

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended September 30, 2016
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

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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 October 21, 2016, 94,761,691 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 September 30, 2016 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 September 30, 2016, 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 14, 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.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Properties, net:		
Operating properties, net	\$ 2,632,069	\$ 2,920,529
Projects in development or held for future development	396,269	429,219
Total properties, net	3,028,338	3,349,748
Assets held for sale, net	161,454	96,782
Cash and cash equivalents	47,574	60,310
Restricted cash and marketable securities	7,583	7,716
Investment in unconsolidated real estate joint venture	25,721	—
Accounts receivable (net of allowance for doubtful accounts of \$612 and \$1,525, respectively)	25,790	29,167
Deferred rent receivable (net of allowance of \$330 and \$1,962, respectively)	87,526	105,484
Intangible assets on real estate acquisitions, net	84,081	98,338
Deferred leasing costs (net of accumulated amortization of \$62,767 and \$66,364, respectively)	41,470	53,868
Investing receivables	51,119	47,875
Prepaid expenses and other assets, net	73,538	60,024
Total assets	\$ 3,634,194	\$ 3,909,312
Liabilities and equity		
Liabilities:		
Debt, net	\$ 1,873,836	\$ 2,077,752
Accounts payable and accrued expenses	112,306	91,755
Rents received in advance and security deposits	28,740	37,148
Dividends and distributions payable	30,225	30,178
Deferred revenue associated with operating leases	9,898	19,758
Interest rate derivatives	17,272	3,160
Other liabilities	38,282	13,779
Total liabilities	2,110,559	2,273,530
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	22,848	19,218
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, shares issued and outstanding of 7,431,667 at September 30, 2016 and December 31, 2015)	199,083	199,083
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 94,764,786 at September 30, 2016 and 94,531,512 at December 31, 2015)	948	945
Additional paid-in capital	2,008,787	2,004,507

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Cumulative distributions in excess of net income	(759,262) (657,172)
Accumulated other comprehensive loss	(16,314) (2,838)
Total Corporate Office Properties Trust's shareholders' equity	1,433,242	1,544,525	
Noncontrolling interests in subsidiaries:			
Common units in COPLP	46,757	52,359	
Preferred units in COPLP	8,800	8,800	
Other consolidated entities	11,988	10,880	
Noncontrolling interests in subsidiaries	67,545	72,039	
Total equity	1,500,787	1,616,564	
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,634,194	\$ 3,909,312	

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Rental revenue	\$103,956	\$109,080	\$316,862	\$312,826
Tenant recoveries and other real estate operations revenue	26,998	24,606	81,103	71,761
Construction contract and other service revenues	11,149	17,058	34,372	97,554
Total revenues	142,103	150,744	432,337	482,141
Expenses				
Property operating expenses	49,952	48,897	149,968	145,996
Depreciation and amortization associated with real estate operations	32,015	38,403	99,790	103,788
Construction contract and other service expenses	10,341	16,132	32,513	94,923
Impairment losses	27,699	2,307	99,837	3,545
General, administrative and leasing expenses	8,855	7,439	28,764	22,864
Business development expenses and land carry costs	1,716	5,573	6,497	10,986
Total operating expenses	130,578	118,751	417,369	382,102
Operating income	11,525	31,993	14,968	100,039
Interest expense	(18,301)	(24,121)	(64,499)	(66,727)
Interest and other income	1,391	692	3,877	3,217
(Loss) gain on early extinguishment of debt	(59)	85,745	(37)	85,677
(Loss) income from continuing operations before equity in income of unconsolidated entities and income taxes	(5,444)	94,309	(45,691)	122,206
Equity in income of unconsolidated entities	594	18	614	52
Income tax benefit (expense)	21	(48)	28	(153)
(Loss) income from continuing operations	(4,829)	94,279	(45,049)	122,105
Discontinued operations	—	—	—	156
(Loss) income before gain on sales of real estate	(4,829)	94,279	(45,049)	122,261
Gain on sales of real estate	34,101	15	34,101	4,000
Net income (loss)	29,272	94,294	(10,948)	126,261
Net (income) loss attributable to noncontrolling interests:				
Common units in COPLP	(901)	(3,357)	948	(4,231)
Preferred units in COPLP	(165)	(165)	(495)	(495)
Other consolidated entities	(907)	(972)	(2,799)	(2,599)
Net income (loss) attributable to COPT	27,299	89,800	(13,294)	118,936
Preferred share dividends	(3,552)	(3,552)	(10,657)	(10,657)
Net income (loss) attributable to COPT common shareholders	\$23,747	\$86,248	\$(23,951)	\$108,279
Net income (loss) attributable to COPT:				
Income (loss) from continuing operations	\$27,299	\$89,800	\$(13,294)	\$118,783
Discontinued operations, net	—	—	—	153
Net income (loss) attributable to COPT	\$27,299	\$89,800	\$(13,294)	\$118,936
Basic earnings per common share (1)				
Income (loss) from continuing operations	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations	0.00	0.00	0.00	0.00
Net income (loss) attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15

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Diluted earnings per common share (1)				
Income (loss) from continuing operations	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations	0.00	0.00	0.00	0.00
Net income (loss) attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Dividends declared per common share	\$0.275	\$0.275	\$0.825	\$0.825

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

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$29,272	\$94,294	\$(10,948)	\$126,261
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate derivatives	407	(3,638)	(16,581)	(6,720)
Losses on interest rate derivatives included in interest expense	1,043	915	2,763	2,457
Equity in other comprehensive loss of equity method investee	—	—	(184)	(264)
Other comprehensive income (loss)	1,450	(2,723)	(14,002)	(4,527)
Comprehensive income (loss)	30,722	91,571	(24,950)	121,734
Comprehensive income attributable to noncontrolling interests	(2,025)	(4,453)	(1,820)	(7,324)
Comprehensive income (loss) attributable to COPT	\$28,697	\$87,118	\$(26,770)	\$114,410

See accompanying notes to consolidated financial statements.

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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	Other Comprehensive Loss	Noncontrolling Interests	Total
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 (160,160 shares)	—	2	2,149	—	—	(2,151)	—
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 (151,511 shares issued, net of redemptions)	—	1	5,599	—	—	—	5,600
Redemption of vested equity awards	—	—	(2,330)	—	—	—	(2,330)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(591)	—	—	591	—
Comprehensive income	—	—	—	118,936	(4,526)	5,634	120,044
Dividends	—	—	—	(88,658)	—	—	(88,658)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,530)	(3,530)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(47)	(47)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(599)	—	—	—	(599)
Balance at September 30, 2015 (94,533,670 common shares outstanding)	\$ 199,083	\$ 945	\$ 2,002,730	\$ (686,986)	\$ (5,823)	\$ 69,958	\$ 1,579,907
Balance at December 31, 2015 (94,531,512 common shares outstanding)	\$ 199,083	\$ 945	\$ 2,004,507	\$ (657,172)	\$ (2,838)	\$ 72,039	\$ 1,616,564
Conversion of common units to common shares (87,000 shares)	—	1	1,166	—	—	(1,167)	—

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Costs associated with common shares issued to the public	—	—	(5)	—	—	(5)	
Share-based compensation (146,274 shares issued, net of redemptions)	—	2	6,175	—	—	—	6,177		
Redemption of vested equity awards	—	—	(2,179)	—	—	(2,179)	
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(42)	—	—	42	—	
Comprehensive loss	—	—	—	(13,294)	(13,476)	141	
Dividends	—	—	—	(88,796)	—	—	(88,796)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	—	(3,498)	
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	—	(12)	
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(516)	—	—	—	(516)
Tax loss from share-based compensation	—	—	(319)	—	—	—	(319)
Balance at September 30, 2016 (94,764,786 common shares outstanding)	\$ 199,083	\$ 948	\$ 2,008,787	\$ (759,262)	\$ (16,314)	\$ 67,545	\$ 1,500,787

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Revenues from real estate operations received	\$ 391,511	\$ 373,607
Construction contract and other service revenues received	54,399	104,817
Property operating expenses paid	(154,203)	(146,274)
Construction contract and other service expenses paid	(33,169)	(112,614)
General, administrative, leasing, business development and land carry costs paid	(27,879)	(29,620)
Interest expense paid	(61,662)	(46,278)
Interest and other income received	472	4,130
Other	504	(26)
Net cash provided by operating activities	169,973	147,742
Cash flows from investing activities		
Construction, development and redevelopment	(121,297)	(174,434)
Acquisitions of operating properties and related intangible assets	—	(202,866)
Tenant improvements on operating properties	(26,055)	(18,129)
Other capital improvements on operating properties	(22,063)	(12,610)
Proceeds from dispositions of properties	210,661	45,066
Proceeds from partial sale of properties, net of related debt	43,686	—
Investing receivables payments received	—	5,114
Leasing costs paid	(6,024)	(8,603)
Other	(991)	(4,827)
Net cash provided by (used in) investing activities	77,917	(371,289)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	362,500	422,000
Unsecured senior notes	—	296,580
Other debt proceeds	105,000	50,000
Repayments of debt		
Revolving Credit Facility	(406,000)	(418,000)
Scheduled principal amortization	(4,454)	(5,011)
Other debt repayments	(203,056)	(50,681)
Deferred financing costs paid	(825)	(5,377)
Net proceeds from issuance of common shares	(46)	28,567
Common share dividends paid	(78,072)	(77,641)
Preferred share dividends paid	(10,657)	(10,657)
Distributions paid to noncontrolling interests in COPLP	(3,476)	(3,581)
Distributions paid to redeemable noncontrolling interests	(14,329)	—
Redemption of vested equity awards	(2,179)	(2,330)
Other	(5,032)	(2,559)
Net cash (used in) provided by financing activities	(260,626)	221,310
Net decrease in cash and cash equivalents	(12,736)	(2,237)
Cash and cash equivalents		
Beginning of period	60,310	6,077

