

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
August 03, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from to

Commission file number 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)

Corporate Office Properties Trust
Corporate Office Properties, L.P.

(Exact name of registrant as specified in its charter)

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

Corporate Office Properties, L.P.	Delaware	23-2930022
	(State or other jurisdiction of incorporation or organization)	(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 17, 2015, 94,528,982 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, 2015 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of June 30, 2015, COPT owned approximately 96.3% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

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

issuance of partnership units.

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

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

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

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

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

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

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

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, 2015 and December 31, 2014 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>7</u>
Consolidated Financial Statements of <u>Corporate Office Properties, L.P.</u>	
<u>Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (unaudited)</u>	<u>9</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>10</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>11</u>
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>12</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014 (unaudited)</u>	<u>13</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>15</u>
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 4: Controls and Procedures</u>	<u>51</u>
<u>PART II: OTHER INFORMATION</u>	
<u>Item 1: Legal Proceedings</u>	<u>52</u>
<u>Item 1A: Risk Factors</u>	<u>52</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
<u>Item 3: Defaults Upon Senior Securities</u>	<u>52</u>
<u>Item 4: Mine Safety Disclosures</u>	<u>52</u>
<u>Item 5: Other Information</u>	<u>52</u>
<u>Item 6: Exhibits</u>	<u>52</u>
<u>SIGNATURES</u>	<u>55</u>

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, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$2,896,809	\$ 2,751,488
Projects in development or held for future development	521,991	545,426
Total properties, net	3,418,800	3,296,914
Assets held for sale, net	77,013	14,339
Cash and cash equivalents	37,074	6,077
Restricted cash and marketable securities	10,121	9,069
Accounts receivable (net of allowance for doubtful accounts of \$1,135 and \$717, respectively)	16,181	26,901
Deferred rent receivable (net of allowance of \$2,203 and \$1,418, respectively)	101,488	95,910
Intangible assets on real estate acquisitions, net	81,728	43,854
Deferred leasing and financing costs, net	67,613	64,797
Investing receivables	45,766	52,147
Prepaid expenses and other assets, net	55,137	60,249
Total assets	\$3,910,921	\$ 3,670,257
Liabilities and equity		
Liabilities:		
Debt, net	\$2,130,170	\$ 1,920,057
Accounts payable and accrued expenses	155,989	123,035
Rents received in advance and security deposits	27,371	31,011
Dividends and distributions payable	30,178	29,862
Deferred revenue associated with operating leases	15,179	13,031
Interest rate derivatives	3,121	1,855
Other liabilities	11,866	12,105
Total liabilities	2,373,874	2,130,956
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,414	18,417
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized; issued and outstanding of 7,431,667 at June 30, 2015 and December 31, 2014)	199,083	199,083
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 94,529,618 at June 30, 2015 and 93,255,284 at December 31, 2014)	946	933
Additional paid-in capital	2,000,775	1,969,968
Cumulative distributions in excess of net income	(747,234)	(717,264)
Accumulated other comprehensive loss	(3,141)	(1,297)

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

Total Corporate Office Properties Trust's shareholders' equity	1,450,429	1,451,423
Noncontrolling interests in subsidiaries:		
Common units in COPLP	48,707	51,534
Preferred units in COPLP	8,800	8,800
Other consolidated entities	9,697	9,127
Noncontrolling interests in subsidiaries	67,204	69,461
Total equity	1,517,633	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$3,910,921	\$ 3,670,257

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,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$ 105,508	\$ 94,332	\$ 203,746	\$ 192,367
Tenant recoveries and other real estate operations revenue	22,683	21,627	47,155	48,469
Construction contract and other service revenues	42,172	23,861	80,496	45,651
Total revenues	170,363	139,820	331,397	286,487
Expenses				
Property operating expenses	46,418	43,772	97,099	93,544
Depreciation and amortization associated with real estate operations	33,786	30,895	65,385	74,491
Construction contract and other service expenses	41,293	23,136	78,791	41,760
Impairment losses	1,238	1,302	1,238	1,302
General, administrative and leasing expenses	7,534	7,528	15,425	15,671
Business development expenses and land carry costs	2,623	1,351	5,413	2,677
Total operating expenses	132,892	107,984	263,351	229,445
Operating income	37,471	31,836	68,046	57,042
Interest expense	(21,768)	(23,478)	(42,606)	(44,305)
Interest and other income	1,242	1,299	2,525	2,584
Loss on early extinguishment of debt	(65)	(270)	(68)	(270)
Income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	16,880	9,387	27,897	15,051
Equity in income (loss) of unconsolidated entities	9	(47)	34	13
Income tax expense	(50)	(92)	(105)	(156)
Income from continuing operations	16,839	9,248	27,826	14,908
Discontinued operations	394	(198)	156	(187)
Income before gain on sales of real estate	17,233	9,050	27,982	14,721
Gain on sales of real estate	(1)	—	3,985	—
Net income	17,232	9,050	31,967	14,721
Net income attributable to noncontrolling interests:				
Common units in COPLP	(476)	(158)	(874)	(174)
Preferred units in COPLP	(165)	(165)	(330)	(330)
Other consolidated entities	(810)	(837)	(1,627)	(1,586)
Net income attributable to COPT	15,781	7,890	29,136	12,631
Preferred share dividends	(3,553)	(4,344)	(7,105)	(8,834)
Issuance costs associated with redeemed preferred shares	—	(1,769)	—	(1,769)
Net income attributable to COPT common shareholders	\$ 12,228	\$ 1,777	\$ 22,031	\$ 2,028
Net income attributable to COPT:				
Income from continuing operations	\$ 15,402	\$ 8,077	\$ 28,983	\$ 12,805
Discontinued operations, net	379	(187)	153	(174)
Net income attributable to COPT	\$ 15,781	\$ 7,890	\$ 29,136	\$ 12,631
Basic earnings per common share (1)				
Income from continuing operations	\$ 0.13	\$ 0.02	\$ 0.23	\$ 0.02

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

Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02
Diluted earnings per common share (1)				
Income from continuing operations	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02
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 Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$17,232	\$9,050	\$31,967	\$14,721
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate derivatives	392	(3,630)	(3,082)	(5,753)
Losses on interest rate derivatives included in interest expense	769	719	1,542	1,414
Equity in other comprehensive loss of equity method investee	(264)	—	(264)	—
Other comprehensive income (loss)	897	(2,911)	(1,804)	(4,339)
Comprehensive income	18,129	6,139	30,163	10,382
Comprehensive income attributable to noncontrolling interests	(1,542)	(1,081)	(2,871)	(1,992)
Comprehensive income attributable to COPT	\$16,587	\$5,058	\$27,292	\$8,390

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, 2013 (87,394,512 common shares outstanding)	\$ 249,083	\$ 874	\$ 1,814,015	\$ (641,868)	\$ 3,480	\$ 71,665	\$ 1,497,249
Redemption of preferred shares (2,000,000 shares)	(50,000)	—	1,769	(1,769)	—	—	(50,000)
Conversion of common units to common shares (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 (144,009 shares issued, net of redemptions)	—	3	3,542	—	—	—	3,545
Redemption of vested equity awards	—	—	(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

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

Balance at December 31, 2014 (93,255,284 common shares outstanding)	\$ 199,083	\$ 933	\$ 1,969,968	\$ (717,264)	\$ (1,297)	\$ 69,461	\$ 1,520,884
Conversion of common units to common shares (158,000 shares)	—	2	2,120	—	—	(2,122)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (76,474 shares)	—	—	2,008	—	—	—	2,008
Share-based compensation (149,619 shares issued, net of redemptions)	—	2	3,656	—	—	—	3,658
Redemption of vested equity awards	—	—	(2,245)	—	—	—	(2,245)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(519)	—	—	519	—
Comprehensive income	—	—	—	29,136	(1,844)	1,728	29,020
Dividends	—	—	—	(59,106)	—	—	(59,106)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(2,354)	(2,354)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(28)	(28)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(739)	—	—	—	(739)
Balance at June 30, 2015 (94,529,618 common shares outstanding)	\$ 199,083	\$ 946	\$ 2,000,775	\$ (747,234)	\$ (3,141)	\$ 67,204	\$ 1,517,633

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$240,538	\$232,877
Construction contract and other service revenues received	86,790	35,105
Property operating expenses paid	(79,667)	(78,621)
Construction contract and other service expenses paid	(76,355)	(34,588)
General, administrative, leasing, business development and land carry costs paid	(20,121)	(16,904)
Interest expense paid	(32,375)	(35,365)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,055	346
Income taxes (paid) refunded	(8)	204
Net cash provided by operating activities	122,839	102,950
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(137,125)	—
Construction, development and redevelopment	(117,498)	(105,459)
Tenant improvements on operating properties	(10,314)	(10,842)
Other capital improvements on operating properties	(8,372)	(16,482)
Proceeds from dispositions of properties	17,424	1,971
Investing receivables payments received	5,114	151
Leasing costs paid	(6,732)	(7,772)
Increase in prepaid expenses and other assets associated with investing activities	(3,249)	(1,158)
Other	(289)	(450)
Net cash used in investing activities	(261,041)	(140,041)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	294,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	9,931
Repayments of debt		
Revolving Credit Facility	(377,000)	(115,000)
Scheduled principal amortization	(3,319)	(3,437)
Other debt repayments	(50,630)	(133,010)
Deferred financing costs paid	(4,693)	(653)
Net proceeds from issuance of common shares	28,567	1,178
Redemption of preferred shares	—	(50,000)
Common share dividends paid	(51,642)	(48,118)
Preferred share dividends paid	(7,105)	(9,626)
Distributions paid to noncontrolling interests in COPLP	(2,461)	(2,641)
Redemption of vested equity awards	(2,245)	(1,326)
Other	(853)	(706)
Net cash provided by financing activities	169,199	58,934
Net increase in cash and cash equivalents	30,997	21,843
Cash and cash equivalents		

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

Beginning of period	6,077	54,373
End of period	\$37,074	\$76,216
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,	
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$31,967	\$14,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	66,404	75,839
Impairment losses	1,472	1,329
Amortization of deferred financing costs	2,136	2,289
Increase in deferred rent receivable	(5,956)	(1,754)
Amortization of net debt discounts	482	400
(Gain) loss on sales of real estate	(3,985)	4
Share-based compensation	3,210	3,056
(Gain) loss on early extinguishment of debt	(330)	282
Other	2,084	(1,664)
Operating changes in assets and liabilities:		
Decrease (increase) in accounts receivable	10,655	(3,916)
Increase in restricted cash and marketable securities	(735)	(113)
Decrease in prepaid expenses and other assets, net	6,518	3,213
Increase in accounts payable, accrued expenses and other liabilities	12,557	13,236
Decrease in rents received in advance and security deposits	(3,640)	(3,972)
Net cash provided by operating activities	\$122,839	\$102,950
Supplemental schedule of non-cash investing and financing activities:		
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	\$15,927	\$(7,153)
Liabilities assumed on acquisition of operating properties	\$5,265	\$—
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(1,540)	\$(4,369)
Equity in other comprehensive loss of an equity method investee	\$(264)	\$—
Dividends/distribution payable	\$30,178	\$28,342
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$2,122	\$1,047
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$519	\$72
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$739	\$717

See accompanying notes to consolidated financial statements.

