fair value of our partner's interest as a redeemable noncontrolling interest in the mezzanine section of our consolidated balance sheet. In determining the fair value of our partner's interest as of June 30, 2014, we used a

discount rate of 15.5%. The discount rate factored in risk appropriate to the level of future property development expected to be undertaken by the joint venture. A significant increase (decrease) in the discount rate used in determining the fair value would result in a significantly (lower) higher fair value. Given our reliance on the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

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

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

#### COPT and Subsidiaries

The table below sets forth financial assets and liabilities of COPT and its subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2014 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 7,309	\$ —	\$ —	\$7,309
Common stocks	111	—	—	111
Other	201	—	—	201
Interest rate derivatives (2)	—	2,151	—	2,151
Warrants to purchase common stock (2)	—	255	—	255
<b>Total Assets</b>	<b>\$ 7,621</b>	<b>\$ 2,406</b>	<b>\$ —</b>	<b>\$10,027</b>
<b>Liabilities:</b>				
Deferred compensation plan liability (3)	\$ —	\$ 7,621	\$ —	\$7,621
Interest rate derivatives	—	3,236	—	3,236
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ 10,857</b>	<b>\$ —</b>	<b>\$10,857</b>
Redeemable noncontrolling interest	\$ —	\$ —	\$ 18,901	\$18,901

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

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

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





## COPLP and Subsidiaries

The table below sets forth financial assets and liabilities of COPLP and its subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2014 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Other Observable Inputs(Level 2)	Significant Observable Inputs(Level 3)	Total
Assets:				
Interest rate derivatives (1)	\$ —	\$ 2,151	\$ —	\$2,151
Warrants to purchase common stock (1)	—	255	—	255
Total Assets	\$ —	\$ 2,406	\$ —	\$2,406
Liabilities:				
Interest rate derivatives	\$ —	\$ 3,236	\$ —	\$3,236
Redeemable noncontrolling interest	\$ —	\$ —	\$ 18,901	\$18,901

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

## Nonrecurring Fair Value Measurements

During the six months ended June 30, 2014, we recognized impairment losses on operating properties in the current period primarily in connection with certain of our expected dispositions of properties classified as held for sale. The table below sets forth the fair value hierarchy of the valuation technique used by us in determining the fair values of the properties (dollars in thousands):

Fair Value of Properties Held as of June 30, 2014	
Quoted Prices in	Significant