End of period	\$47,574	\$3,840
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See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2016	2015
Reconciliation of net (loss) income to net cash provided by operating activities:		
Net (loss) income	\$(10,948)	\$126,261
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and other amortization	101,429	105,397
Impairment losses	99,797	3,779
Losses on interest rate derivatives	347	—
Amortization of deferred financing costs and net debt discounts	4,456	4,144
Increase in deferred rent receivable	(930)	(11,939)
Gain on sales of real estate	(34,101)	(4,000)
Share-based compensation	5,637	4,949
Loss (gain) on early extinguishment of debt	34	(86,075)
Other	(2,761)	1,922
Operating changes in assets and liabilities:		
Decrease in accounts receivable	3,658	6,526
Decrease (increase) in restricted cash and marketable securities	18	(1,102)
Increase in prepaid expenses and other assets, net	(19,778)	(5,228)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	31,523	(655)
(Decrease) increase in rents received in advance and security deposits	(8,408)	3,763
Net cash provided by operating activities	\$169,973	\$147,742
Supplemental schedule of non-cash investing and financing activities:		
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	\$9,963	\$(11,722)
Increase in property and redeemable noncontrolling interests in connection with property contributed in a joint venture	\$22,600	\$—
Decrease in redeemable noncontrolling interests and increase in other liabilities in connection with distribution payable to redeemable noncontrolling interest	\$6,683	\$—
Non-cash changes from partial sale of properties, net of debt:		
Decrease in properties, net	\$(114,597)	\$—
Increase in investment in unconsolidated real estate joint venture	\$25,680	\$—
Decrease in debt	\$59,534	\$—
Other net decreases in assets and liabilities	\$3,619	\$—
Debt assumed on acquisition of operating property	\$—	\$55,490
Other liabilities assumed on acquisition of operating properties	\$—	\$5,265
Decrease in property in connection with surrender of property in settlement of debt	\$—	\$(82,738)
Decrease in debt in connection with surrender of property in settlement of debt	\$—	\$(150,000)
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(13,817)	\$(4,263)
Equity in other comprehensive loss of an equity method investee	\$(184)	\$(264)
Dividends/distribution payable	\$30,225	\$30,182
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$1,167	\$2,151
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$42	\$591
	\$516	\$599

Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value

See accompanying notes to consolidated financial statements.

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

	September 30, 2016	December 31, 2015
Assets		
Properties, net:		
Operating properties, net	\$ 2,632,069	\$2,920,529
Projects in development or held for future development	396,269	429,219
Total properties, net	3,028,338	3,349,748
Assets held for sale, net	161,454	96,782
Cash and cash equivalents	47,574	60,310
Restricted cash and marketable securities	2,333	1,953
Investment in unconsolidated real estate joint venture	25,721	—
Accounts receivable (net of allowance for doubtful accounts of \$612 and \$1,525, respectively)	25,790	29,167
Deferred rent receivable (net of allowance of \$330 and \$1,962, respectively)	87,526	105,484
Intangible assets on real estate acquisitions, net	84,081	98,338
Deferred leasing costs (net of accumulated amortization of \$62,767 and \$66,364, respectively)	41,470	53,868
Investing receivables	51,119	47,875
Prepaid expenses and other assets, net	73,538	60,024
Total assets	\$ 3,628,944	\$3,903,549
Liabilities and equity		
Liabilities:		
Debt, net	\$ 1,873,836	\$2,077,752
Accounts payable and accrued expenses	112,306	91,755
Rents received in advance and security deposits	28,740	37,148
Distributions payable	30,225	30,178
Deferred revenue associated with operating leases	9,898	19,758
Interest rate derivatives	17,272	3,160
Other liabilities	33,032	8,016
Total liabilities	2,105,309	2,267,767
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	22,848	19,218
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at September 30, 2016 and December 31, 2015	199,083	199,083
Limited partner, 352,000 preferred units outstanding at September 30, 2016 and December 31, 2015	8,800	8,800
Common units, 94,764,786 and 94,531,512 held by the general partner and 3,590,391 and 3,677,391 held by limited partners at September 30, 2016 and December 31, 2015, respectively	1,297,858	1,400,745

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Accumulated other comprehensive loss	(16,987) (2,985)
Total Corporate Office Properties, L.P.'s equity	1,488,754	1,605,643	
Noncontrolling interests in subsidiaries	12,033	10,921	
Total equity	1,500,787	1,616,564	
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,628,944	\$3,903,549	
See accompanying notes to consolidated financial statements.			

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Rental revenue	\$ 103,956	\$ 109,080	\$ 316,862	\$ 312,826
Tenant recoveries and other real estate operations revenue	26,998	24,606	81,103	71,761
Construction contract and other service revenues	11,149	17,058	34,372	97,554
Total revenues	142,103	150,744	432,337	482,141
Expenses				
Property operating expenses	49,952	48,897	149,968	145,996
Depreciation and amortization associated with real estate operations	32,015	38,403	99,790	103,788
Construction contract and other service expenses	10,341	16,132	32,513	94,923
Impairment losses	27,699	2,307	99,837	3,545
General, administrative and leasing expenses	8,855	7,439	28,764	22,864
Business development expenses and land carry costs	1,716	5,573	6,497	10,986
Total operating expenses	130,578	118,751	417,369	382,102
Operating income	11,525	31,993	14,968	100,039
Interest expense	(18,301)	(24,121)	(64,499)	(66,727)
Interest and other income	1,391	692	3,877	3,217
(Loss) gain on early extinguishment of debt	(59)	85,745	(37)	85,677
(Loss) income from continuing operations before equity in income of unconsolidated entities and income taxes	(5,444)	94,309	(45,691)	122,206
Equity in income of unconsolidated entities	594	18	614	52
Income tax benefit (expense)	21	(48)	28	(153)
(Loss) income from continuing operations	(4,829)	94,279	(45,049)	122,105
Discontinued operations	—	—	—	156
(Loss) income before gain on sales of real estate	(4,829)	94,279	(45,049)	122,261
Gain on sales of real estate	34,101	15	34,101	4,000
Net income	29,272	94,294	(10,948)	126,261
Net income attributable to noncontrolling interests in consolidated entities	(913)	(972)	(2,803)	(2,602)
Net income (loss) attributable to COPLP	28,359	93,322	(13,751)	123,659
Preferred unit distributions	(3,717)	(3,717)	(11,152)	(11,152)
Net income (loss) attributable to COPLP common unitholders	\$24,642	\$89,605	\$(24,903)	\$112,507
Net income (loss) attributable to COPLP:				
Income (loss) from continuing operations	\$28,359	\$93,322	\$(13,751)	\$123,500
Discontinued operations, net	—	—	—	159
Net income (loss) attributable to COPLP	\$28,359	\$93,322	\$(13,751)	\$123,659
Basic earnings per common unit (1)				
Income (loss) from continuing operations	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations	0.00	0.00	0.00	0.00
Net income (loss) attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Diluted earnings per common unit (1)				
Income (loss) from continuing operations	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations	0.00	0.00	0.00	0.00

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Net income (loss) attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Distributions declared per common unit	\$0.275	\$0.275	\$0.825	\$0.825

(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.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$29,272	\$94,294	\$(10,948)	\$126,261
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate derivatives	407	(3,638)	(16,581)	(6,720)
Losses on interest rate derivatives included in interest expense	1,043	915	2,763	2,457
Equity in other comprehensive loss of equity method investee	—	—	(184)	(264)
Other comprehensive income (loss)	1,450	(2,723)	(14,002)	(4,527)
Comprehensive income (loss)	30,722	91,571	(24,950)	121,734
Comprehensive income attributable to noncontrolling interests	(913)	(1,035)	(2,803)	(2,780)
Comprehensive income (loss) attributable to COPLP	\$29,809	\$90,536	\$(27,753)	\$118,954

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, 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)	—	—	—	—	151,511	5,600	—	—	5,600
Redemptions of vested equity awards	—	—	—	—	—	(2,330)	—	—	(2,330)
Comprehensive income	—	495	—	10,657	—	112,507	(4,705)	1,090	120,044
Distributions to owners of common and preferred units	—	(495)	—	(10,657)	—	(81,036)	—	—	(92,188)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(47)	(47)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(599)	—	—	(599)
Balance at September 30,	352,000	\$8,800	7,431,667	\$199,083	98,211,061	\$1,367,904	\$(6,086)	\$10,206	\$1,579,907

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2015

Balance at

December 31, 2015 352,000 \$8,800 7,431,667 \$199,083 98,208,903 \$1,400,745 \$(2,985) \$10,921 \$1,616,564

Costs

associated with common shares issued to the public — — — — — (5) — — (5)

Share-based compensation (units net of redemption) — — — — 146,274 6,177 — — 6,177

Redemptions of vested equity awards — — — — — (2,179) — — (2,179)

Comprehensive loss — 495 — 10,657 — (24,903) (14,002) 1,124 (26,629)

Distributions to owners of common and preferred units — (495) — (10,657) — (81,142) — — (92,294)

Distributions to noncontrolling interests in subsidiaries — — — — — — — (12) (12)

Adjustment to arrive at fair value of redeemable noncontrolling interest — — — — — (516) — — (516)

Tax loss from share-based compensation — — — — — (319) — — (319)

Balance at September 30, 2016 352,000 \$8,800 7,431,667 \$199,083 98,355,177 \$1,297,858 \$(16,987) \$12,033 \$1,500,787

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Revenues from real estate operations received	\$ 391,511	\$ 373,607
Construction contract and other service revenues received	54,399	104,817
Property operating expenses paid	(154,203)	(146,274)
Construction contract and other service expenses paid	(33,169)	(112,614)
General, administrative, leasing, business development and land carry costs paid	(27,879)	(29,620)
Interest expense paid	(61,662)	(46,278)
Interest and other income received	472	4,130
Other	504	(26)
Net cash provided by operating activities	169,973	147,742
Cash flows from investing activities		
Construction, development and redevelopment	(121,297)	(174,434)
Acquisitions of operating properties and related intangible assets	—	(202,866)
Tenant improvements on operating properties	(26,055)	(18,129)
Other capital improvements on operating properties	(22,063)	(12,610)
Proceeds from dispositions of properties	210,661	45,066
Proceeds from partial sale of properties, net of related debt	43,686	—
Investing receivables payments received	—	5,114
Leasing costs paid	(6,024)	(8,603)
Other	(991)	(4,827)
Net cash provided by (used in) investing activities	77,917	(371,289)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	362,500	422,000
Unsecured senior notes	—	296,580
Other debt proceeds	105,000	50,000
Repayments of debt		
Revolving Credit Facility	(406,000)	(418,000)
Scheduled principal amortization	(4,454)	(5,011)
Other debt repayments	(203,056)	(50,681)
Deferred financing costs paid	(825)	(5,377)
Net proceeds from issuance of common units	(46)	28,567
Common unit distributions paid	(81,053)	(80,727)
Preferred unit distributions paid	(11,152)	(11,152)
Redemption of vested equity awards	(2,179)	(2,330)
Distributions paid to redeemable noncontrolling interests	(14,329)	—
Other	(5,032)	(2,559)
Net cash (used in) provided by financing activities	(260,626)	221,310
Net decrease in cash and cash equivalents	(12,736)	(2,237)
Cash and cash equivalents		
Beginning of period	60,310	6,077
End of period	\$ 47,574	\$ 3,840