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

	June 30, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$2,896,809	\$2,751,488
Projects in development or held for future development	521,991	545,426
Total properties, net	3,418,800	3,296,914
Assets held for sale, net	77,013	14,339
Cash and cash equivalents	37,074	6,077
Restricted cash and marketable securities	4,248	3,187
Accounts receivable (net of allowance for doubtful accounts of \$1,135 and \$717, respectively)	16,181	26,901
Deferred rent receivable (net of allowance of \$2,203 and \$1,418, respectively)	101,488	95,910
Intangible assets on real estate acquisitions, net	81,728	43,854
Deferred leasing and financing costs, net	67,613	64,797
Investing receivables	45,766	52,147
Prepaid expenses and other assets, net	55,137	60,249
Total assets	\$3,905,048	\$3,664,375
Liabilities and equity		
Liabilities:		
Debt, net	\$2,130,170	\$1,920,057
Accounts payable and accrued expenses	155,989	123,035
Rents received in advance and security deposits	27,371	31,011
Distributions payable	30,178	29,862
Deferred revenue associated with operating leases	15,179	13,031
Interest rate derivatives	3,121	1,855
Other liabilities	5,993	6,223
Total liabilities	2,368,001	2,125,074
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,414	18,417
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at June 30, 2015 and December 31, 2014	199,083	199,083
Limited partner, 352,000 preferred units outstanding at June 30, 2015 and December 31, 2014	8,800	8,800
Common units, 94,529,618 and 93,255,284 held by the general partner and 3,679,551 and 3,837,551 held by limited partners at June 30, 2015 and December 31, 2014, respectively	1,303,313	1,305,219
Accumulated other comprehensive loss	(3,300)	(1,381)
Total Corporate Office Properties, L.P.'s equity	1,507,896	1,511,721
Noncontrolling interests in subsidiaries	9,737	9,163

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

Total equity	1,517,633	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$3,905,048	\$3,664,375
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,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$105,508	\$94,332	\$203,746	\$192,367
Tenant recoveries and other real estate operations revenue	22,683	21,627	47,155	48,469
Construction contract and other service revenues	42,172	23,861	80,496	45,651
Total revenues	170,363	139,820	331,397	286,487
Expenses				
Property operating expenses	46,418	43,772	97,099	93,544
Depreciation and amortization associated with real estate operations	33,786	30,895	65,385	74,491
Construction contract and other service expenses	41,293	23,136	78,791	41,760
Impairment losses	1,238	1,302	1,238	1,302
General, administrative and leasing expenses	7,534	7,528	15,425	15,671
Business development expenses and land carry costs	2,623	1,351	5,413	2,677
Total operating expenses	132,892	107,984	263,351	229,445
Operating income	37,471	31,836	68,046	57,042
Interest expense	(21,768)	(23,478)	(42,606)	(44,305)
Interest and other income	1,242	1,299	2,525	2,584
Loss on early extinguishment of debt	(65)	(270)	(68)	(270)
Income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	16,880	9,387	27,897	15,051
Equity in income (loss) of unconsolidated entities	9	(47)	34	13
Income tax expense	(50)	(92)	(105)	(156)
Income from continuing operations	16,839	9,248	27,826	14,908
Discontinued operations	394	(198)	156	(187)
Income before gain on sales of real estate	17,233	9,050	27,982	14,721
Gain on sales of real estate	(1)	—	3,985	—
Net income	17,232	9,050	31,967	14,721
Net income attributable to noncontrolling interests in consolidated entities	(812)	(837)	(1,630)	(1,574)
Net income attributable to COPLP	16,420	8,213	30,337	13,147
Preferred unit distributions	(3,718)	(4,509)	(7,435)	(9,164)
Issuance costs associated with redeemed preferred units	—	(1,769)	—	(1,769)
Net income attributable to COPLP common unitholders	\$12,702	\$1,935	\$22,902	\$2,214
Net income attributable to COPLP:				
Income from continuing operations	\$16,026	\$8,408	\$30,178	\$13,329
Discontinued operations, net	394	(195)	159	(182)
Net income attributable to COPLP	\$16,420	\$8,213	\$30,337	\$13,147
Basic earnings per common unit (1)				
Income from continuing operations	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.13	\$0.02	\$0.23	\$0.02
Diluted earnings per common unit (1)				

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

Income from continuing operations	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.13	\$0.02	\$0.23	\$0.02
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,	
	2015	2014	2015	2014
Net income	\$17,232	\$9,050	\$31,967	\$14,721
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate derivatives	392	(3,630)	(3,082)	(5,753)
Losses on interest rate derivatives included in interest expense	769	719	1,542	1,414
Equity in other comprehensive loss of equity method investee	(264)	—	(264)	—
Other comprehensive income (loss)	897	(2,911)	(1,804)	(4,339)
Comprehensive income	18,129	6,139	30,163	10,382
Comprehensive income attributable to noncontrolling interests	(872)	(884)	(1,745)	(1,666)
Comprehensive income attributable to COPLP	\$17,257	\$5,255	\$28,418	\$8,716

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2013	352,000	\$8,800	9,431,667	\$249,083	91,372,212	\$1,226,318	\$3,605	\$9,443	\$1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000)	(50,000)	—	—	—	—	(50,000)
Costs associated with common shares issued to the public	—	—	—	—	—	(7)	—	—	(7)
Issuance of common units resulting from exercise of share options	—	—	—	—	51,289	1,185	—	—	1,185
Share-based compensation (units net of redemption)	—	—	—	—	144,009	3,545	—	—	3,545
Redemptions of vested equity awards	—	—	—	—	—	(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 interests in subsidiaries	—	—	—	—	—	—	—	3	3

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

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		
Balance at December 31, 2014	352,000	\$8,800	7,431,667	\$199,083	97,092,835	\$1,305,219	\$(1,381)	\$9,163	\$1,520,884			
Issuance of common units resulting from common shares issued under at-the-market program	—	—	—	—	890,241	26,535	—	—	26,535			
Issuance of common units resulting from exercise of share options	—	—	—	—	76,474	2,008	—	—	2,008			
Share-based compensation (units net of redemption)	—	—	—	—	149,619	3,658	—	—	3,658			
Redemptions of vested equity awards	—	—	—	—	—	(2,245)	—	(2,245)		
Comprehensive income	—	330	—	7,105	—	22,902	(1,919)	602	29,020		
Distributions to owners of common and preferred units	—	(330)	—	(7,105)	—	(54,025)	—	(61,460)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(28)	(28)	
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(739)	—	—	(739)	
Balance at June 30, 2015	352,000	\$8,800	7,431,667	\$199,083	98,209,169	\$1,303,313	\$(3,300)	\$9,737	\$1,517,633			

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$240,538	\$232,877
Construction contract and other service revenues received	86,790	35,105
Property operating expenses paid	(79,667)	(78,621)
Construction contract and other service expenses paid	(76,355)	(34,588)
General, administrative, leasing, business development and land carry costs paid	(20,121)	(16,904)
Interest expense paid	(32,375)	(35,365)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,055	346
Income taxes (paid) refunded	(8)	204
Net cash provided by operating activities	122,839	102,950
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(137,125)	—
Construction, development and redevelopment	(117,498)	(105,459)
Tenant improvements on operating properties	(10,314)	(10,842)
Other capital improvements on operating properties	(8,372)	(16,482)
Proceeds from dispositions of properties	17,424	1,971
Investing receivables payments received	5,114	151
Leasing costs paid	(6,732)	(7,772)
Increase in prepaid expenses and other assets associated with investing activities	(3,249)	(1,158)
Other	(289)	(450)
Net cash used in investing activities	(261,041)	(140,041)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	294,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	9,931
Repayments of debt		
Revolving Credit Facility	(377,000)	(115,000)
Scheduled principal amortization	(3,319)	(3,437)
Other debt repayments	(50,630)	(133,010)
Deferred financing costs paid	(4,693)	(653)
Net proceeds from issuance of common units	28,567	1,178
Redemption of preferred units	—	(50,000)
Common unit distributions paid	(53,773)	(50,429)
Preferred unit distributions paid	(7,435)	(9,956)
Redemption of vested equity awards	(2,245)	(1,326)
Other	(853)	(706)
Net cash provided by financing activities	169,199	58,934
Net increase in cash and cash equivalents	30,997	21,843
Cash and cash equivalents		
Beginning of period	6,077	54,373

End of period	\$37,074	\$76,216
See accompanying notes to consolidated financial statements.		

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

	For the Six Months Ended	
	June 30,	2014
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$31,967	\$14,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	66,404	75,839
Impairment losses	1,472	1,329
Amortization of deferred financing costs	2,136	2,289
Increase in deferred rent receivable	(5,956)	(1,754)
Amortization of net debt discounts	482	400
(Gain) loss on sales of real estate	(3,985)	4
Share-based compensation	3,210	3,056
(Gain) loss on early extinguishment of debt	(330)	282
Other	2,084	(1,664)
Operating changes in assets and liabilities:		
Decrease (increase) in accounts receivable	10,655	(3,916)
(Increase) decrease in restricted cash and marketable securities	(744)	40
Decrease in prepaid expenses and other assets, net	6,518	3,213
Increase in accounts payable, accrued expenses and other liabilities	12,566	13,083
Decrease in rents received in advance and security deposits	(3,640)	(3,972)
Net cash provided by operating activities	\$122,839	\$102,950
Supplemental schedule of non-cash investing and financing activities:		
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	\$15,927	\$(7,153)
Liabilities assumed on acquisition of operating properties	\$5,265	\$—
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(1,540)	\$(4,369)
Equity in other comprehensive loss of an equity method investee	\$(264)	\$—
Distributions payable	\$30,178	\$28,342
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$739	\$717

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 their contractors, most of whom are engaged in national security and information technology 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, 2015, our properties included the following:

- 179 operating office properties totaling 18.0 million square feet (excluding two properties serving as collateral for a nonrecourse mortgage loan 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 1.3 million square feet upon completion, including one partially operational property included above;
- 1,450 acres of land we control that we believe are potentially developable into approximately 17.7 million square feet; and
- a partially operational wholesale data center that is expected to have a critical load of 19.25 megawatts upon completion.

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”).

Equity interests in COPLP are in the form of common and preferred units. As of June 30, 2015, COPT owned 96.3% 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 is 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 we 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 but cannot control the entity’s operations. We discontinue equity method accounting if our investment in an entity (and net

15

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, 2014 included in our 2014 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 2014 Annual Report on Form 10-K.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“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, 2018 using one of two methods: retrospective restatement for each reporting period presented at the 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.

In January 2015, the FASB issued guidance regarding the presentation of extraordinary and unusual items in statements of operations. This guidance eliminates the concept of extraordinary items. However, the presentation and disclosure requirements for items that are either unusual in nature or infrequent in occurrence remain and will be expanded to include items that are both unusual in nature and infrequent in occurrence. This guidance is effective for periods beginning after December 15, 2015. We expect that the application of this guidance will have no effect on our reported consolidated financial statements.

In February 2015, the FASB issued guidance regarding amendments to the consolidation analysis. This guidance amends the criteria for determining which entities are considered variable interest entities (“VIE”), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In April 2015, the FASB issued guidance that changes the presentation of debt issuance costs in financial statements. This guidance requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. This guidance will be applied retrospectively to each prior period presented. We expect that the application of this guidance will not materially affect 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 2014 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, 2015, we used a discount rate of 15.5% which 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. Please refer to Note 11 for a rollforward of the activity for redeemable noncontrolling interest.

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 7, we estimated the fair values of our 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 9, 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 7 for investing receivables, Note 9 for debt and Note 10 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, 2015 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:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 5,765	\$ —	\$ —	\$5,765
Other	108	—	—	108
Warrants to purchase common stock (2)	—	141	—	141
Total assets	\$ 5,873	\$ 141	\$ —	\$6,014
Liabilities:				
Deferred compensation plan liability (3)	\$ —	\$ 5,873	\$ —	\$5,873
Interest rate derivatives	—	3,121	—	3,121
Total liabilities	\$ —	\$ 8,994	\$ —	\$8,994
Redeemable noncontrolling interest	\$ —	\$ —	\$ 19,414	\$19,414

(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, 2015 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
Assets:				
Warrants to purchase common stock (1)	\$ —	\$ 141	\$ —	\$ 141
Liabilities:				
Interest rate derivatives	\$ —	\$ 3,121	\$ —	\$ 3,121
Redeemable noncontrolling interest	\$ —	\$ —	\$ 19,414	\$ 19,414

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

Nonrecurring Fair Value Measurements

In June 2015, we classified certain operating properties as held for sale, including a property in Northern Virginia on which we received an unsolicited offer. This property’s carrying value exceeded its fair value less costs to sell by approximately \$1.2 million. Accordingly, we recognized an impairment loss of this amount during the three months ended June 30, 2015. The table below sets forth the fair value hierarchy of the valuation technique we used to determine the fair value of this property (dollars in thousands):

Description	Fair Value as of June 30, 2015 (1)				Impairment Losses Recognized	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Assets:						
Assets held for sale	\$ —	\$ —	\$ 27,690	\$ 27,690	\$ 1,238	\$ 1,238

(1) Fair value represents contract price less expected costs to sell.

In June 2014, we classified certain operating properties in Greater Baltimore, Maryland (“Greater Baltimore”) as held for sale with carrying values exceeding their respective fair values less costs to sell by approximately \$1.3 million. Accordingly, we recognized impairment losses totaling this amount during the three months ended June 30, 2014. These properties were subsequently sold. 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):

Description	Fair Value of Properties Held as of June 30, 2014 (1)				Impairment Losses Recognized	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Assets:						
Assets held for sale	\$ —	\$ —	\$ 9,796	\$ 9,796	\$ 1,302	\$ 1,302

(1) Fair value represents contract price less expected costs to sell.

4. Properties, Net

Operating properties, net consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Land	\$460,268	\$439,355
Buildings and improvements	3,160,011	3,015,216
Less: Accumulated depreciation	(723,470)	(703,083)
Operating properties, net	\$2,896,809	\$2,751,488

During the six months ended June 30, 2014, we recognized \$12.9 million in additional depreciation expense resulting from our revision of the useful life of a property in Greater Philadelphia, Pennsylvania ("Greater Philadelphia") that was removed from service for redevelopment.