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2016	2015
Reconciliation of net (loss) income to net cash provided by operating activities:		
Net (loss) income	\$(10,948)	\$126,261
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and other amortization	101,429	105,397
Impairment losses	99,797	3,779
Losses on interest rate derivatives	347	—
Amortization of deferred financing costs and net debt discounts	4,456	4,144
Increase in deferred rent receivable	(930)	(11,939)
Gain on sales of real estate	(34,101)	(4,000)
Share-based compensation	5,637	4,949
Loss (gain) on early extinguishment of debt	34	(86,075)
Other	(2,761)	1,922
Operating changes in assets and liabilities:		
Decrease in accounts receivable	3,658	6,526
Increase in restricted cash and marketable securities	(495)	(1,485)
Increase in prepaid expenses and other assets, net	(19,778)	(5,228)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	32,036	(272)
(Decrease) increase in rents received in advance and security deposits	(8,408)	3,763
Net cash provided by operating activities	\$169,973	\$147,742
Supplemental schedule of non-cash investing and financing activities:		
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	\$9,963	\$(11,722)
Increase in property and redeemable noncontrolling interests in connection with property contributed in a joint venture	\$22,600	\$—
Decrease in redeemable noncontrolling interests and increase in other liabilities in connection with distribution payable to redeemable noncontrolling interest	\$6,683	\$—
Non-cash changes from partial sale of properties, net of debt:		
Decrease in properties, net	\$(114,597)	\$—
Increase in investment in unconsolidated real estate joint venture	\$25,680	\$—
Decrease in debt	\$59,534	\$—
Other net decreases in assets and liabilities	\$3,619	\$—
Debt assumed on acquisition of operating property	\$—	\$55,490
Other liabilities assumed on acquisition of operating properties	\$—	\$5,265
Decrease in property in connection with surrender of property in settlement of debt	\$—	\$(82,738)
Decrease in debt in connection with surrender of property in settlement of debt	\$—	\$(150,000)
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(13,817)	\$(4,263)
Equity in other comprehensive loss of an equity method investee	\$(184)	\$(264)
Distributions payable	\$30,225	\$30,182
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$516	\$599

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 own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support United States Government agencies and their contractors, most of whom are engaged in national security, defense and information technology (“IT”) related activities servicing what we believe are growing, durable priority missions (“Defense/IT Locations”). We also own a complementary portfolio of traditional office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics, as well as other properties supporting general commercial office tenants (“Regional Office”). As of September 30, 2016, our properties included the following:

- 168 operating office properties totaling 17.5 million square feet, including 12 triple-net leased, single-tenant data center properties. We owned six of these properties through an unconsolidated real estate joint venture;
- 10 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.2 million square feet upon completion, including two partially operational properties included above and two properties completed but held for future lease to the United States Government;
- 1,358 acres of land we control that we believe could be developed into approximately 16.2 million square feet; and
- a wholesale data center with a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of September 30, 2016, 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 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

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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.

We use the cost method of accounting when we own an interest in an entity and cannot exert significant influence over its operations.

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, 2015 included in our 2015 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly state 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 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements

We adopted guidance issued by the Financial Accounting Standards Board (“FASB”) effective January 1, 2016 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. Our adoption of this guidance did not affect on our reported consolidated financial statements.

We adopted guidance issued by the FASB effective January 1, 2016 modifying the analysis that must be performed by us in determining whether we should consolidate certain types of legal entities. The guidance did not amend the existing disclosure requirements for VIEs or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, COPLP is considered a variable interest entity of COPT. As COPLP was already consolidated in the balance sheets of COPT, the identification of COPLP as a variable interest entity had no impact on the consolidated financial statements. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption. In addition, there were no voting interest entities under prior existing guidance determined to be variable interest entities under the revised guidance.

We adopted effective January 1, 2016 guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the statement of operations or disclosed in the notes. Our adoption of this guidance did not affect our reported consolidated financial statements.

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this guidance for our annual and interim periods beginning January 1, 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 February 2016, the FASB issued guidance that sets forth principles for the recognition, measurement, presentation and disclosure of leases. This guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. The resulting classification determines whether the lease expense is recognized based on an effective interest method or straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The guidance requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued guidance intended to simplify certain aspects of the accounting for employee based share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the consolidated statement of cash flows. This guidance is effective for annual periods beginning after

December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In June 2016, the FASB issued guidance that changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance replaces the current incurred loss model with an expected loss approach, resulting in a more timely recognition of such losses. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted after December 2018. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In August 2016, the FASB issued guidance that clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

3. Fair Value Measurements

Recurring Fair Value Measurements

COPT has a non-qualified elective deferred compensation plan for certain members of our management team that permits participants to defer up to 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. The assets held in the plan (comprised primarily of mutual funds and equity securities) and the corresponding liability to the participants are measured at fair value on a recurring basis on COPT's consolidated balance sheet using quoted market prices, as are other marketable securities that we hold. The balance of the plan, which was fully funded, totaled \$5.3 million as of September 30, 2016, and is included in the accompanying COPT consolidated balance sheets in the line entitled restricted cash and marketable securities. The offsetting liability associated with the plan is adjusted to fair value at the end of each accounting period based on the fair value of the plan assets and reported in other liabilities on COPT's consolidated balance sheets. The assets of the plan and other marketable securities that we hold are classified in Level 1 of the fair value hierarchy. The liability associated with the plan is classified in Level 2 of the fair value hierarchy.

The fair values of our interest rate derivatives are determined using widely accepted valuation techniques, including a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate market data and implied volatilities in such interest rates. While we determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our interest rate derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. However, as of September 30, 2016, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivatives and determined that these adjustments are not significant. As a result, we determined that our interest rate derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. As discussed in Note 6, we estimated the fair values of our investing receivables based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of

debt fair values in Note 8, we estimated the fair value of our unsecured senior notes 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 as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

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

COPT and Subsidiaries

The table below sets forth financial assets and liabilities of COPT and its subsidiaries that are accounted for at fair value on a recurring basis as of September 30, 2016 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 (Level 3)
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 5,160	\$ —	\$ —	\$ 5,160
Other	90	—	—	90
Total assets	\$ 5,250	\$ —	\$ —	\$ 5,250
Liabilities:				
Deferred compensation plan liability (2)	\$ —	\$ 5,250	\$ —	\$ 5,250
Interest rate derivatives	—	17,272	—	17,272
Total liabilities	\$ —	\$ 22,522	\$ —	\$ 22,522

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

(2) 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 September 30, 2016 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
Liabilities:				
Interest rate derivatives	\$ —	\$ 17,272	\$ —	\$ 17,272

Nonrecurring Fair Value Measurements

In the first quarter of 2016, we set a goal to raise cash from sales of properties in 2016 considerably in excess of the \$96.8 million in assets held for sale at December 31, 2015. The specific properties we would sell to achieve this goal had not been identified when the goal was established. Throughout 2016, we have been in the process of identifying properties we will sell.

In the first quarter of 2016, we reclassified: most of our properties in Greater Philadelphia (included in our Regional Office segment); two properties in the Fort Meade/BW Corridor sub-segment; and our remaining land holdings in Colorado Springs, Colorado to held for sale and recognized \$2.4 million of impairment losses. As of March 31, 2016, we had \$225.9 million of assets held for sale.

During the second quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering the refined investment strategy of our then newly-appointed Chief Executive Officer and the goals of the asset sales program and concluded that we would: (1) not hold our operating properties in Aberdeen, Maryland (“Aberdeen”) for the long-term; (2) not develop commercial properties on land in Frederick,

Maryland; (3) sell specific properties in our Northern Virginia Defense/IT and Fort Meade/BW Corridor sub-segments; and (4) sell the remaining operating property in Greater Philadelphia that had not previously been classified as held for sale. Accordingly, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

\$34.4 million on operating properties in Aberdeen (included in our Other segment). After shortening our estimated holding period for these properties, we determined that the carrying amount of the properties would not likely be recovered from the operation and eventual dispositions of the properties during the shortened holding period.

Accordingly, we adjusted the properties to their estimated fair values;

\$4.4 million on land in Aberdeen. In performing our analysis related to the operating properties in Aberdeen, we determined that the weakening leasing and overall commercial real estate conditions in that market indicated that our

land holdings in the market may be impaired. As a result, we determined that the carrying amount of the land was not recoverable and adjusted the land to its estimated fair value;

\$8.2 million on land in Frederick, Maryland. We determined that the carrying amount of the land would not likely be recovered from its sale and adjusted the land to its estimated fair value;

\$14.1 million on operating properties in our Northern Virginia and Fort Meade/BW Corridor sub-segments that we reclassified to held for sale during the period whose carrying amounts exceeded their estimated fair values less costs to sell; and

\$6.2 million on the property in Greater Philadelphia (included in our Regional Office segment) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell.

There were no property sales in the second quarter of 2016 and as of June 30, 2016, we had \$300.6 million of assets held for sale.

During the third quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering refinements to our disposition strategy made during the third quarter of 2016 to sell an additional operating property in our Northern Virginia Defense/IT sub-segment, an additional operating property in our Fort Meade/BW Corridor sub-segment and our remaining operating properties and land in White Marsh, Maryland (“White Marsh”) that had not previously been classified as held for sale. In connection with our determinations that we planned to sell these properties, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

\$13.3 million on the operating property in our Northern Virginia Defense/IT sub-segment. Communication with a major tenant in the building during the quarter led us to conclude that there was significant uncertainty with respect to the tenant renewing its lease expiring in 2019. As a result of this information and continuing sub-market weakness, we determined that this property no longer met our long-term hold strategy and we placed it into our asset sales program. Accordingly, we adjusted the carrying amount of the property to its estimated fair value less costs to sell; and \$2.9 million on the other properties that we reclassified as held for sale, primarily associated with a land parcel in White Marsh. As of June 30, 2016, this land was under a sales contract subject to a re-zoning contingency. During the third quarter, we were denied favorable re-zoning and the contract was canceled. As a result, we determined this property will be sold as is, reclassified it to held for sale and adjusted its carrying value to its estimated fair value less costs to sell.

During our review we also recognized additional impairment losses of \$11.5 million on properties previously classified as held for sale. Approximately \$10 million of these losses pertained to properties in White Marsh due to our assessment that certain significant tenants will likely exercise lease termination rights and to reflect market conditions. The remainder of these losses pertained primarily to properties in San Antonio, Texas (in our Other segment), where prospective purchasers reduced offering prices late in the third quarter. We executed property sales of \$210.7 million in the third quarter of 2016 (discussed further in Note 4), and had \$161.5 million of assets held for sale at September 30, 2016.

Changes in the expected future cash flows due to changes in our plans for specific properties (especially our expected holding period) could result in the recognition of additional impairment losses. In addition, because properties held for sale are carried at the lower of carrying value or estimated fair values less costs to sell, declines in their estimated fair values due to market conditions and other factors could result in the recognition of additional impairment losses.

The table below sets forth the fair value hierarchy of the valuation technique we used to determine nonrecurring fair value measurements of these assets as of September 30, 2016 (dollars in thousands):

Fair Values as of September 30, 2016	
Quoted Prices in	Significant

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Description	Active Market for	Unobservable	Total
	Identical Assets (Level 2)	Inputs (Level 3)	
Assets:			
Assets held for sale, net	\$—	— \$ 127,128	\$ 127,128

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The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above as of September 30, 2016 (dollars in thousands):

Valuation Technique	Fair Values on Measurement Date	Unobservable Input	Range (Weighted Average)
Contracts to sell	\$ 87,983	Contract amounts	N/A
Discounted cash flow	\$ 36,693	Discount rate	9.5% - 11.3% (10.5%)
		Terminal capitalization rate	8.3% - 9.5% (8.7%)
Yield analyses	\$ 2,452	Investor yield requirement	9.0% (1)

(1) Only one fair value applied for this unobservable input.

4. Properties, Net

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

	September 30, 2016	December 31, 2015
Land	\$ 424,627	\$ 463,305
Buildings and improvements	2,888,918	3,157,587
Less: Accumulated depreciation	(681,476)	(700,363)
Operating properties, net	\$ 2,632,069	\$ 2,920,529

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

	September 30, 2016	December 31, 2015
Land	\$ 199,038	\$ 207,774
Development in progress, excluding land	197,231	221,445
Projects in development or held for future development	\$ 396,269	\$ 429,219

Our properties held for sale included:

as of September 30, 2016: nine operating properties in White Marsh (included primarily in our Regional Office segment); two operating properties in our Northern Virginia Defense/IT sub-segment; six operating properties in our Fort Meade/BW Corridor sub-segment; two operating properties in San Antonio, Texas (included in our Other segment); and land in White Marsh, Northern Virginia and Colorado Springs; and
as of December 31, 2015: 13 operating properties in White Marsh (included in our Regional Office segment); two operating properties in San Antonio, Texas (included in our Other segment); and land in Northern Virginia and Colorado Springs.

The table below sets forth the components of assets held for sale on our consolidated balance sheet for these properties (in thousands):

	September 30, 2016	December 31, 2015
Properties, net	\$ 147,236	\$ 90,188
Deferred rent receivable	6,642	2,891
Intangible assets on real estate acquisitions, net	1,540	1,591
Deferred leasing costs, net	4,901	1,391
Lease incentives, net	1,135	721

Assets held for sale, net	\$ 161,454	\$ 96,782
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Acquisitions

We acquired the following operating properties in 2015:

• 250 W. Pratt Street, a 367,000 square foot office property in Baltimore, Maryland that was 96.2% leased, for \$61.8 million on March 19, 2015;

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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; and
 100 Light Street, a 558,000 square foot office property in Baltimore, Maryland that was 93.5% leased, and its structured parking garage, 30 Light Street, for \$121.2 million on August 7, 2015. In connection with that acquisition, we assumed a \$55.0 million mortgage loan with a fair value at assumption of \$55.5 million.

These properties contributed:

- revenues of \$9.2 million for the three months ended September 30, 2016, \$6.9 million for the three months ended September 30, 2015, \$27.6 million for the nine months ended September 30, 2016 and \$11.2 million for the nine months ended September 30, 2015; and
- net income from continuing operations of \$432,000 for the three months ended September 30, 2016, \$487,000 for the three months ended September 30, 2015, \$2.4 million for the nine months ended September 30, 2016 and \$697,000 for the nine months ended September 30, 2015.

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 September 30, 2016. 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 operating property acquisition costs to the nine months ended September 30, 2014 from the 2015 periods in which they were actually incurred. 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 share amounts).

	For the Three Months Ended September 30, 2015 (Unaudited)	For the Nine Months Ended September 30, 2015
Pro forma total revenues	\$152,736	\$498,657
Pro forma net income attributable to COPT common shareholders	\$88,836	\$112,941
Pro forma EPS:		
Basic	\$0.94	\$1.20
Diluted	\$0.94	\$1.20

2016 Dispositions

During the nine months ended September 30, 2016, we completed dispositions of the following operating properties (dollars in thousands):

Project Name	City, State	Segment	Date of Disposition	Number of Buildings	Total Rentable Square Feet	Transaction Value	Gain on Disposition
Arborcrest Corporate Campus (1)	Philadelphia, PA	Regional Office	8/4/2016	4	654,000	\$ 142,800	\$ 4,742
8003 Corporate Drive	White Marsh, MD	Regional Office	8/17/2016	1	18,000	2,400	—
1341 & 1343 Ashton Road	Hanover, MD	Fort Meade/BW Corridor	9/9/2016	2	25,000	2,900	848
8007, 8013, 8015, 8019 and 8023-8027 Corporate Drive (1)	White Marsh, MD	Regional Office	9/21/2016	5	130,000	14,513	1,906
1302, 1304 and 1306 Concourse Drive	Linthicum, MD	Fort Meade/BW Corridor	9/29/2016	3	299,000	48,100	8,683
				15	1,126,000	\$ 210,713	\$ 16,179

(1) This disposition also included land.

We also sold:

a 50% interest in six triple-net leased, single-tenant data center properties in Virginia by contributing them into a newly-formed joint venture, GI-COPT DC Partnership LLC (“GI-COPT”), for an aggregate property value of \$147.6 million on July 21, 2016. We obtained \$60.0 million in non-recourse mortgage loans on the properties through the joint venture immediately prior to the sale of our interest and received the net proceeds. Our partner in the joint venture acquired the 50% interest in the joint venture from us for \$44.3 million. We account for our 50% interest in the joint venture using the equity method of accounting as described further in Note 5. We recognized a partial gain on the sale of our interest of \$17.9 million; and other land for \$5.7 million, with no gain recognized.

2016 Construction Activities

During the nine months ended September 30, 2016, we placed into service 490,000 square feet in five newly constructed office properties (including a partially operational property) and 55,000 square feet in two redeveloped properties (including a partially operational property). As of September 30, 2016, we had seven office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.1 million square feet upon completion (including two properties completed but held for future lease to the United States Government) and three office properties under redevelopment that we estimate will total 104,000 square feet upon completion.

5. Real Estate Joint Ventures

Consolidated Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of September 30, 2016 (dollars in thousands):

	Date Acquired	Nominal Ownership % as of 9/30/2016	Nature of Activity	September 30, 2016		(1) Total Liabilities
				Total Assets	Encumbered Assets	
LW Redstone Company, LLC	3/23/2010	85%	Development and operation of real estate (2)	\$ 157,168	\$ 80,154	\$ 53,056
M Square Associates, LLC	6/26/2007	50%	Development and operation of real estate (3)	66,053	47,006	45,807
Stevens Investors, LLC	8/11/2015	95%	Development of real estate (4)	40,282	—	7,680
				\$ 263,503	\$ 127,160	\$ 106,543

(1) Excludes amounts eliminated in consolidation.

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

(3) This joint venture's properties are in College Park, Maryland.

(4) This joint venture's property is in Washington, DC.

In January 2016, our partner in Stevens Investors, LLC contributed to the joint venture, for a value of \$22.6 million, interests in contracts controlling land to be developed (including a purchase agreement and a ground lease). Our partner subsequently received a cash distribution from the joint venture of \$13.4 million, which was funded by us. Our partner is also entitled to receive an additional distribution from the joint venture of \$6.7 million to be funded by us (expected in 2017) that was reported in other liabilities on our consolidated balance sheet as of September 30, 2016.

Unconsolidated Joint Venture

As described further in Note 4, on July 21, 2016, we sold a 50% interest in six triple-net leased, single-tenant data center properties in Virginia by contributing them into GI-COPT, a newly-formed joint venture. We account for our 50% interest in the joint venture using the equity method of accounting. As of September 30, 2016, we had an investment balance in GI-COPT of \$25.7 million. Our balance is \$18.5 million lower than our share of the joint venture's equity due to a difference between our cost basis and our share of the underlying equity in the net assets upon formation of the joint venture; we are amortizing this basis difference into equity in income from unconsolidated entities over the lives of the underlying assets. Under the terms of the joint venture agreement, we and our partner receive returns in proportion to our investments in the joint venture.

6. Investing Receivables

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

	September 30, 2016	December 31, 2015
Notes receivable from the City of Huntsville	\$ 48,098	\$ 44,875
Other investing loans receivable	3,021	3,000
	\$ 51,119	\$ 47,875

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 September 30, 2016 or December 31, 2015. The fair value of these receivables approximated their carrying amounts as of September 30, 2016 and December 31, 2015.

7. Prepaid Expenses and Other Assets, Net

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

	September 30, 2016	December 31, 2015
Prepaid expenses	\$ 28,752	\$ 23,009
Lease incentives, net	19,106	11,133
Construction contract costs incurred in excess of billings	6,367	3,261
Furniture, fixtures and equipment, net	5,492	6,004
Deferred financing costs, net (1)	3,812	5,867
Deferred tax asset, net (2)	3,282	3,467
Other assets	6,727	7,283
Prepaid expenses and other assets, net	\$ 73,538	\$ 60,024

(1) Represents deferred costs, net of accumulated amortization, attributable to our Revolving Credit Facility and interest rate derivatives.