Projects in development or held for future development consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Land	\$221,655	\$214,977
Construction in progress, excluding land	300,336	330,449
Projects in development or held for future development	\$521,991	\$545,426

As of June 30, 2015, we had six operating properties in Greater Baltimore and one in Northern Virginia classified as held for sale. The table below sets forth the components of assets held for sale on our consolidated balance sheet for these properties (in thousands):

	June 30, 2015
Properties, net	\$73,174
Deferred rent receivable	1,683
Intangible assets on real estate acquisitions, net	1,017
Deferred leasing costs, net	977
Lease incentives, net	162
Assets held for sale, net	\$77,013

As of December 31, 2014, we had two land parcels in the Greater Baltimore region classified as held for sale with a cost basis of \$14.3 million that were sold during the six months ended June 30, 2015.

2015 Acquisitions

In the six months ended June 30, 2015, we acquired the following operating properties:

- 250 W. Pratt Street, a 367,000 square foot office property in Baltimore, Maryland that was 96.2% leased, for \$61.9 million on March 19, 2015; and
- 2600 Park Tower Drive, a 237,000 square foot office property in Vienna, Virginia (in the Northern Virginia region) that was 100% leased, for \$80.5 million on April 15, 2015.

The table below sets forth the allocation of the acquisition costs of these properties (in thousands):

Land, operating properties	\$28,361
Building and improvements	69,182
Intangible assets on real estate acquisitions	45,940

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

Total assets	143,483	
Below-market leases	(1,093)
Total acquisition cost	\$142,390	

19

Intangible assets recorded in connection with the these acquisitions included the following (dollars in thousands):

		Weighted Average Amortization Period (in Years)
Tenant relationship value	\$20,024	10
In-place lease value	20,041	5
Above-market leases	5,875	4
	\$45,940	7

These properties contributed revenues of \$4.0 million for the three months ended June 30, 2015 and \$4.3 million for the six months ended June 30, 2015, and contributed net income from continuing operations of \$40,000 for the three months ended June 30, 2015 and \$210,000 for the six months ended June 30, 2015. We expensed \$1.4 million in operating property acquisition costs during the six months ended June 30, 2015 that are included in business development expenses and land carry costs on our consolidated statements of operations.

We accounted for these acquisitions as business combinations. We included the results of operations for the acquisitions in our consolidated statements of operations from their respective purchase dates through June 30, 2015. The following table presents pro forma information for COPT and subsidiaries as if these acquisitions had occurred on January 1, 2014. This pro forma information also includes adjustments to reclassify the operating property acquisition costs disclosed above from the 2015 periods in which they were incurred to the six months ended June 30, 2014. The pro forma financial information was prepared for comparative purposes only and is not necessarily indicative of what would have occurred had these acquisitions been made at that time or of results which may occur in the future (in thousands, except per shares amounts).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Pro forma total revenues	\$ 170,719	\$ 144,098	\$ 335,159	\$ 294,769
Pro forma net income attributable to COPT common shareholders	\$ 12,620	\$ 2,126	\$ 22,850	\$ 835
Pro forma EPS:				
Basic	\$0.13	\$0.02	\$0.24	\$0.01
Diluted	\$0.13	\$0.02	\$0.24	\$0.01

2015 Dispositions

We sold land in the six months ended June 30, 2015 for \$18.1 million and recognized gains of \$4.0 million on the sales.

2015 Construction Activities

During the six months ended June 30, 2015, we placed into service an aggregate of 509,000 square feet in four newly constructed office properties located in Northern Virginia, San Antonio, Texas (“San Antonio”) and Huntsville, Alabama (“Huntsville”), and 111,000 square feet of a property undergoing redevelopment in Greater Philadelphia. As of June 30, 2015, we had six office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.0 million square feet upon completion, including four in Northern Virginia and two in the Baltimore/Washington Corridor. We also had six office properties under redevelopment (including one partially operational property) that we estimate will total 309,000 square feet upon completion, including four in the Baltimore/Washington Corridor, one in Greater Philadelphia and one in St. Mary’s County, Maryland.

5. Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of June 30, 2015 (dollars in thousands):

	Date Acquired	Nominal	Nature of Activity	June 30, 2015		(1)
		Ownership % as of 6/30/2015		Total Assets	Encumbered Assets	Total Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Operates five buildings and developing others (2)	\$142,787	\$65,200	\$40,278
M Square Associates, LLC	6/26/2007	50%	Operates two buildings and developing others (3)	58,839	48,364	38,249
				\$201,626	\$113,564	\$78,527

(1) Excludes amounts eliminated in consolidation.

(2) This joint venture's properties are in Huntsville.

(3) This joint venture's properties are in College Park, Maryland (in the Baltimore/Washington Corridor).

6. Intangible Assets on Real Estate Acquisitions, Net

Intangible assets on real estate acquisitions consisted of the following, excluding amounts for properties held for sale (in thousands):

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease value	\$134,387	\$95,910	\$38,477	\$123,759	\$101,040	\$22,719
Tenant relationship value	58,560	27,666	30,894	42,301	28,492	13,809
Below-market cost arrangements	12,415	6,324	6,091	12,415	5,984	6,431
Above-market leases	14,344	8,467	5,877	8,659	8,159	500
Market concentration premium	1,333	944	389	1,333	938	395
	\$221,039	\$139,311	\$81,728	\$188,467	\$144,613	\$43,854

Amortization of the intangible asset categories set forth above totaled \$7.0 million in the six months ended June 30, 2015 and \$7.4 million in the six months ended June 30, 2014. The approximate weighted average amortization periods of the categories set forth above follow (excluding amounts for properties held for sale): in-place lease value: five years; tenant relationship value: nine years; below-market cost arrangements: 32 years; above-market leases: four years; and market concentration premium: 27 years. The approximate weighted average amortization period for all of the categories combined is nine years. Estimated amortization expense associated with the intangible asset categories set forth above through 2020 follows (excluding amounts for properties held for sale): \$8.6 million for the six months ending December 31, 2015; \$16.6 million for 2016; \$14.3 million for 2017; \$9.5 million for 2018; \$6.7 million for 2019; and \$5.1 million for 2020.

7. Investing Receivables

Investing receivables, including accrued interest thereon, consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Notes receivable from the City of Huntsville	\$42,766	\$49,147

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

Other investing loans receivable	3,000	3,000
	\$45,766	\$52,147

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 5) and carry an interest rate of 9.95%.

We did not have an allowance for credit losses in connection with our investing receivables as of June 30, 2015 or December 31, 2014. The fair value of these receivables approximated their carrying amounts as of June 30, 2015 and December 31, 2014.

8. Prepaid Expenses and Other Assets, Net

Prepaid expenses and other assets consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Lease incentives, net	\$ 12,964	\$ 13,344
Construction contract costs incurred in excess of billings	12,051	6,656
Prepaid expenses	8,882	20,570
Furniture, fixtures and equipment, net	6,340	6,637
Deferred tax asset, net (1)	4,064	4,002
Operating notes receivable	3,937	3,797
Deposit on acquisitions	2,016	516
Equity method investments	1,616	2,368
Other assets	3,267	2,359
Prepaid expenses and other assets, net	\$ 55,137	\$ 60,249

(1) Includes a valuation allowance of \$2.1 million.

Operating notes receivable reported above includes amounts due from tenants with remaining terms exceeding one year totaling \$3.9 million as of June 30, 2015 and \$3.6 million as of December 31, 2014; we carried allowances for estimated losses for \$312,000 of the June 30, 2015 balance and \$252,000 of the December 31, 2014 balance.

9. Debt, Net

Our debt consisted of the following (dollars in thousands):

	Maximum Availability at	Carrying Value at		Scheduled Maturity
	June 30, 2015	June 30, 2015	December 31, 2014	Stated Interest Rates as of June 30, 2015
Mortgage and Other Secured Loans:				as of June 30, 2015
Fixed rate mortgage loans (1)		\$384,227	\$387,139	3.96% - 10.65% (2)
Variable rate secured loan		36,457	36,877	LIBOR + 2.25% (3)
Total mortgage and other secured loans		420,684	424,016	
Revolving Credit Facility	\$800,000	—	83,000	LIBOR + 0.875% to 1.60% (4)
Term Loan Facilities	(5)	520,000	520,000	LIBOR + 0.90% to 2.60% (6)
Unsecured Senior Notes				
3.600% Senior Notes (7)		347,625	347,496	3.60%
5.250% Senior Notes (8)		245,980	245,797	5.25%
3.700% Senior Notes (9)		297,743	297,569	3.70%
5.000% Senior Note (10)		296,580	—	5.00%
Unsecured notes payable		1,558	1,607	0% (11)
4.25% Exchangeable Senior Notes (12)		—	572	N/A
Total debt, net		\$2,130,170	\$1,920,057	(12)

(1) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net unamortized premiums totaling \$30,000 as of June 30, 2015 and \$42,000 as of December 31, 2014.

(2) Includes a \$150.0 million nonrecourse mortgage loan in default secured by two operating properties in Northern Virginia with an aggregate estimated fair value that was less than the loan balance. This loan has an interest rate of 10.65% (including the effect of default interest). The maximum stated interest rate would be 7.87%, excluding the incremental additional interest rate associated with the default rate on the loan in default. The weighted average interest rate on our fixed rate mortgage loans was 8.11% as of June 30, 2015 (or 6.16% excluding the incremental additional interest rate associated with the default rate on the loan in default).

(3) The interest rate on the loan outstanding was 2.43% as of June 30, 2015.

(4) The weighted average interest rate on the Revolving Credit Facility was 1.37% as of June 30, 2015.

(5) We have the ability to borrow an additional \$380.0 million in the aggregate under these term loan facilities, provided that there is no default under the facilities and subject to the approval of the lenders.

(6) The weighted average interest rate on these loans was 1.77% as of June 30, 2015.

(7) The carrying value of these notes included a principal amount of \$350.0 million and an unamortized discount totaling \$2.4 million as of June 30, 2015 and \$2.5 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.

(8) The carrying value of these notes included a principal amount of \$250.0 million and an unamortized discount totaling \$4.0 million as of June 30, 2015 and \$4.2 million as of December 31, 2014. The effective interest rate

under the notes, including amortization of the issuance costs, was 5.49%.

The carrying value of these notes included a principal amount of \$300.0 million and an unamortized discount (9) totaling \$2.3 million as of June 30, 2015 and \$2.4 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.

(10) Refer to the paragraph below for disclosure pertaining to these notes.

These notes carry interest rates that were below market rates upon assumption and therefore were recorded at

(11) their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling \$603,000 as of June 30, 2015 and \$654,000 as of December 31, 2014.

(12) On April 20, 2015, we redeemed these notes at 100% of their principal amount.

All debt is owed by the Operating Partnership. While COPT is not directly obligated by any debt, it has guaranteed the Operating Partnership's Revolving Credit Facility, Term Loan Facilities and Unsecured Senior Notes.

On May 6, 2015, we entered into a credit agreement with a group of lenders for which KeyBanc Capital Markets and J.P. Morgan Securities LLC acted as joint lead arrangers and joint book runners, KeyBank National Association acted as administrative agent and JPMorgan Chase Bank, N.A. acted as syndication agent (the "Consolidated Credit Agreement") to amend, restate and consolidate the terms of our Revolving Credit Facility and one of our term loan facilities. In addition to consolidating the terms of these loan facilities, the Consolidated Credit Agreement included the following provisions:

For the Revolving Credit Facility:

an extension of the maturity date from July 14, 2017 to May 6, 2019, with the ability for us to further extend such maturity by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee based on the total availability of the facility for each extension;

changes to the interest terms of the facility such that the variable interest rate is based on LIBOR (customarily the 30-day rate) plus 0.875% to 1.600%, as determined by the credit ratings assigned to COPLP by Standard & Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch Ratings Ltd. (collectively, the "Ratings Agencies");

changes to the quarterly fee carried by the facility. Such fee is based on the average daily amount of the lenders' aggregate commitment multiplied by a per annum rate of 0.125% to 0.300%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies; and

certain changes to the financial covenants of the facility.

For the term loan facility:

an increase in the loan amount from \$250.0 million to \$300.0 million, with a right for us to borrow up to an additional \$200.0 million during the term for an aggregate maximum loan of \$500.0 million, subject to certain conditions. We used the proceeds from the \$50.0 million increase in the facility to repay a portion of another existing unsecured term loan;

an extension of the maturity date of the loan from February 14, 2017 to May 6, 2020;

changes to the interest terms of the facility such that the variable interest rate is based on LIBOR (customarily the 30-day rate) plus 0.900% to 1.850%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies; and

certain changes to the financial covenants of the facility.