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

8. Debt, Net

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

	Carrying Value (1) as of		Stated Interest Rates as of	Scheduled Maturity as of
	September 30, 2016	December 31, 2015		
Mortgage and Other Secured Loans:				
Fixed rate mortgage loans (2)	\$ 154,976	\$ 281,208	3.82% - 7.87% (3)	2019-2026
Variable rate secured loans	13,529	49,792	LIBOR + 1.85% (4)	October 2020
Total mortgage and other secured loans	168,505	331,000		
Revolving Credit Facility	—	43,500	LIBOR + 0.875% to 1.60%	May 2019
Term Loan Facilities (5)	516,812	515,902	LIBOR + 0.90% to 2.60% (6)	2019-2022
Unsecured Senior Notes				
3.600%, \$350,000 aggregate principal	347,024	346,714	3.60% (7)	May 2023
5.250%, \$250,000 aggregate principal	246,063	245,731	5.25% (8)	February 2024
3.700%, \$300,000 aggregate principal	297,725	297,378	3.70% (9)	June 2021
5.000%, \$300,000 aggregate principal	296,279	296,019	5.00% (10)	July 2025
Unsecured notes payable	1,428	1,508	0% (11)	2026
Total debt, net	\$ 1,873,836	\$ 2,077,752		

(1) The carrying values of our loans other than the Revolving Credit Facility reflect net deferred financing costs of \$6.9 million as of September 30, 2016 and \$8.0 million as of December 31, 2015.

(2) 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 \$440,000 as of September 30, 2016 and \$514,000 as of December 31, 2015.

(3) The weighted average interest rate on our fixed rate mortgage loans was 4.20% as of September 30, 2016.

(4) The interest rate on our variable rate secured loan as of September 30, 2016 was 2.37%.

(5) As of September 30, 2016, we had an additional \$150 million in borrowings available to be drawn under a term loan. In addition, we had the ability to borrow an additional \$430.0 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. On October 12, 2016, we repaid a \$120.0 million term loan that was scheduled to mature in August 2019.

(6) The weighted average interest rate on these loans was 2.17% as of September 30, 2016.

(7) The carrying value of these notes reflects an unamortized discount totaling \$2.0 million as of September 30, 2016 and \$2.2 million as of December 31, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.

(8) The carrying value of these notes reflects an unamortized discount totaling \$3.5 million as of September 30, 2016 and \$3.8 million as of December 31, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.

(9) The carrying value of these notes reflects an unamortized discount totaling \$1.8 million as of September 30, 2016 and \$2.1 million as of December 31, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.

(10) The carrying value of these notes reflects an unamortized discount totaling \$3.1 million as of September 30, 2016 and \$3.3 million as of December 31, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.

(11) These notes carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an

unamortized discount totaling \$483,000 as of September 30, 2016 and \$554,000 as of December 31, 2015.

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.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants. As of September 30, 2016, we were within the compliance requirements of these financial covenants.

We capitalized interest costs of \$1.2 million in the three months ended September 30, 2016, \$1.5 million in the three months ended September 30, 2015, \$4.3 million in the nine months ended September 30, 2016 and \$5.6 million in the nine months ended September 30, 2015.

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

	September 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	\$1,187,091	\$1,233,860	\$1,185,842	\$1,211,658
Other fixed-rate debt	156,404	162,974	282,716	291,991
Variable-rate debt	530,341	533,079	609,194	610,987
	\$1,873,836	\$1,929,913	\$2,077,752	\$2,114,636

9. 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	
					September 30, 2016	December 31, 2015
\$100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	\$(2,339)	\$(1,217)
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(2,500)	(1,429)
13,676	(1) 1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	(236)	53
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(4,879)	(138)
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	(4,872)	(45)
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	(2,446)	(32)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	—	(148)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	—	(151)
					\$(17,272)	\$(3,107)

(1) The notional amount of this instrument is scheduled to amortize to \$12.1 million.

Each of the 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	Balance Sheet Location	Fair Value at	
		September 30, 2016	December 31, 2015
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets	\$ —	\$ 53
Interest rate swaps designated as cash flow hedges	Interest rate derivatives	(17,272)	(3,160)

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		For the Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Amount of gain (loss) recognized in accumulated other comprehensive loss (“AOCL”) (effective portion)	\$407	\$(3,638)	\$(16,581)	\$(6,720)
Amount of losses reclassified from AOCL into interest expense (effective portion)	1,043	915	2,763	2,457

Amount of gain (loss) recognized in interest expense (ineffective portion) 1,523 — (347) —

Over the next 12 months, we estimate that approximately \$5.2 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 September 30, 2016, the fair value of interest rate derivatives in a liability position related to these agreements was \$17.9 million, excluding the effects of accrued interest and credit valuation adjustments. As of September 30, 2016, 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 \$18.4 million.

10. Redeemable Noncontrolling Interests

Our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC (discussed further in Note 5), have the right to require us to acquire their respective interests at fair value; accordingly, we classify the fair value of our partners' interests as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheet. We determine the fair value of the interests based on unobservable inputs after considering the assumptions that market participants would make in pricing the interest. We apply a discount rate to the estimated future cash flows allocable to our partners from the properties underlying the respective joint ventures. Estimated cash flows used in such analyses are based on our plans for the properties and our views of market and economic conditions, and consider items such as current and future rental rates, occupancies for the properties and comparable properties and estimated operating and capital expenditures. The table below sets forth the activity for these redeemable noncontrolling interests (in thousands):

	For the Nine Months Ended September 30,	
	2016	2015
Beginning balance	\$19,218	\$18,417
Contributions from noncontrolling interests	22,779	—
Distributions to noncontrolling interests	(21,344)	(1,098)
Net income attributable to noncontrolling interests	1,679	1,690
Adjustment to arrive at fair value of interests	516	599
Ending balance	\$22,848	\$19,608

11. Equity

In September 2016, COPT established a new at-the-market (“ATM”) stock offering program under which it may, from time to time, offer and sell common shares in “at the market” stock offerings having an aggregate gross sales price of up to \$200.0 million. This program replaced an ATM stock offering program that we previously had in place.

During the nine months ended September 30, 2016, certain COPLP limited partners redeemed 87,000 common units in COPLP for an equal number of common shares in COPT.

See Note 13 for disclosure of COPT common share and COPLP common unit activity pertaining to our share-based compensation plans.

12. Information by Business Segment

We have the following reportable segments: Defense/IT Locations; Regional Office; our operating wholesale data center; and other. We also report on Defense/IT Locations sub-segments, which include the following: Fort George G. Meade and the Baltimore/Washington Corridor (referred to herein as “Fort Meade/BW Corridor”); Northern Virginia Defense/IT Locations; Lackland Air Force Base (in San Antonio); locations serving the U.S. Navy (“Navy Support Locations”), which included properties proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia; Redstone Arsenal (in Huntsville); and data center shells (properties leased to tenants to be operated as data centers in which the tenants generally fund the costs for the power, fiber connectivity and data center infrastructure). Effective in the quarter ended September 30, 2016, we changed our segment reporting measures to include certain amounts discussed below pertaining to investments in unconsolidated real estate joint ventures (“UJVs”); this change did not affect prior periods reported herein as we did not own any investments in UJVs during such periods prior to July 21, 2016 (see Note 5).

We measure the performance of our segments through the measure we define as net operating income from real estate operations (“NOI from real estate operations”), which includes: real estate revenues and property operating expenses from continuing and discontinued operations; and the net of revenues and property operating expenses of real estate operations owned through UJVs that is allocable to COPT’s ownership interest (“UJV NOI allocable to COPT”). Amounts reported for segment assets represent long-lived assets associated with consolidated operating properties (including the carrying value of properties, intangible assets, deferred leasing costs, deferred rents receivable and lease incentives) and the carrying value of investments in UJVs owning operating properties. Amounts reported as additions to long-lived assets represent additions to existing consolidated operating properties, excluding transfers from non-operating properties, which we report separately.

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The table below reports segment financial information for our reportable segments (in thousands).

	Operating Office Property Segments Defense/Information Technology Locations									
	Fort Meade/BW Corridor	Northern Virginia Defense/IT Base	Lackland Air Force Base	Navy Support Locations	Redstone Arsenal	Data Center Shells	Total Defense/IT Locations	Regional Office	Operating Wholesale Data Center	Other
Three Months Ended September 30, 2016										
Revenues from real estate operations	\$61,460	\$12,231	\$12,532	\$7,232	\$3,189	\$5,175	\$101,819	\$20,499	\$6,809	\$1,827
Property operating expenses	20,598	4,462	7,599	3,374	1,112	528	37,673	8,155	3,317	807
UJV NOI allocable to COPT	—	—	—	—	—	1,008	1,008	—	—	—
NOI from real estate operations	\$40,862	\$7,769	\$4,933	\$3,858	\$2,077	\$5,655	\$65,154	\$12,344	\$3,492	\$1,020
Additions to long-lived assets	\$5,901	\$7,153	\$—	\$2,207	\$2,642	\$—	\$17,903	\$4,168	\$108	\$53
Transfers from non-operating properties	\$5,331	\$308	\$3	\$—	\$3,100	\$25,513	\$34,255	\$(4)	\$40	\$—
Three Months Ended September 30, 2015										
Revenues from real estate operations	\$61,400	\$12,875	\$9,018	\$6,886	\$3,061	\$5,665	\$98,905	\$26,782	\$6,078	\$1,921
Property operating expenses	20,106	5,150	4,553	3,287	888	532	34,516	9,596	4,008	777
UJV NOI allocable to COPT	—	—	—	—	—	—	—	—	—	—
NOI from real estate operations	\$41,294	\$7,725	\$4,465	\$3,599	\$2,173	\$5,133	\$64,389	\$17,186	\$2,070	\$1,144
Additions to long-lived	\$7,943	\$1,603	\$—	\$2,084	\$175	\$—	\$11,805	\$129,259	\$—	\$(27)

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assets											
Transfers from non-operating properties	\$25,184	\$(91)) \$591	\$1,408	\$1,207	\$34,287	\$62,586	\$5,505	\$73,804	\$315	
Nine Months Ended September 30, 2016											
Revenues from real estate operations	\$184,881	\$36,404	\$34,408	\$21,164	\$9,496	\$18,793	\$305,146	\$67,284	\$20,106	\$5,429	
Property operating expenses	64,222	13,310	19,863	9,573	3,050	2,164	112,182	26,707	8,629	2,450	
UJV NOI allocable to COPT	—	—	—	—	—	1,008	1,008	—	—	—	
NOI from real estate operations	\$120,659	\$23,094	\$14,545	\$11,591	\$6,446	\$17,637	\$193,972	\$40,577	\$11,477	\$2,979	
Additions to long-lived assets	\$19,516	\$13,290	\$—	\$5,710	\$3,561	\$—	\$42,077	\$9,107	\$108	\$363	
Transfers from non-operating properties	\$41,850	\$28,158	\$240	\$—	\$3,315	\$81,467	\$155,030	\$104	\$(391)) \$(11))
Segment assets at September 30, 2016	\$1,261,337	\$416,886	\$132,722	\$195,244	\$111,310	\$189,746	\$2,307,245	\$453,766	\$234,551	\$31,563	
Nine Months Ended September 30, 2015											
Revenues from real estate operations	\$182,591	\$37,383	\$27,426	\$21,337	\$8,165	\$15,816	\$292,718	\$73,142	\$12,933	\$5,798	
Property operating expenses	63,102	16,120	14,665	10,075	2,605	1,726	108,293	26,750	8,441	2,506	
UJV NOI allocable to COPT	—	—	—	—	—	—	—	—	—	—	
NOI from real estate operations	\$119,489	\$21,263	\$12,761	\$11,262	\$5,560	\$14,090	\$184,425	\$46,392	\$4,492	\$3,292	
	\$16,529	\$86,303	\$—	\$5,446	\$466	\$—	\$108,744	\$198,589	\$108	\$282	

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Additions to long-lived assets											
Transfers from non-operating properties Segment assets at September 30, 2015	\$44,212	\$51,117	\$32,150	\$1,408	\$13,184	\$50,295	\$192,366	\$22,230	\$89,183	\$327	
	\$1,284,712	\$413,321	\$134,790	\$196,105	\$108,541	\$203,090	\$2,340,559	\$695,490	\$246,806	\$71,907	

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Segment revenues from real estate operations	\$ 130,954	\$ 133,686	\$ 397,965	\$ 384,591
Construction contract and other service revenues	11,149	17,058	34,372	97,554
Less: Revenues from discontinued operations	—	—	—	(4)
Total revenues	\$ 142,103	\$ 150,744	\$ 432,337	\$ 482,141

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 Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Segment property operating expenses	\$ 49,952	\$ 48,897	\$ 149,968	\$ 145,990
Less: Property operating expenses from discontinued operations	—	—	—	6
Total property operating expenses	\$ 49,952	\$ 48,897	\$ 149,968	\$ 145,996

The following table reconciles UJV NOI allocable to COPT to equity in income of unconsolidated entities as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
UJV NOI allocable to COPT	\$ 1,008	\$ —	\$ 1,008	\$ —
Less: Income from UJV allocable to COPT attributable to depreciation and amortization expense and interest expense	(415)	—	(415)	—
Add: Equity in income of unconsolidated non-real estate entities	1	18	21	52
Equity in income of unconsolidated entities	\$ 594	\$ 18	\$ 614	\$ 52

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 Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Construction contract and other service revenues	\$ 11,149	\$ 17,058	\$ 34,372	\$ 97,554

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Construction contract and other service expenses	(10,341)	(16,132)	(32,513)	(94,923)
NOI from service operations	\$808	\$926	\$1,859	\$2,631

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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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
NOI from real estate operations	\$82,010	\$84,789	\$249,005	\$238,601
NOI from service operations	808	926	1,859	2,631
Interest and other income	1,391	692	3,877	3,217
Equity in income of unconsolidated entities	594	18	614	52
Income tax (expense) benefit	21	(48)	28	(153)
Depreciation and other amortization associated with real estate operations	(32,015)	(38,403)	(99,790)	(103,788)
Impairment losses	(27,699)	(2,307)	(99,837)	(3,545)
General, administrative and leasing expenses	(8,855)	(7,439)	(28,764)	(22,864)
Business development expenses and land carry costs	(1,716)	(5,573)	(6,497)	(10,986)
Interest expense	(18,301)	(24,121)	(64,499)	(66,727)
NOI from discontinued operations	—	—	—	(10)
Less: UJV NOI allocable to COPT included in equity in income of unconsolidated entities	(1,008)	—	(1,008)	—
(Loss) gain on early extinguishment of debt	(59)	85,745	(37)	85,677
(Loss) income from continuing operations	\$(4,829)	\$94,279	\$(45,049)	\$122,105

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

	September 30, 2016	September 30, 2015
Segment assets	\$ 3,027,125	\$ 3,354,762
Non-operating property assets	421,364	416,540
Other assets	185,705	140,790
Total COPT consolidated assets	\$ 3,634,194	\$ 3,912,092

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) gain on early extinguishment of debt, gain on sales of real estate and equity in income of unconsolidated entities not included in NOI 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, administrative and leasing expenses, business development expenses and land carry costs, interest and other income, income taxes and noncontrolling interests because these items represent general corporate or non-operating property items not attributable to segments.

13. Share-Based Compensation and Other Compensation Matters

Performance Share Units (“PSUs”)

On March 1, 2016, our Board of Trustees granted 26,299 PSUs with an aggregate grant date fair value of \$1.0 million to executives. The PSUs have a performance period beginning on January 1, 2016 and concluding on the earlier of December 31, 2018 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 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 performance period ends due to a sale event or qualified termination, the number of earned PSUs is prorated based on the portion of the three-year performance 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 \$38.21 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$23.90; expected volatility for COPT common shares of 20.4%; and a risk-free interest rate of 0.96%. We are recognizing the grant date fair value in connection with these PSU awards over the period commencing on March 1, 2016 and ending on December 31, 2018.

Based on COPT's total shareholder return relative to its peer group of companies, for PSUs issued in 2014 and 2015, we made the following common share issuances in settlement of such PSUs during the nine months ended September 30, 2016:

10,326 shares on May 30, 2016 to Mr. Wayne H. Lingafelter, our former Executive Vice President, Development & Construction Services, who departed on March 31, 2016; and
20,569 shares on July 12, 2016 to Mr. Roger A. Waesche, Jr., our former Chief Executive Officer, who departed on May 12, 2016.

Restricted Shares

During the nine months ended September 30, 2016, certain employees were granted a total of 206,487 restricted common shares with an aggregate grant date fair value of \$5.0 million (weighted average of \$24.31 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 nine months ended September 30, 2016, forfeiture restrictions lapsed on 189,569 previously issued common shares; these shares had a weighted average grant date fair value of \$27.52 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$4.7 million.

Deferred Share Awards

During the nine months ended September 30, 2016, nonemployee members of our Board of Trustees were granted a total of 24,944 deferred share awards with an aggregate grant date fair value of \$671,000 (\$26.89 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 nine months ended September 30, 2016, we issued 12,028 common shares in settlement of deferred share awards granted in 2015; these shares had a grant date fair value of \$26.70 per share, and the aggregate intrinsic value of the shares on the settlement date was \$322,000.

Executive Transition Costs

Our Board of Trustees appointed Stephen E. Budorick, our Executive Vice President and Chief Operating Officer since September 2011, to become our President and Chief Executive Officer effective May 12, 2016, the date of the Company's 2016 Annual Meeting of Shareholders. On that date, Roger A. Waesche, Jr., our current President and Chief Executive Officer, left the Company to pursue other interests, and he was not nominated for reelection as a Trustee. The Board appointed Mr. Budorick to our Board of Trustees after the 2016 Annual Meeting of Shareholders. In addition, our Executive Vice President, Development & Construction Services, Wayne H. Lingafelter, and our Senior Vice President, General Counsel and Secretary, Karen M. Singer, departed the Company to pursue other interests effective March 31, 2016 and August 31, 2016, respectively. We recognized executive transition costs of approximately \$6.0 million in the nine months ended September 30, 2016 primarily for termination benefits in connection with the departures of Mr. Waesche, Mr. Lingafelter and Ms. Singer.

14. 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.

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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
(Loss) income from continuing operations	\$(4,829)	\$94,279	\$(45,049)	\$122,105
Gain on sales of real estate, net	34,101	15	34,101	4,000
Preferred share dividends	(3,552)	(3,552)	(10,657)	(10,657)
Income from continuing operations attributable to noncontrolling interests	(1,973)	(4,494)	(2,346)	(7,322)
Income from continuing operations attributable to share-based compensation awards	(105)	(369)	(319)	(475)
Numerator for basic EPS from continuing operations attributable to COPT common shareholders	23,642	85,879	(24,270)	107,651
Convertible preferred shares	—	372	—	—
Dilutive effect of common units in COPLP on diluted EPS from continuing operations	—	—	—	4,225
Numerator for diluted EPS from continuing operations attributable to COPT common shareholders	\$23,642	\$86,251	\$(24,270)	\$111,876
Numerator for basic EPS from continuing operations attributable to COPT common shareholders	\$23,642	\$85,879	\$(24,270)	\$107,651
Discontinued operations	—	—	—	156
Discontinued operations attributable to noncontrolling interests	—	—	—	(3)
Numerator for basic EPS on net income attributable to COPT common shareholders	23,642	85,879	(24,270)	107,804
Convertible preferred shares	—	372	—	—
Dilutive effect of common units in COPLP	—	—	—	4,231
Numerator for diluted EPS on net income attributable to COPT common shareholders	\$23,642	\$86,251	\$(24,270)	\$112,035
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	94,433	94,153	94,312	93,830
Convertible preferred shares	—	434	—	—
Dilutive effect of common units	—	—	—	3,697
Dilutive effect of share-based compensation awards	81	21	—	82
Denominator for diluted EPS (common shares)	94,514	94,608	94,312	97,609
Basic EPS:				
(Loss) income from continuing operations attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations attributable to COPT common shareholders	0.00	0.00	0.00	0.00
Net (loss) income attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Diluted EPS:				
(Loss) income from continuing operations attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations attributable to COPT common shareholders	0.00	0.00	0.00	0.00
Net (loss) income attributable to COPT common shareholders	\$0.25	\$0.91	\$(0.26)	\$1.15

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 September 30, 2016		For the Nine Months Ended September 30, 2015	
Conversion of common units	3,591	3,679	3,648	—
Conversion of Series I Preferred Units	176	176	176	176
Conversion of Series K Preferred Shares	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 September 30, 2016 and 2015 of 375,000 and 411,000, respectively, and for the nine months ended September 30, 2016 and 2015 of 394,000 and 412,000, respectively; and

weighted average options for the three months ended September 30, 2016 and 2015 of 233,000 and 440,000, respectively, and for the nine months ended September 30, 2016 and 2015 of 307,000 and 480,000, respectively.

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.