On June 29, 2015 we issued a \$300.0 million aggregate principal amount of 5.00% Senior Notes at an initial offering price of 99.510% of their face value. The proceeds from this issuance, after deducting underwriting discounts, but before other offering expenses, were \$296.6 million. The notes mature on July 1, 2025. We may redeem the notes, in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (1) the aggregate principal amount of the notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to its present value, on a semi-annual basis at an adjusted treasury rate plus 45 basis points, plus accrued and unpaid interest thereon to the date of redemption. The notes are unconditionally guaranteed by COPT. However, if this redemption occurs on or after three months prior to the maturity date, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date. The carrying value of these notes reflects an unamortized discount totaling \$3.4 million at June 30, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.

We capitalized interest costs of \$2.0 million in the three months ended June 30, 2015, \$1.4 million in the three months ended June 30, 2014, \$4.1 million in the six months ended June 30, 2015 and \$3.0 million in the six months ended June 30, 2014.

The following table sets forth information pertaining to the fair value of our debt (in thousands):

	June 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	\$1,187,928	\$1,202,956	\$890,862	\$901,599
Other fixed-rate debt	385,785	345,066	389,318	356,377
Variable-rate debt	556,457	557,753	639,877	642,091
	\$2,130,170	\$2,105,775	\$1,920,057	\$1,900,067

10. Interest Rate Derivatives

The following table sets forth the key terms and fair values of our interest rate swap derivatives (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					June 30, 2015	December 31, 2014
\$100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	\$(110)	\$(407)
100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	(110)	(407)
36,457	(1) 3.8300%	One-Month LIBOR + 2.25%	11/2/2010	11/2/2015	(171)	(400)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	(405)	(317)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	(410)	(324)
100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	(849)	239
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(1,066)	35
					\$(3,121)	\$(1,581)

(1) The notional amount of this instrument is scheduled to amortize to \$36.2 million.

Each of the one-month LIBOR interest rate swaps set forth in the table above was designated as a cash flow hedge of interest rate risk.

The table below sets forth the fair value of our interest rate derivatives as well as their classification on our consolidated balance sheets (in thousands):

Derivatives	June 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets	\$—	Prepaid expenses and other assets	\$ 274
Interest rate swaps designated as cash flow hedges	Interest rate derivatives	(3,121)	Interest rate derivatives	(1,855)

The table below presents the effect of our interest rate derivatives on our consolidated statements of operations and comprehensive income (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Amount of gain (loss) recognized in accumulated other comprehensive loss ("AOCL") (effective portion)	\$392	\$(3,630)	\$(3,082)	\$(5,753)
Amount of losses reclassified from AOCL into interest expense (effective portion)	769	719	1,542	1,414

Over the next 12 months, we estimate that approximately \$3.3 million of losses will be reclassified from AOCL as an increase to interest expense.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on our derivative obligations. These agreements also incorporate the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparties. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of June 30, 2015, the fair value of interest rate derivatives in a liability position related to these agreements was \$3.1 million, excluding the effects of accrued interest. As of June 30, 2015, we had not posted any

collateral related to these agreements. We are not in default with any of these provisions. If we breached any of these provisions, we could be required to settle our obligations under the agreements at their termination value of \$3.4 million.

11. Redeemable Noncontrolling Interest

The table below sets forth the activity in a redeemable noncontrolling interest in a consolidated real estate joint venture (in thousands):

	For the Six Months Ended June 30,	
	2015	2014
Beginning balance	\$18,417	\$17,758
Distribution to noncontrolling interest	(885	) (590
Net income attributable to noncontrolling interest	1,143	1,016
Adjustment to arrive at fair value of interest	739	717
Ending balance	\$19,414	\$18,901

12. Equity

During the six months ended June 30, 2015, COPT issued 890,241 common shares at a weighted average price of \$30.29 per share under its at-the-market ("ATM") stock offering program established in October 2012. Net proceeds from the shares issued totaled \$26.6 million, after payment of \$0.4 million in commissions to sales agents. These net proceeds were contributed to COPLP in exchange for 890,241 common units. COPT's remaining capacity under the ATM Plan is an aggregate gross sales price of \$84.0 million in common share sales.

During the six months ended June 30, 2015, certain COPLP limited partners redeemed 158,000 common units in COPLP for an equal number of common shares in COPT.

See Note 14 for disclosure of COPT common share and COPLP common unit activity pertaining to our share-based compensation plans.

13. Information by Business Segment

We have ten reportable operating office property segments (comprised of: the Baltimore/Washington Corridor; Northern Virginia; San Antonio; Huntsville; Washington, DC — Capitol Riverfront; St. Mary's and King George Counties; Greater Baltimore; Greater Philadelphia; Colorado Springs; and Other). In our 2015 quarterly reports on Form 10-Q, our Colorado Springs segment is, and will be, included in our Other segment as it is insignificant in the 2014 and 2015 reporting periods. We also have an operating wholesale data center segment. The table below reports segment financial information for our reportable segments (in thousands). We measure the performance of our segments through the measure we define as NOI from real estate operations, which is derived by subtracting property operating expenses from revenues from real estate operations.

	Operating Office Property Segments										Operating Wholesale Data Center	Total
	Baltimore/ Washington Corridor	Northern Virginia	San Antonio	Huntsville	Washington DC - Cap Riverfront	St. Mary's & King George Counties	Greater Baltimore	Greater Philadelphia	Other			
Three Months June 30, 2015												
Revenues from real estate operations	\$60,611	\$24,393	\$10,204	\$2,658	\$3,391	\$3,795	\$12,889	\$3,886	\$2,548	\$3,820	\$12,889	\$12,889
Property operating expenses	19,539	8,687	5,615	888	2,061	1,329	4,909	941	217	2,221	4,909	46,408
NOI from real estate operations	\$41,072	\$15,706	\$4,589	\$1,770	\$1,330	\$2,466	\$7,980	\$2,945	\$2,331	\$1,599	\$7,980	\$81,481
Additions to long-lived assets	\$5,141	\$84,582	\$—	\$208	\$806	\$963	\$2,476	\$284	\$177	\$78	\$2,476	\$94,007
Transfers from non-operating properties	\$6,098	\$8,646	\$468	\$8,980	\$—	\$—	\$12	\$5,218	\$—	\$15,202	\$15,202	\$44,114
Three Months Ended June 30, 2014				—								
Revenues from real estate operations	\$57,456	\$20,898	\$8,758	\$2,404	\$3,831	\$4,202	\$11,024	\$2,366	\$2,533	\$2,492	\$11,024	\$11,024
Property operating expenses	19,348	7,651	4,817	859	1,754	1,289	4,500	1,144	613	1,881	4,500	43,842
NOI from real estate operations	\$38,108	\$13,247	\$3,941	\$1,545	\$2,077	\$2,913	\$6,524	\$1,222	\$1,920	\$611	\$6,524	\$72,182
Additions to long-lived assets	\$6,289	\$4,805	\$—	\$334	\$478	\$943	\$1,242	\$88	\$(93)	\$10	\$1,242	\$14,006

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

Transfers from non-operating properties	\$20,712	\$683	\$—	\$223	\$—	\$—	\$2,953	\$10,198	\$19	\$597	\$35
Six Months Ended June 30, 2015											
Revenues from real estate operations	\$122,403	\$46,142	\$19,375	\$5,104	\$6,755	\$7,696	\$24,374	\$7,110	\$5,091	\$6,855	\$25
Property operating expenses	43,122	17,808	10,590	1,717	3,875	2,913	9,906	2,316	413	4,433	97,0
NOI from real estate operations	\$79,281	\$28,334	\$8,785	\$3,387	\$2,880	\$4,783	\$14,468	\$4,794	\$4,678	\$2,422	\$15
Additions to long-lived assets	\$8,586	\$87,403	\$21	\$291	\$1,199	\$2,163	\$66,080	\$578	\$257	\$108	\$16
Transfers from non-operating properties	\$19,028	\$67,217	\$31,559	\$11,977	\$—	\$—	\$12	\$16,716	\$8	\$15,379	\$16
Segment assets at June 30, 2015	\$1,279,531	\$780,250	\$147,844	\$107,677	\$94,099	\$100,665	\$332,973	\$123,112	\$76,943	\$175,563	\$3,2
Six Months Ended June 30, 2014											
Revenues from real estate operations	\$118,569	\$45,866	\$17,237	\$4,959	\$7,465	\$8,518	\$22,520	\$5,706	\$5,127	\$4,893	\$24
Property operating expenses	42,945	16,624	9,291	1,512	3,519	2,793	9,976	2,444	935	3,569	93,6
NOI from real estate operations	\$75,624	\$29,242	\$7,946	\$3,447	\$3,946	\$5,725	\$12,544	\$3,262	\$4,192	\$1,324	\$14
Additions to long-lived assets	\$12,030	\$8,300	\$(6)	\$2,841	\$541	\$1,782	\$2,254	\$99	\$(38)	\$22	\$27
Transfers from non-operating properties	\$27,623	\$27,271	\$—	\$20,325	\$—	\$—	\$3,027	\$13,374	\$30	\$675	\$92
Segment assets at June 30, 2014	\$1,259,974	\$634,834	\$117,328	\$97,838	\$97,136	\$95,553	\$300,139	\$104,436	\$78,918	\$165,143	\$2,9

The following table reconciles our segment revenues to total revenues as reported on our consolidated statements of operations (in thousands):

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Segment revenues from real estate operations	\$128,195	\$115,964	\$250,905	\$240,860
Construction contract and other service revenues	42,172	23,861	80,496	45,651
Less: Revenues from discontinued operations	(4	) (5	) (4	) (24
Total revenues	\$170,363	\$139,820	\$331,397	\$286,487

The following table reconciles our segment property operating expenses to property operating expenses as reported on our consolidated statements of operations (in thousands):

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Segment property operating expenses	\$46,407	\$43,856	\$97,093	\$93,608
Less: Property operating expenses from discontinued operations	11	(84	) 6	(64
Total property operating expenses	\$46,418	\$43,772	\$97,099	\$93,544

As previously discussed, we provide real estate services such as property management and construction and development services primarily for our properties but also for third parties. The primary manner in which we evaluate the operating performance of our service activities is through a measure we define as net operating income from service operations (“NOI from service operations”), which is based on the net of revenues and expenses from these activities. Construction contract and other service revenues and expenses consist primarily of subcontracted costs that are reimbursed to us by the customer along with a management fee. The operating margins from these activities are small relative to the revenue. We believe NOI from service operations is a useful measure in assessing both our level of activity and our profitability in conducting such operations. The table below sets forth the computation of our NOI from service operations (in thousands):

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Construction contract and other service revenues	\$42,172	\$23,861	\$80,496	\$45,651
Construction contract and other service expenses	(41,293	) (23,136	) (78,791	) (41,760
NOI from service operations	\$879	\$725	\$1,705	\$3,891

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

The following table reconciles our NOI from real estate operations for reportable segments and NOI from service operations to income from continuing operations as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
NOI from real estate operations	\$81,788	\$72,108	\$153,812	\$147,252
NOI from service operations	879	725	1,705	3,891
Interest and other income	1,242	1,299	2,525	2,584
Equity in income (loss) of unconsolidated entities	9	(47)	34	13
Income tax expense	(50)	(92)	(105)	(156)
Other adjustments:	—	—	—	—
Depreciation and other amortization associated with real estate operations	(33,786)	(30,895)	(65,385)	(74,491)
Impairment losses	(1,238)	(1,302)	(1,238)	(1,302)
General, administrative and leasing expenses	(7,534)	(7,528)	(15,425)	(15,671)
Business development expenses and land carry costs	(2,623)	(1,351)	(5,413)	(2,677)
Interest expense	(21,768)	(23,478)	(42,606)	(44,305)
Less: NOI from discontinued operations	(15)	79	(10)	40
Loss on early extinguishment of debt	(65)	(270)	(68)	(270)
Income from continuing operations	\$16,839	\$9,248	\$27,826	\$14,908

The following table reconciles our segment assets to the consolidated total assets of COPT and subsidiaries (in thousands):

	June 30, 2015	June 30, 2014
Segment assets	\$3,218,657	\$2,951,299
Non-operating property assets	527,742	535,462
Other assets	164,522	222,739
Total COPT consolidated assets	\$3,910,921	\$3,709,500

The accounting policies of the segments are the same as those used to prepare our consolidated financial statements, except that discontinued operations are not presented separately for segment purposes. In the segment reporting presented above, we did not allocate interest expense, depreciation and amortization, impairment losses, loss on early extinguishment of debt and gain on sales of real estate to our real estate segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate general and administrative expenses, business development expenses and land carry costs, interest and other income, equity in income (loss) of unconsolidated entities, income taxes and noncontrolling interests because these items represent general corporate or non-operating property items not attributable to segments.