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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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
(Loss) income from continuing operations	\$(4,829)	\$94,279	\$(45,049)	\$122,105
Gain on sales of real estate, net	34,101	15	34,101	4,000
Preferred unit distributions	(3,717)	(3,717)	(11,152)	(11,152)
Income from continuing operations attributable to noncontrolling interests	(913)	(972)	(2,803)	(2,605)
Income from continuing operations attributable to share-based compensation awards	(105)	(369)	(319)	(475)
Numerator for basic EPU from continuing operations attributable to COPLP common unitholders	24,537	89,236	(25,222)	111,873
Convertible preferred units	—	372	—	—
Numerator for diluted EPU from continuing operations attributable to COPLP common unitholders	\$24,537	\$89,608	\$(25,222)	\$111,873
Numerator for basic EPU from continuing operations attributable to COPLP common unitholders				
Discontinued operations	—	—	—	156
Discontinued operations attributable to noncontrolling interests	—	—	—	3
Numerator for basic EPU on net income attributable to COPLP common unitholders	24,537	89,236	(25,222)	112,032
Convertible preferred units	—	372	—	—
Numerator for diluted EPU on net income attributable to COPLP common unitholders	\$24,537	\$89,608	\$(25,222)	\$112,032
Denominator (all weighted averages):				
Denominator for basic EPU (common units)	98,024	97,832	97,960	97,527
Convertible preferred shares	—	434	—	—
Dilutive effect of share-based compensation awards	81	21	—	82
Denominator for diluted EPU (common units)	98,105	98,287	97,960	97,609
Basic EPU:				
(Loss) income from continuing operations attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations attributable to COPLP common unitholders	0.00	0.00	0.00	0.00
Net (loss) income attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Diluted EPU:				
(Loss) income from continuing operations attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15
Discontinued operations attributable to COPLP common unitholders	0.00	0.00	0.00	0.00
Net (loss) income attributable to COPLP common unitholders	\$0.25	\$0.91	\$(0.26)	\$1.15

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 September 30, 2016	For the Nine Months Ended September 30, 2015	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Conversion of Series I preferred units	176	176	176	176
Conversion of Series K preferred units	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 September 30, 2016 and 2015 of 375,000 and 411,000, respectively, and for the nine months ended September 30, 2016 and 2015 of 394,000 and 412,000, respectively; and

weighted average options for the three months ended September 30, 2016 and 2015 of 233,000 and 440,000, respectively, and for the nine months ended September 30, 2016 and 2015 of 307,000 and 480,000, respectively.

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.

15. 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 \$1.3 million liability through September 30, 2016 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.

Operating Leases

We are obligated as lessee under operating leases (mostly ground leases) with various expiration dates extending to the year 2100. Future minimum rental payments due under the terms of these operating leases as of September 30, 2016 follow (in thousands):

Year Ending December 31,

2016 (1)	\$307
2017	1,159
2018	1,113
2019	1,082
2020	1,089
Thereafter	86,806
	\$91,556

(1) Represents the three months ending December 31, 2016.

Contractual Obligations

We had amounts remaining to be incurred under various contractual obligations as of September 30, 2016 that included the following:

- new development and redevelopment obligations of \$77.6 million;
- capital expenditures for operating properties of \$60.5 million;
- third party construction and development of \$10.5 million; and
- purchase obligations of \$1.8 million.

Environmental Indemnity Agreement

In connection with a lease and subsequent sale in 2008 and 2010 of three properties in Dayton, New Jersey, we agreed to provide certain environmental indemnifications limited to \$19 million in the aggregate. We have insurance coverage in place to mitigate much of any potential future losses that may result from these indemnification agreements.

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

Overview

During the nine months ended September 30, 2016:

we finished the period with occupancy of our portfolio of operating office properties at 91.3%, including six properties owned through an unconsolidated real estate joint venture;

we placed into service an aggregate of 545,000 square feet in newly constructed and redeveloped properties that were 86.9% leased as of September 30, 2016;

we sold:

15 operating properties totaling 1.1 million square feet that were 92.1% occupied for \$210.7 million and other land for \$5.7 million;

a 50% interest in six triple-net leased, single-tenant data center properties by contributing them into GI-COPT, a newly-formed joint venture, for an aggregate property value of \$147.6 million. We obtained \$60.0 million in non-recourse mortgage loans on the properties through the joint venture immediately prior to the sale of our interest and received the net proceeds. Our partner in the joint venture acquired the 50% interest from us for \$44.3 million; We used most of the proceeds from these sales to repay borrowings under our Revolving Credit Facility and for general corporate purposes.

our Board of Trustees appointed Stephen E. Budorick, our Executive Vice President and Chief Operating Officer since September 2011, to become our President and Chief Executive Officer effective May 12, 2016, the date of the Company's 2016 Annual Meeting of Shareholders. On that date, Roger A. Waesche, Jr., our current President and Chief Executive Officer, departed the Company to pursue other interests, and he was not nominated for re-election as a Trustee. The Board appointed Mr. Budorick to our Board of Trustees after the 2016 Annual Meeting of Shareholders; and

our Executive Vice President, Development & Construction Services, Wayne H. Lingafelter, and our Senior Vice President, General Counsel and Secretary, Karen M. Singer, departed the Company to pursue other interests effective March 31, 2016 and August 31, 2016, respectively.

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 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 terminology. 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;

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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, which included six properties owned through an unconsolidated real estate joint venture:

	September 30, 2016		December 31, 2015	
Occupancy rates at period end				
Total	91.3	%	91.6	%
Defense/IT Locations:				
Fort Meade/BW Corridor	93.0	%	94.5	%
Northern Virginia Defense/IT	84.6	%	81.9	%
Lackland Air Force Base	100.0	%	100.0	%
Navy Support Locations	73.6	%	72.1	%
Redstone Arsenal	100.0	%	97.0	%
Data Center Shells	100.0	%	100.0	%
Regional Office	95.3	%	95.4	%
Other	55.1	%	57.3	%
Average contractual annual rental rate per square foot at period end (1)	\$ 29.53		\$ 29.55	

(1) Includes estimated expense reimbursements. Amounts reported include the portion of properties owned through an unconsolidated real estate joint venture that was allocable to our ownership interest.

	Rentable Square Feet (in thousands)	Occupied Square Feet (in thousands)
December 31, 2015	18,053	16,535
Square feet vacated upon lease expiration (1)	—	(420)
Occupancy of previously vacated space in connection with new leases (2)	—	389
Square feet constructed or redeveloped	551	502
Dispositions	(1,126)	(1,036)
Other changes	10	(1)
September 30, 2016	17,488	15,969

- (1) Includes lease terminations and space reductions occurring in connection with lease renewals.
- (2) Excludes occupancy of vacant square feet acquired or developed.

During the nine months ended September 30, 2016, we completed 2.3 million square feet of leasing, including 571,000 of construction and redevelopment space, and renewed 78.5% of the square footage of our lease expirations (including the effect of early renewals).

Occupancy of our Same Office Properties decreased from 91.6% as of December 31, 2015 to 91.4% as of September 30, 2016.

Wholesale Data Center Property

The leased portion of our 19.25 megawatt wholesale data center property decreased from 17.8 megawatts as of December 31, 2015 to 15.8 megawatts as of September 30, 2016 due to a tenant departure.

Results of Operations

We evaluate the operating performance of our properties using NOI from real estate operations, our segment performance measure, which includes: real estate revenues and property operating expenses from continuing and discontinued operations; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures (“UJVs”) that is allocable to COPT’s ownership interest (“UJV NOI allocable to COPT”). We measure the performance of our segments through the measure we define as NOI from real estate operations. We view our NOI from real estate operations as comprising the following primary categories of operating properties:

- office properties continually owned and 100% operational throughout the current and prior year reporting periods, excluding properties held for sale. 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;
- our wholesale data center;
- properties held for sale as of September 30, 2016; 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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
NOI from real estate operations	\$82,010	\$84,789	\$249,005	\$238,601
NOI from service operations	808	926	1,859	2,631
Less: NOI from discontinued operations	—	—	—	(10)
Less: UJV NOI allocable to COPT	(1,008)	—	(1,008)	—
Depreciation and amortization associated with real estate operations	(32,015)	(38,403)	(99,790)	(103,788)
Impairment losses	(27,699)	(2,307)	(99,837)	(3,545)
General, administrative and leasing expenses	(8,855)	(7,439)	(28,764)	(22,864)
Business development expenses and land carry costs	(1,716)	(5,573)	(6,497)	(10,986)
Operating income	\$11,525	\$31,993	\$14,968	\$100,039

Comparison of Statements of Operations for the Three Months Ended September 30, 2016 and 2015

	For the Three Months Ended September 30,		
	2016	2015	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$130,954	\$133,686	\$(2,732)
Construction contract and other service revenues	11,149	17,058	(5,909)
Total revenues	142,103	150,744	(8,641)
Expenses			
Property operating expenses	49,952	48,897	1,055
Depreciation and amortization associated with real estate operations	32,015	38,403	(6,388)
Construction contract and other service expenses	10,341	16,132	(5,791)
Impairment losses	27,699	2,307	25,392
General, administrative and leasing expenses	8,855	7,439	1,416
Business development expenses and land carry costs	1,716	5,573	(3,857)
Total operating expenses	130,578	118,751	11,827
Operating income	11,525	31,993	(20,468)
Interest expense	(18,301)	(24,121)	5,820
Interest and other income	1,391	692	699
(Loss) gain on early extinguishment of debt	(59)	85,745	(85,804)
Equity in income of unconsolidated entities	594	18	576
Income tax benefit (expense)	21	(48)	69
(Loss) income from continuing operations	(4,829)	94,279	(99,108)
Gain on sales of real estate	34,101	15	34,086
Net income	\$29,272	\$94,294	\$(65,022)

NOI from Real Estate Operations

For the Three Months Ended September
30,
2016 2015 Variance
(Dollars
in thousands, except per square foot data)

Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	\$ 76,138	\$ 75,778	\$ 360
Lease termination revenue	390	185	205
Tenant recoveries and other real estate operations revenue	21,861	19,802	2,059
Same Office Properties total revenues	98,389	95,765	2,624
Constructed and developed office properties placed in service	6,041	3,611	2,430
Acquired office properties	9,221	6,922	2,299
Wholesale data center	6,809	6,078	731
Properties held for sale	5,837	5,680	157
Dispositions	4,517	15,512	(10,995)
Other	140	118	22
	130,954	133,686	(2,732)
Property operating expenses			
Same Office Properties	37,094	34,176	2,918
Constructed and developed office properties placed in service	1,780	1,014	766
Acquired office properties	4,331	2,750	1,581
Wholesale data center	3,317	4,008	(691)
Properties held for sale	1,676	2,095	(419)
Dispositions	1,317	4,858	(3,541)
Other	437	(4)	441
	49,952	48,897	1,055
UJV NOI allocable to COPT	1,008	—	1,008
NOI from real estate operations			
Same Office Properties	61,295	61,589	(294)
Constructed and developed office properties placed in service	4,261	2,597	1,664
Acquired office properties	4,890	4,172	718
Wholesale data center	3,492	2,070	1,422
Properties held for sale	4,161	3,585	576
Dispositions	3,200	10,654	(7,454)
Other	711	122	589
	\$ 82,010	\$ 84,789	\$ (2,779)
Same Office Properties rent statistics			
Average occupancy rate	91.2	% 91.1	% 0.1 %
Average straight-line rent per occupied square foot (1)	\$ 6.40	\$ 6.38	\$ 0.02

(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 129 office properties, comprising 74.6% of our total operating office square footage as of September 30, 2016 (80.4% excluding the effect of properties held for sale). This pool of

properties included the following changes from the pool used for purposes of comparing 2015 and 2014 in our 2015 Annual Report on Form 10-K: the addition of three properties placed in service and 100% operational by January 1, 2015; and the removal of ten same office properties reclassified to held for sale in 2016, seven same office properties disposed in 2016 and two same office properties in which we sold a 50% interest in 2016 that were owned by a UJV as of September 30, 2016.