14. Share-Based Compensation

Performance Share Units (“PSUs”)

On March 5, 2015, our Board of Trustees granted 45,656 PSUs with an aggregate grant date fair value of \$1.7 million to executives. The PSUs have a performance period beginning on January 1, 2015 and concluding on the earlier of December 31, 2017 or the date of: (1) termination by us without cause, death or disability of the executive or constructive discharge of the executive (collectively, “qualified termination”); or (2) a sale event. The number of PSUs

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

earned (“earned PSUs”) at the end of the performance period will be determined based on the percentile rank of COPT’s total shareholder return relative to a peer group of companies, as set forth in the following schedule:

Percentile Rank	Earned PSUs Payout %
75th or greater	200% of PSUs granted
50th or greater	100% of PSUs granted
25th	50% of PSUs granted
Below 25th	0% of PSUs granted

If the percentile rank exceeds the 25th percentile and is between two of the percentile ranks set forth in the table above, then the percentage of the earned PSUs will be interpolated between the ranges set forth in the table above to reflect any performance

between the listed percentiles. At the end of the performance period, we, in settlement of the award, will issue a number of fully-vested COPT common shares equal to the sum of:

the number of earned PSUs in settlement of the award plan; plus
the aggregate dividends that would have been paid with respect to the common shares issued in settlement of the earned PSUs through the date of settlement had such shares been issued on the grant date, divided by the share price on such settlement date, as defined under the terms of the agreement.

If a service period ends due to a sale event or qualified termination, the number of earned PSUs is prorated based on the portion of the service period that has elapsed. If employment is terminated by the employee or by us for cause, all PSUs are forfeited. PSUs do not carry voting rights.

We computed a grant date fair value of \$36.76 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$29.28; expected volatility for COPT common shares of 19.9%; and a risk-free interest rate of 0.99%. We are recognizing the grant date fair value in connection with these PSU awards over the period commencing on March 6, 2015 and ending on December 31, 2017.

With regard to the PSUs granted to our executives in prior years that were outstanding as of December 31, 2014 as described in our 2014 Annual Report on Form 10-K:

the performance period for the PSUs granted to executives on March 1, 2012 ended on December 31, 2014. Based on COPT's total shareholder return during the performance period relative to its peer group of companies, we issued 40,309 common shares in settlement of the PSUs on March 5, 2015; and we issued 15,289 common shares on March 5, 2015 to Mr. Stephen E. Riffée, our former Chief Financial Officer, upon his departure on February 3, 2015, in settlement of PSUs granted on March 1, 2013 and March 6, 2014.

Restricted Shares

During the six months ended June 30, 2015, certain employees were granted a total of 184,074 restricted common shares with an aggregate grant date fair value of \$5.4 million (weighted average of \$29.35 per share). Restricted shares granted to employees vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employees remain employed by us. During the six months ended June 30, 2015, forfeiture restrictions lapsed on 149,787 previously issued common shares; these shares had a weighted average grant date fair value of \$25.96 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$4.3 million.

Deferred Share Awards

During the six months ended June 30, 2015, nonemployee members of our Board of Trustees were granted a total of 24,056 deferred share awards with an aggregate grant date fair value of \$642,000 (\$26.70 per share). Deferred share awards vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position. We settle deferred share awards by issuing an equivalent number of common shares upon vesting of the awards or a later date elected by the Trustee (generally upon cessation of being a Trustee). During the six months ended June 30, 2015, we issued 15,485 common shares in settlement of deferred share awards granted in 2014; these shares had a grant date fair value of \$26.77 per share, and the aggregate intrinsic value of the shares on the settlement date was \$413,000.

Options

During the six months ended June 30, 2015, 76,474 options to purchase common shares (“options”) were exercised. The weighted average exercise price of these options was \$26.27 per share, and the aggregate intrinsic value of the options exercised was \$300,000.

15. Income Taxes

We own a TRS that is subject to Federal and state income taxes. Our TRS's provision for income taxes consisted of the following (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Deferred				
Federal	\$41	\$79	\$86	\$132
State	9	13	19	24
Total income tax expense	\$50	\$92	\$105	\$156

Items in our TRS contributing to temporary differences that lead to deferred taxes include depreciation and amortization, share-based compensation, certain accrued compensation, compensation paid in the form of contributions to a deferred nonqualified compensation plan and net operating losses that are not deductible until future periods.

Our TRS's combined Federal and state effective tax rate was 37.7% for the three and six months ended June 30, 2015 and 37.4% for the three and six months ended June 30, 2014.

16. Earnings Per Share ("EPS") and Earnings Per Unit ("EPU")

COPT and Subsidiaries EPS

We present both basic and diluted EPS. We compute basic EPS by dividing net income available to common shareholders allocable to unrestricted common shares under the two-class method by the weighted average number of unrestricted common shares outstanding during the period. Our computation of diluted EPS is similar except that:

the denominator is increased to include: (1) the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into COPT common shares were converted; and (2) the effect of dilutive potential common shares outstanding during the period attributable to share-based compensation using the treasury stock or if-converted methods; and
the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion into common shares that we added to the denominator.

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

Summaries of the numerator and denominator for purposes of basic and diluted EPS calculations are set forth below (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations	\$16,839	\$9,248	\$27,826	\$14,908
Gain on sales of real estate, net	(1)	—	3,985	—
Preferred share dividends	(3,553)	(4,344)	(7,105)	(8,834)
Issuance costs associated with redeemed preferred shares	—	(1,769)	—	(1,769)
Income from continuing operations attributable to noncontrolling interests	(1,436)	(1,171)	(2,828)	(2,103)
Income from continuing operations attributable to share-based compensation awards	(113)	(108)	(235)	(229)
Numerator for basic and diluted EPS from continuing operations attributable to COPT common shareholders	\$11,736	\$1,856	\$21,643	\$1,973
Discontinued operations	394	(198)	156	(187)
Discontinued operations attributable to noncontrolling interests	(15)	11	(3)	13
Numerator for basic and diluted EPS on net income attributable to COPT common shareholders	\$12,115	\$1,669	\$21,796	\$1,799
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	94,128	87,214	93,666	87,148
Dilutive effect of share-based compensation awards	35	201	114	156
Denominator for diluted EPS (common shares)	94,163	87,415	93,780	87,304
Basic EPS:				
Income from continuing operations attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations attributable to COPT common shareholders	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02
Diluted EPS:				
Income from continuing operations attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations attributable to COPT common shareholders	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.13	\$0.02	\$0.23	\$0.02

Our diluted EPS computations do not include the effects of the following securities since the conversions of such securities would increase diluted EPS for the respective periods (in thousands):

	Weighted Average Shares Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Conversion of common units	3,680	3,912	3,706	3,934
Conversion of Series I Preferred Units	176	176	176	176
Conversion of Series K Preferred Shares	434	434	434	434

The following share-based compensation securities were excluded from the computation of diluted EPS because their effects were antidilutive:

•

weighted average restricted shares and deferred share awards for the three months ended June 30, 2015 and 2014 of 426,000 and 420,000, respectively, and for the six months ended June 30, 2015 and 2014 of 413,000 and 405,000, respectively; and

weighted average options for the three months ended June 30, 2015 and 2014 of 473,000 and 496,000, respectively, and for the six months ended June 30, 2015 and 2014 of 472,000 and 512,000, respectively.

As discussed in Note 9, we had outstanding senior notes, which we redeemed in April 2015, with an exchange settlement feature, but such notes did not affect our diluted EPS reported above since the weighted average closing price of COPT's common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

COPLP and Subsidiaries EPU

We present both basic and diluted EPU. We compute basic EPU by dividing net income available to common unitholders allocable to unrestricted common units under the two-class method by the weighted average number of unrestricted common units outstanding during the period. Our computation of diluted EPU is similar except that:

the denominator is increased to include: (1) the weighted average number of potential additional common units that would have been outstanding if securities that are convertible into our common units were converted; and (2) the effect of dilutive potential common units outstanding during the period attributable to share-based compensation using the treasury stock or if-converted methods; and the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion into common units that we added to the denominator.

Summaries of the numerator and denominator for purposes of basic and diluted EPU calculations are set forth below (in thousands, except per unit data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations	\$16,839	\$9,248	\$27,826	\$14,908
Gain on sales of real estate, net	(1)	—	3,985	—
Preferred unit distributions	(3,718)	(4,509)	(7,435)	(9,164)
Issuance costs associated with redeemed preferred units	—	(1,769)	—	(1,769)
Income from continuing operations attributable to noncontrolling interests	(812)	(840)	(1,633)	(1,579)
Income from continuing operations attributable to share-based compensation awards	(113)	(108)	(235)	(229)
Numerator for basic and diluted EPU from continuing operations attributable to COPLP common unitholders	\$12,195	\$2,022	\$22,508	\$2,167
Discontinued operations	394	(198)	156	(187)
Discontinued operations attributable to noncontrolling interests	—	3	3	5
Numerator for basic and diluted EPU on net income attributable to COPLP common unitholders	\$12,589	\$1,827	\$22,667	\$1,985
Denominator (all weighted averages):				
Denominator for basic EPU (common units)	97,808	91,126	97,372	91,082
Dilutive effect of share-based compensation awards	35	201	114	156
Denominator for basic and diluted EPU (common units)	97,843	91,327	97,486	91,238
Basic EPU:				
Income from continuing operations attributable to COPLP common unitholders	\$0.13	\$0.02	\$0.23	\$0.02
Discontinued operations attributable to COPLP common unitholders	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.13	\$0.02	\$0.23	\$0.02
Diluted EPU:				
	\$0.13	\$0.02	\$0.23	\$0.02

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

Income from continuing operations attributable to COPLP common unitholders

Discontinued operations attributable to COPLP common unitholders	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.13	\$0.02	\$0.23	\$0.02

33

Our diluted EPU computations do not include the effects of the following securities since the conversions of such securities would increase diluted EPU for the respective periods (in thousands):

	Weighted Average Units Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Conversion of Series I preferred units	176	176	176	176
Conversion of Series K preferred units	434	434	434	434

The following share-based compensation securities were excluded from the computation of diluted EPU because their effects were antidilutive:

weighted average restricted units and deferred share awards for the three months ended June 30, 2015 and 2014 of 426,000 and 420,000, respectively, and for the six months ended June 30, 2015 and 2014 of 413,000 and 405,000, respectively; and

weighted average options for the three months ended June 30, 2015 and 2014 of 473,000 and 496,000, respectively, and for the six months ended June 30, 2015 and 2014 of 472,000 and 512,000, respectively.

As discussed in Note 9, we had outstanding senior notes, which we redeemed in April 2015, with an exchange settlement feature, but such notes did not affect our diluted EPU reported above since the weighted average closing price of COPT's common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

17. Commitments and Contingencies

Litigation

In the normal course of business, we are involved in legal actions arising from our ownership and administration of properties. We establish reserves for specific legal proceedings when we determine that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Management does not anticipate that any liabilities that may result from such proceedings will have a materially adverse effect on our financial position, operations or liquidity. Our assessment of the potential outcomes of these matters involves significant judgment and is subject to change based on future developments.

Environmental

We are subject to various Federal, state and local environmental regulations related to our property ownership and operation. We have performed environmental assessments of our properties, the results of which have not revealed any environmental liability that we believe would have a materially adverse effect on our financial position, operations or liquidity.

Tax Incremental Financing Obligation

In August 2010, Anne Arundel County, Maryland issued \$30 million in tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as National Business Park North. The real estate taxes on increases in assessed value of a development district encompassing National Business Park North are to be transferred to a special fund pledged to the repayment of the bonds. We recognized a \$2.4 million liability through June 30, 2015 representing our estimated obligation to fund through a special tax any future shortfalls between debt service on the bonds and real estate taxes available to repay the bonds.

Environmental Indemnity Agreement

We agreed to provide certain environmental indemnifications in connection with a lease and subsequent sale of three New Jersey properties. The prior owner of the properties, a Fortune 100 company that is responsible for groundwater contamination at such properties, previously agreed to indemnify us for (1) direct losses incurred in connection with the contamination and (2) its failure to perform remediation activities required by the State of New Jersey, up to the point that the state declares the remediation to be complete. Under the environmental indemnification agreement, we agreed to the following:

34

to indemnify the tenant against losses covered under the prior owner's indemnity agreement if the prior owner fails to indemnify the tenant for such losses. This indemnification is capped at \$5.0 million in perpetuity after the State of New Jersey declares the remediation to be complete;

- to indemnify the tenant for consequential damages (e.g., business interruption) at one of the buildings in perpetuity and another of the buildings through 2025. This indemnification is limited to \$12.5 million; and to pay 50% of additional costs related to construction and environmental regulatory activities incurred by the tenant as a result of the indemnified environmental condition of the properties. This indemnification is limited to \$300,000 annually and \$1.5 million in the aggregate.

18. Subsequent Event

On July 27, 2015 we sold 1550 Westbranch Drive, a 160,000 square foot office property in McLean, Virginia (in the Northern Virginia region), for \$27.8 million, which approximated the property's carrying value.

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

Overview

During the six months ended June 30, 2015:

- we finished the period with occupancy of our portfolio of operating office properties at 92.0%;
- we leased 11.25 megawatts in our wholesale data center;
- we acquired:
 - 250 W. Pratt Street, a 367,000 square foot property in Greater Baltimore that was 96.2% leased, for \$61.9 million on March 19, 2015 primarily using borrowings from our Revolving Credit Facility; and
 - 2600 Park Tower Drive, a 237,000 square foot property in Northern Virginia that was 100% leased, for \$80.5 million on April 15, 2015 primarily using borrowings from our Revolving Credit Facility;
- we placed into service an aggregate of 620,000 square feet in four newly constructed properties and one redeveloped property that were 100.0% leased as of June 30, 2015;
- we sold land for \$18.1 million, using most of the resulting proceeds for general corporate purposes;
- we issued a \$300.0 million aggregate principal amount of 5.00% Senior Notes on June 29, 2015 at an initial offering price of 99.510% of their face value. The proceeds from the issuance, after deducting underwriting discounts but before other offering expenses, were approximately \$296.6 million. The net proceeds from this issuance were used primarily to repay borrowings under our Revolving Credit Facility; and
- COPT issued 890,241 common shares at a weighted average price of \$30.29 per share under its at-the-market stock offering program established in October 2012. Net proceeds from the shares issued totaled \$26.6 million. The net proceeds from the shares issued were contributed to COPLP in exchange for 890,241 common units, and used by COPLP for general corporate purposes.

Subsequent to June 30, 2015, we sold 1550 Westbranch Drive, a 160,000 square foot office property in Northern Virginia, for \$27.8 million. The net proceeds from this sale were used primarily to repay borrowings under our Revolving Credit Facility.

We discuss significant factors contributing to changes in our net income in the section below entitled "Results of Operations." The results of operations discussion is combined for COPT and COPLP because there are no material differences in the results of operations between the two reporting entities.

In addition, the section below entitled "Liquidity and Capital Resources" includes discussions of, among other things:

- how we expect to generate cash for short and long-term capital needs; and
- our commitments and contingencies.

You should refer to our consolidated financial statements and the notes thereto as you read this section.

This section contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "could," "believe," "anticipate," "expect," "estimate," "plan" or other comparable terms. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect

these expectations, estimates and projections include, but are not limited to:

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to borrow on favorable terms;

risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;

risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;

- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;

our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;

the dilutive effects of issuing additional common shares;

our ability to achieve projected results; and

environmental requirements.

We undertake no obligation to update or supplement forward-looking statements.

Occupancy and Leasing

Office Properties

The tables below set forth occupancy information pertaining to our portfolio of operating office properties. All of our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Quarterly Report on Form 10-Q exclude the effect of the two properties serving as collateral for debt that is in default that we expect to extinguish via conveyance to the lender of such properties (totaling 665,000 square feet that were 25.4% occupied as of June 30, 2015); effective April 1, 2014, all cash flows from such properties belong to the lender.

	June 30, 2015	December 31, 2014	
Occupancy rates at period end			
Total	92.0	% 90.9	%
Baltimore/Washington Corridor	94.5	% 93.4	%
Northern Virginia	89.5	% 86.8	%
San Antonio	97.1	% 96.6	%
Huntsville	93.9	% 80.8	%
Washington, DC - Capitol Riverfront	70.6	% 74.4	%
St. Mary's and King George Counties	80.2	% 90.8	%
Greater Baltimore	88.6	% 86.8	%
Greater Philadelphia	99.8	% 96.2	%
Other	100.0	% 100.0	%
Average contractual annual rental rate per square foot at period end (1)	\$29.63	\$29.27	

(1) Includes estimated expense reimbursements.

	Rentable Square Feet (in thousands)	Occupied Square Feet
December 31, 2014	16,790	15,255
Square feet vacated upon lease expiration (1)	—	(264)
Occupancy of previously vacated space in connection with new leases (2)	—	249
Square feet constructed or redeveloped	620	718
Acquisitions	604	587
Square feet removed from operations for redevelopment	(22)	—

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

Other changes	(5	) 1
June 30, 2015	17,987	16,546

(1) Includes lease terminations and space reductions occurring in connection with lease renewals.

(2) Excludes occupancy of vacant square feet acquired or developed.

Occupancy of our Same Office Properties increased from 90.8% as of December 31, 2014 to 91.2% as of June 30, 2015.

37

During the six months ended June 30, 2015, we completed 1.1 million square feet of leasing, including 346,000 of construction and redevelopment space, and renewed 67.7% of the square footage of our lease expirations (including the effect of early renewals).

Wholesale Data Center Property

Our wholesale data center property is expected to have a critical load of 19.25 megawatts upon completion. In February 2015, we leased 11.25 megawatts, with occupancy commencing in stages during 2015. As of June 30, 2015, the property had 12.5 megawatts in operations, of which 11.06 were leased to tenants with further expansion rights of up to a combined 12.12 megawatts, and 6.75 fully-leased megawatts under development expected to be placed in service later in 2015.

Results of Operations

We evaluate the operating performance of our properties using NOI from real estate operations, our segment performance measure derived by subtracting property operating expenses from revenues from real estate operations. We view our NOI from real estate operations as comprising the following primary categories of operating properties:

- office properties owned and 100% operational throughout the current and prior year reporting periods, excluding properties held for future disposition. We define these as changes from “Same Office Properties”;
- office properties acquired during the current and prior year reporting periods;
- constructed or redeveloped office properties placed into service that were not 100% operational throughout the current and prior year reporting periods;
- properties held for sale as of June 30, 2015;
- two properties that we expect to convey to a mortgage holder; and
- property dispositions.

In addition to owning properties, we provide construction management and other services. The primary manner in which we evaluate the operating performance of our construction management and other service activities is through a measure we define as NOI from service operations, which is based on the net of the revenues and expenses from these activities. The revenues and expenses from these activities consist primarily of subcontracted costs that are reimbursed to us by customers along with a management fee. The operating margins from these activities are small relative to the revenue. We believe NOI from service operations is a useful measure in assessing both our level of activity and our profitability in conducting such operations.

We believe that operating income, as reported on our consolidated statements of operations, is the most directly comparable generally accepted accounting principles (“GAAP”) measure for both NOI from real estate operations and NOI from service operations. Since both of these measures exclude certain items includable in operating income, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures.

The table below reconciles NOI from real estate operations and NOI from service operations to operating income reported on the consolidated statements of operations of COPT and subsidiaries:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
NOI from real estate operations	\$81,788	\$72,108	\$153,812	\$147,252
NOI from service operations	879	725	1,705	3,891
Less: NOI from discontinued operations	(15	) 79	(10	) 40
Depreciation and amortization associated with real estate operations	(33,786	) (30,895	) (65,385	) (74,491
Impairment losses	(1,238	) (1,302	) (1,238	) (1,302
General, administrative and leasing expenses	(7,534	) (7,528	) (15,425	) (15,671
Business development expenses and land carry costs	(2,623	) (1,351	) (5,413	) (2,677
Operating income	\$37,471	\$31,836	\$68,046	\$57,042

Comparison of Statements of Operations for the Three Months Ended June 30, 2015 and 2014

	For the Three Months Ended June 30,		
	2015	2014	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$128,191	\$115,959	\$12,232
Construction contract and other service revenues	42,172	23,861	18,311
Total revenues	170,363	139,820	30,543
Expenses			
Property operating expenses	46,418	43,772	2,646
Depreciation and amortization associated with real estate operations	33,786	30,895	2,891
Construction contract and other service expenses	41,293	23,136	18,157
Impairment losses	1,238	1,302	(64
General, administrative and leasing expenses	7,534	7,528	6
Business development expenses and land carry costs	2,623	1,351	1,272
Total operating expenses	132,892	107,984	24,908
Operating income	37,471	31,836	5,635
Interest expense	(21,768	) (23,478	) 1,710
Interest and other income	1,242	1,299	(57
Loss on early extinguishment of debt	(65	) (270	) 205
Equity in income (loss) of unconsolidated entities	9	(47	) 56
Income tax expense	(50	) (92	) 42
Income from continuing operations	16,839	9,248	7,591
Discontinued operations	394	(198	) 592
Gain on sales of real estate	(1	) —	(1
Net income	\$17,232	\$9,050	\$8,182

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

NOI from Real Estate Operations

	For the Three Months Ended June 30,		
	2015	2014	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	\$85,893	\$84,954	\$939
Lease termination revenue	662	80	582
Tenant recoveries and other real estate operations revenue	20,597	20,496	101
Same Office Properties total revenues	107,152	105,530	1,622
Constructed office properties placed in service			
Wholesale data center	3,820	2,492	1,328
Acquired office properties	3,950	—	3,950
Properties held for sale	3,797	3,751	46
Properties to be conveyed	2,130	1,859	271
Dispositions	5	757	(752)
Other	189	(35)	224
	128,195	115,964	12,231
Property operating expenses			
Same Office Properties			
Constructed office properties placed in service	1,761	529	1,232
Wholesale data center	2,221	1,881	340
Acquired office properties	1,385	—	1,385
Properties held for sale	1,104	1,264	(160)
Properties to be conveyed	1,287	1,327	(40)
Dispositions	(2)	448	(450)
Other	(264)	735	(999)
	46,407	43,856	2,551
NOI from real estate operations			
Same Office Properties			
Constructed office properties placed in service	5,391	1,081	4,310
Wholesale data center	1,599	611	988
Acquired office properties	2,565	—	2,565
Properties held for sale	2,693	2,487	206
Properties to be conveyed	843	532	311
Dispositions	7	309	(302)
Other	453	(770)	1,223
	\$81,788	\$72,108	\$9,680
Same Office Properties rent statistics			
Average occupancy rate	90.9	% 90.5	% 0.4
Average straight-line rent per occupied square foot (1)	\$6.09	\$6.06	\$0.03

(1) Includes minimum base rents, net of abatements, and lease incentives on a straight-line basis for the three-month periods set forth above.

Our Same Office Properties pool consisted of 160 office properties, comprising 86.2% of our operating office square footage as of June 30, 2015. This pool of properties changed from the pool used for purposes of comparing 2014 and 2013 in our 2014 Annual Report on Form 10-K due to the addition of eight properties placed in service and 100% operational by January 1, 2014 and the removal of seven properties reclassified to held for sale in 2015 and one

property reclassified as redevelopment in 2015.

Our NOI from constructed office properties placed in service included ten properties placed in service in 2014 and 2015, and our NOI from acquired office properties included our acquisitions of 250 W. Pratt Street and 2600 Park Tower Drive.

NOI from Service Operations

	For the Three Months Ended June 30,		
	2015	2014	Variance
	(in thousands)		
Construction contract and other service revenues	\$42,172	\$23,861	\$18,311
Construction contract and other service expenses	41,293	23,136	18,157
NOI from service operations	\$879	\$725	\$154

Construction contract and other service revenue and expenses increased due primarily to a higher volume of construction activity in connection with several of our tenants. Construction contract activity is inherently subject to significant variability depending on the volume and nature of projects undertaken by us (primarily on behalf of tenants). Service operations are an ancillary component of our overall operations that should contribute little operating income relative to our real estate operations.

Comparison of Statements of Operations for the Six Months Ended June 30, 2015 and 2014

	For the Six Months Ended June 30,		
	2015	2014	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$250,901	\$240,836	\$10,065
Construction contract and other service revenues	80,496	45,651	34,845
Total revenues	331,397	286,487	44,910
Expenses			
Property operating expenses	97,099	93,544	3,555
Depreciation and amortization associated with real estate operations	65,385	74,491	(9,106)
Construction contract and other service expenses	78,791	41,760	37,031
Impairment losses	1,238	1,302	(64)
General, administrative and leasing expenses	15,425	15,671	(246)
Business development expenses and land carry costs	5,413	2,677	2,736
Total operating expenses	263,351	229,445	33,906
Operating income	68,046	57,042	11,004
Interest expense	(42,606)	(44,305)	1,699
Interest and other income	2,525	2,584	(59)
Loss on early extinguishment of debt	(68)	(270)	202
Equity in income of unconsolidated entities	34	13	21
Income tax expense	(105)	(156)	51
Income from continuing operations	27,826	14,908	12,918
Discontinued operations	156	(187)	343
Gain on sales of real estate	3,985	—	3,985
Net income	\$31,967	\$14,721	\$17,246

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

NOI from Real Estate Operations

	For the Six Months Ended June 30,		
	2015	2014	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	\$ 170,949	\$ 169,817	\$ 1,132
Lease termination revenue	1,264	555	709
Tenant recoveries and other real estate operations revenue	43,580	45,099	(1,519)
Same Office Properties total revenues	215,793	215,471	322
Constructed office properties placed in service	12,127	3,080	9,047
Wholesale data center	6,855	4,893	1,962
Acquired office properties	4,282	—	4,282
Properties held for sale	7,489	7,833	(344)
Properties to be conveyed	3,991	7,253	(3,262)
Dispositions	9	1,482	(1,473)
Other	359	848	(489)
	250,905	240,860	10,045
Property operating expenses			
Same Office Properties	82,277	80,992	1,285
Constructed office properties placed in service	3,051	971	2,080
Wholesale data center	4,433	3,569	864
Acquired office properties	1,547	—	1,547
Properties held for sale	2,517	2,761	(244)
Properties to be conveyed	3,238	3,147	91
Dispositions	(4)	950	(954)
Other	34	1,218	(1,184)
	97,093	93,608	3,485
NOI from real estate operations			
Same Office Properties	133,516	134,479	(963)
Constructed office properties placed in service	9,076	2,109	6,967
Wholesale data center	2,422	1,324	1,098
Acquired office properties	2,735	—	2,735
Properties held for sale	4,972	5,072	(100)
Properties to be conveyed	753	4,106	(3,353)
Dispositions	13	532	(519)
Other	325	(370)	695
	\$ 153,812	\$ 147,252	\$ 6,560
Same Office Properties rent statistics			
Average occupancy rate	90.7	% 90.6	% 0.1 %
Average straight-line rent per occupied square foot (1)	\$ 12.15	\$ 12.10	\$ 0.05

(1) Includes minimum base rents, net of abatements, and lease incentives on a straight-line basis for the three-month periods set forth above.

Our NOI from constructed office properties placed in service included ten properties placed in service in 2014 and 2015, and our NOI from acquired office properties included our acquisitions of 250 W. Pratt Street and 2600 Park Tower Drive.

The increase in NOI from our wholesale data center was attributable primarily to higher occupancy in the current period.

The decrease in NOI from our properties to be conveyed was attributable primarily to significantly lower occupancy in the current period.

NOI from Service Operations

	For the Six Months Ended June 30,		
	2015	2014	Variance
	(in thousands)		
Construction contract and other service revenues	\$80,496	\$45,651	\$34,845
Construction contract and other service expenses	78,791	41,760	37,031
NOI from service operations	\$1,705	\$3,891	\$(2,186)

Construction contract and other service revenue and expenses increased due primarily to a higher volume of construction activity in connection with several of our tenants.

Depreciation and Amortization Expense

The decrease in depreciation and amortization expense was attributable primarily to \$12.9 million in additional expenses recognized in the prior period resulting from our revision of the useful life of a property that was removed from service for redevelopment.

Business Development Expenses and Land Carry Costs

The increase in business development expenses and land carry costs was due in large part to \$1.4 million in acquisition costs expensed in connection with our acquisitions in the current period.

Gain on Sales of Real Estate

We recognized gain on sales of real estate of \$4.0 million in the current period pertaining to sales of land in the Greater Baltimore region.

Funds from Operations

Funds from operations (“FFO”) is defined as net income computed using GAAP, excluding gains on sales of, and impairment losses on, previously depreciated operating properties, plus real estate-related depreciation and amortization. When multiple properties consisting of both operating and non-operating properties exist on a single tax parcel, we classify all of the gains on sales of, and impairment losses on, the tax parcel as all being for previously depreciated operating properties when most of the value of the parcel is associated with operating properties on the parcel. We believe that we use the National Association of Real Estate Investment Trusts (“NAREIT”) definition of FFO, although others may interpret the definition differently and, accordingly, our presentation of FFO may differ from those of other REITs. We believe that FFO is useful to management and investors as a supplemental measure of operating performance because, by excluding gains related to sales of, and impairment losses on, previously depreciated operating properties, net of related tax benefit, and excluding real estate-related depreciation and amortization, FFO can help one compare our operating performance between periods. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs. We believe that net income is the most directly comparable GAAP measure to FFO.

Since FFO excludes certain items includable in net income, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non-GAAP measures. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability

to make cash distributions or pay debt service.

Basic FFO available to common share and common unit holders (“Basic FFO”) is FFO adjusted to subtract (1) preferred share dividends, (2) issuance costs associated with redeemed preferred shares, (3) income attributable to noncontrolling interests through ownership of preferred units in the Operating Partnership or interests in other consolidated entities not owned by us, (4) depreciation and amortization allocable to noncontrolling interests in other consolidated entities and (5) Basic FFO allocable to restricted shares. With these adjustments, Basic FFO represents FFO available to common shareholders and common unitholders. Common units in the Operating Partnership are substantially similar to our common shares and are exchangeable into common shares, subject to certain conditions. We believe that Basic FFO is useful to investors due to the close correlation of common units to common shares. We believe that net income is the most directly comparable GAAP

43

measure to Basic FFO. Basic FFO has essentially the same limitations as FFO; management compensates for these limitations in essentially the same manner as described above for FFO.

Diluted FFO available to common share and common unit holders (“Diluted FFO”) is Basic FFO adjusted to add back any changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares. We believe that Diluted FFO is useful to investors because it is the numerator used to compute Diluted FFO per share, discussed below. We believe that the numerator for diluted EPS is the most directly comparable GAAP measure to Diluted FFO. Since Diluted FFO excludes certain items includable in the numerator to diluted EPS, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non-GAAP measures. Diluted FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service.

Diluted FFO available to common share and common unit holders, as adjusted for comparability is defined as Diluted FFO adjusted to exclude operating property acquisition costs; gains on sales of, and impairment losses on, properties other than previously depreciated operating properties, net of associated income tax; gain or loss on early extinguishment of debt; FFO associated with properties securing non-recourse debt on which we have defaulted and which we have extinguished, or expect to extinguish, via conveyance of those properties, including property NOI and interest expense (discussed further below); loss on interest rate derivatives; demolition costs on redevelopment properties; executive transition costs; and issuance costs associated with redeemed preferred shares. We believe that the excluded items are not reflective of normal operations and, as a result, we believe that a measure that excludes these items is a useful supplemental measure in evaluating our operating performance. The adjustment for FFO associated with properties securing non-recourse debt on which we have defaulted pertains to the periods subsequent to our default on the loan’s payment terms, which was the result of our decision to not support payments on the loan since the estimated fair value of the properties was less than the loan balance. While we continued as the legal owner of the properties during this period, all cash flows produced by them went directly to the lender and we did not fund any debt service shortfalls, which included incremental additional interest under the default rate of: \$2.0 million in the three months ended June 30, 2015; \$4.0 million in the six months ended June 30, 2015; and \$1.9 million in both the three months and six months ended June 30, 2014. We believe that the numerator to diluted EPS is the most directly comparable GAAP measure to this non-GAAP measure. This measure has essentially the same limitations as Diluted FFO, as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

Diluted FFO per share is (1) Diluted FFO divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that Diluted FFO per share is useful to investors because it provides investors with a further context for evaluating our FFO results in the same manner that investors use earnings per share (“EPS”) in evaluating net income available to common shareholders. In addition, since most equity REITs provide Diluted FFO per share information to the investment community, we believe that Diluted FFO per share is a useful supplemental measure for comparing us to other equity REITs. We believe that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share. Diluted FFO per share has most of the same limitations as Diluted FFO (described above); management compensates for these limitations in essentially the same manner as described above for Diluted FFO.

Diluted FFO per share, as adjusted for comparability is (1) Diluted FFO, as adjusted for comparability divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common

units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that this measure is useful to investors because it provides investors with a further context for evaluating our FFO results. We believe that diluted EPS is the most directly comparable GAAP measure to this per share measure. This measure has most of the same limitations as Diluted FFO (described above) as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

The computations for all of the above measures on a diluted basis assume the conversion of common units in COPLP but do not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase per share measures in a given period.

We use measures called payout ratios as supplemental measures of our ability to make distributions to investors based on each of the following: FFO; Diluted FFO; and Diluted FFO, adjusted for comparability. These measures are defined as (1) the

sum of (a) dividends on common shares and (b) distributions to holders of interests in COPLP and dividends on convertible preferred shares when such distributions and dividends are included in Diluted FFO divided by either (2) FFO, Diluted FFO or Diluted FFO, adjusted for comparability.

The table appearing on the following page sets forth the computation of the above stated measures for the three and six months ended June 30, 2015 and 2014, and provides reconciliations to the GAAP measures of COPT and subsidiaries associated with such measures:

45

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars and shares in thousands, except per share data)			
Net income	\$17,232	\$9,050	\$31,967	\$14,721
Add Real estate-related depreciation and amortization	33,786	30,895	65,385	74,491
Add: Impairment losses on previously depreciated operating properties	1,239	1,328	1,472	1,329
Add: Loss on sales of previously depreciated operating properties	—	—	—	4
FFO	52,257	41,273	98,824	90,545
Less: Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Less: FFO allocable to other noncontrolling interests	(1,072)	(758)	(1,742)	(1,519)
Less: Preferred share dividends	(3,553)	(4,344)	(7,105)	(8,834)
Less: Issuance costs associated with redeemed preferred shares	—	(1,769)	—	(1,769)
Basic and diluted FFO allocable to share-based compensation awards	(202)	(146)	(385)	(351)
Basic and Diluted FFO available to common share and common unit holders	\$47,265	\$34,091	\$89,262	\$77,742
Add: Operating property acquisition costs	361	—	1,407	—
Less: Gain on sales of non-operating properties	1	—	(3,985)	—
Add: (Gain) loss on early extinguishment of debt	(315)	363	(312)	386
Issuance costs associated with redeemed preferred shares	—	1,769	—	1,769
Add: Negative FFO of properties to be conveyed to extinguish debt in default	3,419	3,629	7,690	3,629
Add: Demolition costs on redevelopment properties	66	—	241	—
Less: Diluted FFO comparability adjustments allocable to share-based compensation awards	(14)	(26)	(21)	(26)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$50,783	\$39,826	\$94,282	\$83,500
Weighted average common shares	94,128	87,214	93,666	87,148
Conversion of weighted average common units	3,680	3,912	3,706	3,934
Weighted average common shares/units - Basic FFO	97,808	91,126	97,372	91,082
Dilutive effect of share-based compensation awards	35	201	114	156
Weighted average common shares/units - Diluted FFO	97,843	91,327	97,486	91,238
Diluted FFO per share	\$0.48	\$0.37	\$0.92	\$0.85
Diluted FFO per share, as adjusted for comparability	\$0.52	\$0.44	\$0.97	\$0.92
Numerator for diluted EPS	\$12,115	\$1,669	\$21,796	\$1,799
Add: Income allocable to noncontrolling interests-common units in the Operating Partnership	476	158	874	174
Add: Real estate-related depreciation and amortization	33,786	30,895	65,385	74,491
Add: Impairment losses on previously depreciated operating properties	1,239	1,328	1,472	1,329
Add: Numerator for diluted EPS allocable to restricted shares	113	108	235	229
Less: Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(186)	(180)	(373)	(360)
Add: Increase in noncontrolling interests unrelated to earnings	(76)	259	258	427
	(202)	(146)	(385)	(351)

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

Less: Basic and diluted FFO allocable to share-based compensation awards				
Add: Loss on sales of previously depreciated operating properties	—	—	—	4
Basic and Diluted FFO available to common share and common unit holders	\$47,265	\$34,091	\$89,262	\$77,742
Add: Operating property acquisition costs	361	—	1,407	—
Less: Gain on sales of non-operating properties	1	—	(3,985)) —
Add: (Gain) loss on early extinguishment of debt	(315	) 363	(312	) 386
Issuance costs associated with redeemed preferred shares	—	1,769	—	1,769
Add: Negative FFO on properties to be conveyed to extinguish debt in default	3,419	3,629	7,690	3,629
Add: Demolition costs on redevelopment properties	66	—	241	—
Less: Diluted FFO comparability adjustments allocable to share-based compensation awards	(14	) (26	) (21	) (26
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$50,783	\$39,826	\$94,282	\$83,500
Denominator for diluted EPS	94,163	87,415	93,780	87,304
Weighted average common units	3,680	3,912	3,706	3,934
Denominator for diluted FFO per share measures	97,843	91,327	97,486	91,238

Property Additions

The table below sets forth the major components of our additions to properties for the six months ended June 30, 2015 (in thousands):

Construction, development and redevelopment	\$133,709	
Acquisition of operating properties	97,543	
Tenant improvements on operating properties	10,922	(1)
Capital improvements on operating properties	8,185	
	\$250,359	

(1) Tenant improvement costs incurred on newly-constructed properties are classified in this table as construction, development and redevelopment.

Cash Flows

Net cash flow provided by operating activities increased \$19.9 million when comparing the six months ended June 30, 2015 and 2014 due primarily to:

- a \$9.9 million increase in cash flow from construction contract and other services from the prior to the current period due in large part to the timing of cash payments and collections on third party construction projects; and
- a \$6.6 million increase in cash flow from real estate operations due primarily to properties placed in service since the prior period.

Net cash flow used in investing activities increased \$121.0 million when comparing the six months ended June 30, 2015 and 2014 due primarily to expenditures for operating property acquisitions in the current period.

Net cash flow provided by financing activities in the six months ended June 30, 2015 was \$169.2 million, and included the following:

- net proceeds from debt borrowings of \$209.6 million; and
- net proceeds from the issuance of common shares (or units) of \$28.6 million; offset in part by
- dividends and/or distributions to equity holders of \$61.2 million.

Net cash flow provided by financing activities in the six months ended June 30, 2014 was \$58.9 million, and included the following:

- net proceeds from debt borrowings of \$170.8 million; offset in part by
- dividends and/or distributions to equity holders of \$60.4 million; and
- redemptions of preferred shares (or units) of \$50.0 million.

Liquidity and Capital Resources of COPT

COPLP 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. COPT issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by COPLP. COPT itself does not hold any indebtedness, and its only material asset is its ownership of partnership interests of COPLP. COPT's principal funding requirement is the payment of dividends on its common and preferred shares. COPT's principal source of funding for its dividend payments is distributions it receives from COPLP.

As of June 30, 2015, COPT owned 96.3% of the outstanding common units and 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT has the full, exclusive and complete responsibility for COPLP's day-to-day management and control.

The liquidity of COPT is dependent on COPLP's ability to make sufficient distributions to COPT. The primary cash requirement of COPT is its payment of dividends to its shareholders. COPT also guarantees some of the Operating Partnership's debt, as discussed further in Note 9 of the notes to consolidated financial statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger COPT's guarantee obligations, then COPT will be required to fulfill its cash payment commitments under such guarantees. However, COPT's only significant asset is its investment in COPLP.

As discussed further below, we believe the Operating Partnership's sources of working capital, specifically its cash flow from operations, and borrowings available under its unsecured line of credit, are adequate for it to make its distribution payments to COPT and, in turn, for COPT to make its dividend payments to its shareholders.

COPT's short-term liquidity requirements consist primarily of funds to pay for future dividends expected to be paid to its shareholders. COPT periodically accesses the public equity markets to raise capital by issuing common and/or preferred shares.

For COPT to maintain its qualification as a REIT, it must pay dividends to its shareholders aggregating annually at least 90% of its ordinary taxable income. As a result of this distribution requirement, it cannot rely on retained earnings to fund its ongoing operations to the same extent that some other companies can. COPT may need to continue to raise capital in the equity markets to fund COPLP's working capital needs, acquisitions and developments.

Liquidity and Capital Resources of COPLP

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions. We expect to continue to use cash flow provided by operations as the primary source to meet our short-term capital needs, including property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, distributions to our security holders and improvements to existing properties. As of June 30, 2015, we had \$37.1 million in cash and cash equivalents.

Our senior unsecured debt is currently rated investment grade by the three major rating agencies. We aim to maintain an investment grade rating to enable us to use debt comprised of unsecured, primarily fixed-rate debt (including the effect of interest rate swaps) from public markets and banks. We also use secured nonrecourse debt from institutional lenders and banks, when appropriate. In addition, we periodically access the public equity markets to raise capital by issuing common and/or preferred shares.

We use our Revolving Credit Facility to initially finance much of our investing activities. We subsequently pay down the facility using proceeds from long-term borrowings, equity issuances and property sales. The lenders' aggregate commitment under the facility is \$800.0 million, with the ability for us to increase the lenders' aggregate commitment to \$1.3 billion, provided that there is no default under the facility and subject to the approval of the lenders. Amounts available under the facility are computed based on 60% of our unencumbered asset value, as defined in the loan agreement. The Revolving Credit Facility matures in May 2019, and may be extended by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.075% of the total availability of the facility. As of June 30, 2015, the maximum borrowing capacity under this facility totaled \$800.0 million, of which \$785.2 million was available.

We believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements without necessitating property sales. We do, however, expect to sell properties and use the proceeds to fund development and potential property acquisitions.

The following table summarizes our contractual obligations as of June 30, 2015 (in thousands):

	For the Periods Ending December 31,						Total
	2015	2016	2017	2018	2019	Thereafter	
Contractual obligations (1)							
Debt (2)							
Balloon payments due upon maturity	\$ 186,175	\$ 266,062	\$ 4,110	\$—	\$ 120,000	\$ 1,543,551	\$ 2,119,898
Scheduled principal payments	3,376	5,337	2,137	2,036	2,094	7,938	22,918
Interest on debt (3)	46,927	71,521	62,047	61,746	60,491	181,003	483,735
New construction and redevelopment obligations (4)(5)	29,099	2,034	1,175	—	—	—	32,308
Third-party construction and development obligations (5)(6)	14,463	7,021	—	—	—	—	21,484
Capital expenditures for operating properties (5)(7)	19,581	16,469	3,781	—	—	—	39,831
Operating leases (8)	432	863	791	749	729	76,721	80,285
Other purchase obligations	1,040	1,534	734	371	362	410	4,451
Total contractual cash obligations	\$ 301,093	\$ 370,841	\$ 74,775	\$ 64,902	\$ 183,676	\$ 1,809,623	\$ 2,804,910

(1) The contractual obligations set forth in this table exclude property operations contracts that may be terminated with notice of one month or less.

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes a net discount of \$12.6 million. As of June 30, 2015, maturities in 2015 include \$150.0 million pertaining to a nonrecourse mortgage loan secured by two operating properties the title for which we expect to transfer to extinguish our debt obligation. Maturities also include \$100.0 million in 2016 that may be extended to 2017, subject to certain conditions.

(3) Represents interest costs for our outstanding debt as of June 30, 2015 for the terms of such debt. For variable rate debt, the amounts reflected above used June 30, 2015 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new construction and redevelopment activities.

(5) Due to the long-term nature of certain construction and development contracts and leases included in these lines, the amounts reported in the table represent our estimate of the timing for the related obligations being payable.

(6) Represents contractual obligations pertaining to projects for which we are acting as construction manager on behalf of unrelated parties who are our clients. We expect to be reimbursed in full for these costs by our clients.

(7) Represents contractual obligations pertaining to recurring and nonrecurring capital expenditures for our operating properties. We expect to finance these costs primarily using cash flow from operations.

(8) We expect to pay these items using cash flow from operations.

We expect to spend more than \$170 million on construction and development costs and approximately \$40 million on improvements to operating properties (including the commitments set forth in the table above) during the remainder of 2015. We expect to fund the construction and development costs and our acquisition of an operating property using cash on hand and borrowings under our Revolving Credit Facility. We expect to use proceeds from the disposition of properties held for sale to repay future borrowings under our Revolving Credit Facility. We expect to fund improvements to existing operating properties using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of June 30, 2015, we were in compliance with these financial covenants.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements during the six months ended June 30, 2015.

Inflation

Most of our tenants are obligated to pay their share of a building's operating expenses to the extent such expenses exceed amounts established in their leases, which are based on historical expense levels. Some of our tenants are obligated to pay their full share of a building's operating expenses. These arrangements somewhat reduce our exposure to increases in such costs resulting from inflation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("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, 2018, using one of two methods: retrospective restatement for each reporting period presented at the 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.

In January 2015, the FASB issued guidance regarding the presentation of extraordinary and unusual items in statements of operations. This guidance eliminates the concept of extraordinary items. However, the presentation and disclosure requirements for items that are either unusual or infrequent in occurrence remain and will be expanded to include items that are both unusual in nature and infrequent in occurrence. This guidance is effective for periods beginning after December 15, 2015. We expect that the application of this guidance will have no effect on our reported consolidated financial statements.

In February 2015, the FASB issued guidance regarding amendments to the consolidation analysis. This guidance amends the criteria for determining which entities are considered variable interest entities ("VIE"), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In April 2015, the FASB issued guidance that changes the presentation of debt issuance costs in financial statements. This guidance requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. This guidance will be applied retrospectively to each prior period presented. We expect that the application of this guidance will not materially affect our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks, one of the most predominant of which is a change in interest rates. Increases in interest rates can result in increased interest expense under our Revolving Credit Facility and other variable rate debt. Increases in interest rates can also result in increased interest expense when our fixed rate debt matures and

needs to be refinanced.

50

The following table sets forth as of June 30, 2015 our debt obligations and weighted average interest rates for fixed rate debt by expected maturity date (dollars in thousands):

	For the Periods Ending December 31,							Total
	2015	2016	2017	2018	2019	Thereafter		
Debt:								
Fixed rate debt (1)	\$ 153,094	\$ 171,399	\$ 6,247	\$ 2,036	\$ 2,094	\$ 1,251,489	\$ 1,586,359	
Weighted average interest rate (2)	10.56	% 7.19	% 5.18	% 4.61	% 4.60	% 4.31	% 5.23	%
Variable rate debt (3)	\$ 36,457	\$ 100,000	\$ —	\$ —	\$ 120,000	\$ 300,000	\$ 556,457	
Weighted average interest rate (4)	2.43	% 1.69	% —	% —	% 2.28	% 1.59	% 1.81	%

Represents principal maturities only and therefore excludes net discounts of \$12.6 million. As of June 30, 2015, maturities in 2015 include \$150.0 million pertaining to a nonrecourse mortgage loan secured by two operating properties the title for which we expect to transfer to extinguish our debt obligation in connection with loan default proceedings.

(1) Excluding the incremental additional interest rate associated with the default rate on the mortgage loan discussed above, the rate would be 5.66% for the fixed rate debt maturing in 2015 and 4.76% for the total fixed rate debt.

(2) As of June 30, 2015, maturities include \$100 million in 2016 that may be extended to 2017, subject to certain conditions.

(3) The amounts reflected above used June 30, 2015 interest rates on variable rate debt.

The fair value of our debt was \$2.1 billion as of June 30, 2015. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$108 million as of June 30, 2015.

The following table sets forth information pertaining to interest rate swap contracts in place as of June 30, 2015 and December 31, 2014 and their respective fair values (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					June 30, 2015	December 31, 2014
\$ 100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	\$(110)	\$(407)
100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	(110)	(407)
36,457	(1) 3.8300%	One-Month LIBOR + 2.25%	11/2/2010	11/2/2015	(171)	(400)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	(405)	(317)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	(410)	(324)
100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	(849)	239
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(1,066)	35
					\$(3,121)	\$(1,581)

(1) The notional amount of this instrument is scheduled to amortize to \$36.2 million.

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by \$1.5 million in the six months ended June 30, 2015 if the one-month LIBOR rate was 1% higher.

Item 4. Controls and Procedures

COPT

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2015 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

COPLP

(a) Evaluation of Disclosure Controls and Procedures

The Operating Partnership's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 15d-15(e) under the Exchange Act) as of June 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Operating Partnership's disclosure controls and procedures as of June 30, 2015 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Operating Partnership in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Operating Partnership's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

No change in the Operating Partnership's internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against the Company or the Operating Partnership (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our 2014 Annual Report on Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) Not applicable

Item 3. Defaults Upon Senior Securities

(a) Not applicable

(b) Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

52

(a) Exhibits:

EXHIBIT NO.	DESCRIPTION
10.1	Thirty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2015 (filed with the Company's Current Report on Form 8-K dated April 21, 2015 and incorporated herein by reference).
10.2	Amended, Restated and Consolidated Credit Agreement, dated as of May 6, 2015, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; KeyBank National Association; KeyBanc Capital Markets, Inc.; J.P. Morgan Securities LLC; JPMorgan Chase Bank, N.A.; Bank of America, N.A.; PNC Bank, National Association; Royal Bank of Canada; Wells Fargo Bank, National Association; Barclays Bank PLC; Regions Bank; Citizens Bank of Pennsylvania; and Citibank, N.A. (filed with the Company's Current Report on Form 8-K dated May 12, 2015 and incorporated herein by reference).
10.3	Letter Agreement, dated June 2, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Karen M. Singer (filed with the Company's Current Report on Form 8-K dated June 5, 2015 and incorporated herein by reference).
10.4	Third Supplemental Indenture, dated as of June 29, 2015, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated July 1, 2015 and incorporated herein by reference).
12.1	COPT's Statement regarding Computation of Earnings to Combined Fixed Charges and Preferred Share Dividends (filed herewith).
12.2	COPLP's Statement regarding Computation of Consolidated Ratio of Earnings to Fixed Charges (filed herewith).
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.3	Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.4	Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be

incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).

32.2 Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).

32.3 Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).

- 32.4 Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith).
- 101.INS XBRL Instance Document (filed herewith).
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith).
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
- 101.LAB XBRL Extension Labels Linkbase (filed herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).

SIGNATURES

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

CORPORATE OFFICE PROPERTIES TRUST

CORPORATE OFFICE PROPERTIES, L.P.

By: Corporate Office Properties Trust,
its General Partner

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
President and Chief Executive Officer

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
President and Chief Executive Officer

/s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial
Officer

/s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial
Officer

Dated: August 3, 2015

Dated: August 3, 2015