Our NOI from constructed office properties placed in service included 11 properties placed in service in 2015 and 2016, and our NOI from acquired office properties included our 2015 acquisitions of 250 W. Pratt Street, 2600 Park Tower Drive and 100 and 30 Light Street.

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

NOI from Service Operations

	For the Three Months		
	Ended September 30,		
	2016	2015	Variance
	(in thousands)		
Construction contract and other service revenues	\$11,149	\$17,058	\$(5,909)
Construction contract and other service expenses	10,341	16,132	(5,791)
NOI from service operations	\$808	\$926	\$(118)

Construction contract and other service revenue and expenses decreased due primarily to a lower 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 typically contribute little operating income relative to our real estate operations.

Depreciation and Amortization Expense

The decrease in depreciation and amortization expense was attributable primarily to additional expense recognized in the prior period of \$3.8 million on disposed office properties and \$3.1 million from our revision of the useful lives of properties that were removed from service for redevelopment.

Impairment Losses

The increase in impairment losses for the current three-month period was attributable to the losses described below in our explanation for the increase for the nine-month period ended September 30, 2016.

Business Development Expenses and Land Carry Costs

The decrease in business development expenses and land carry costs was due primarily to additional expense in the prior period of \$2.7 million in acquisition costs expensed in connection with operating property acquisitions and \$930,000 in demolition costs on a property undergoing redevelopment.

Interest Expense

The decrease in interest expense in the current period included: a gain of \$1.5 million in hedge ineffectiveness on our interest rate swaps recognized in the current period; the effect of a 9% decrease in our average outstanding debt in the current period relative to the prior period; and \$1.3 million in incremental additional interest expense in the prior period under the default rate on a non-recourse loan that we extinguished via conveyance of properties.

(Loss) Gain on Early Extinguishment of Debt

We recognized a gain on early extinguishment of \$85.7 million in the prior period primarily in connection with our transfer of ownership in two properties serving as collateral for a \$150.0 million nonrecourse mortgage loan to the

mortgage lender and the removal of the debt obligation and accrued interest from our balance sheet.

Gain on Sales of Real Estate

We recognized gain on sales of real estate in the current period of \$17.9 million on our sale of a 50% interest in six triple-net leased, single-tenant data center properties and \$16.2 million in connection with other operating property dispositions.

Comparison of Statements of Operations for the Nine Months Ended	September 30, 2016 and 2015		
	For the Nine Months Ended		
	September 30,		Variance
	2016	2015	
	(in thousands)		
Revenues			
Revenues from real estate operations	\$397,965	\$384,587	\$13,378
Construction contract and other service revenues	34,372	97,554	(63,182)
Total revenues	432,337	482,141	(49,804)
Expenses			
Property operating expenses	149,968	145,996	3,972
Depreciation and amortization associated with real estate operations	99,790	103,788	(3,998)
Construction contract and other service expenses	32,513	94,923	(62,410)
Impairment losses	99,837	3,545	96,292
General, administrative and leasing expenses	28,764	22,864	5,900
Business development expenses and land carry costs	6,497	10,986	(4,489)
Total operating expenses	417,369	382,102	35,267
Operating income	14,968	100,039	(85,071)
Interest expense	(64,499)	(66,727)	2,228
Interest and other income	3,877	3,217	660
(Loss) gain on early extinguishment of debt	(37)	85,677	(85,714)
Equity in income of unconsolidated entities	614	52	562
Income tax benefit (expense)	28	(153)	181
(Loss) income from continuing operations	(45,049)	122,105	(167,154)
Discontinued operations	—	156	(156)
Gain on sales of real estate	34,101	4,000	30,101
Net (loss) income	\$(10,948)	\$126,261	\$(137,209)

NOI from Real Estate Operations

For the Nine Months Ended September 30,

2016 2015 Variance
(Dollars

in thousands, except per square foot data)

Revenues

Same Office Properties revenues

Rental revenue, excluding lease termination revenue	\$ 226,632	\$ 225,820	\$ 812
Lease termination revenue	1,679	1,950	(271)
Tenant recoveries and other real estate operations revenue	64,095	59,168	4,927
Same Office Properties total revenues	292,406	286,938	5,468
Constructed and developed office properties placed in service	15,853	7,032	8,821
Acquired office properties	27,639	11,204	16,435
Wholesale data center	20,106	12,933	7,173
Properties held for sale	17,910	17,954	(44)
Dispositions	23,671	48,174	(24,503)
Other	380	356	24
	397,965	384,591	13,374

Property operating expenses

Same Office Properties	110,567	107,185	3,382
Constructed and developed office properties placed in service	4,530	2,051	2,479
Acquired office properties	11,885	4,296	7,589
Wholesale data center	8,629	8,441	188
Properties held for sale	6,391	6,949	(558)
Dispositions	7,229	17,108	(9,879)
Other	737	(40)	777
	149,968	145,990	3,978

UJV NOI allocable to COPT

1,008 — 1,008

NOI from real estate operations

Same Office Properties	181,839	179,753	2,086
Constructed and developed office properties placed in service	11,323	4,981	6,342
Acquired office properties	15,754	6,908	8,846
Wholesale data center	11,477	4,492	6,985
Properties held for sale	11,519	11,005	514
Dispositions	16,442	31,066	(14,624)
Other	651	396	255
	\$ 249,005	\$ 238,601	\$ 10,404

Same Office Properties rent statistics

Average occupancy rate	91.0	%	91.0	%	—	%
Average straight-line rent per occupied square foot (1)	\$ 19.10		\$ 19.02		\$ 0.08	

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

Our NOI from constructed office properties placed in service included 11 properties placed in service in 2015 and 2016, and our NOI from acquired office properties included our 2015 acquisitions of 250 W. Pratt Street, 2600 Park

Tower Drive and 100 and 30 Light Street.

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

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NOI from Service Operations

	For the Nine Months Ended		
	September 30,		
	2016	2015	Variance
	(in thousands)		
Construction contract and other service revenues	\$34,372	\$97,554	\$(63,182)
Construction contract and other service expenses	32,513	94,923	(62,410)
NOI from service operations	\$1,859	\$2,631	\$(772)

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

Impairment Losses

In the first quarter of 2016, we set a goal to raise cash from sales of properties in 2016 considerably in excess of the \$96.8 million in assets held for sale at December 31, 2015. The specific properties we would sell to achieve this goal had not been identified when the goal was established. Throughout 2016, we have been in the process of identifying properties we will sell.

In the first quarter of 2016, we reclassified: most of our properties in Greater Philadelphia (included in our Regional Office segment); two properties in the Fort Meade/BW Corridor sub-segment; and our remaining land holdings in Colorado Springs, Colorado to held for sale and recognized \$2.4 million of impairment losses. As of March 31, 2016, we had \$225.9 million of assets held for sale.

During the second quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering the refined investment strategy of our then newly-appointed Chief Executive Officer and the goals of the asset sales program and concluded that we would: (1) not hold our operating properties in Aberdeen, Maryland (“Aberdeen”) for the long-term; (2) not develop commercial properties on land in Frederick, Maryland; (3) sell specific properties in our Northern Virginia Defense/IT and Fort Meade/BW Corridor sub-segments; and (4) sell the remaining operating property in Greater Philadelphia that had not previously been classified as held for sale. Accordingly, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

\$34.4 million on operating properties in Aberdeen (included in our Other segment). After shortening our estimated holding period for these properties, we determined that the carrying amount of the properties would not likely be recovered from the operation and eventual dispositions of the properties during the shortened holding period.

Accordingly, we adjusted the properties to their estimated fair values;

- \$4.4 million on land in Aberdeen. In performing our analysis related to the operating properties in Aberdeen, we determined that the weakening leasing and overall commercial real estate conditions in that market indicated that our land holdings in the market may be impaired. As a result, we determined that the carrying amount of the land was not recoverable and adjusted the land to its estimated fair value;

- \$8.2 million on land in Frederick, Maryland. We determined that the carrying amount of the land would not likely be recovered from its sale and adjusted the land to its estimated fair value;

- \$14.1 million on operating properties in our Northern Virginia and Fort Meade/BW Corridor sub-segments that we reclassified to held for sale during the period whose carrying amounts exceeded their estimated fair values less costs to sell; and

- \$6.2 million on the property in Greater Philadelphia (included in our Regional Office segment) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell.

There were no property sales in the second quarter of 2016 and as of June 30, 2016, we had \$300.6 million of assets held for sale.

During the third quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering refinements to our disposition strategy made during the third quarter of 2016 to sell an additional operating property in our Northern Virginia Defense/IT sub-segment, an additional operating property in our Fort Meade/BW Corridor sub-segment and our remaining operating properties and land in White Marsh, Maryland (“White Marsh”) that had not previously been classified as held for sale. In connection with our determinations that we planned to sell these properties, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

\$13.3 million on the operating property in our Northern Virginia Defense/IT sub-segment. Communication with a major tenant in the building during the quarter led us to conclude that there was significant uncertainty with respect to

the tenant renewing its lease expiring in 2019. As a result of this information and continuing sub-market weakness, we determined that this property no longer met our long-term hold strategy and we placed it into our asset sales program. Accordingly, we adjusted the carrying amount of the property to its estimated fair value less costs to sell; and \$2.9 million on the other properties that we reclassified as held for sale, primarily associated with a land parcel in White Marsh. As of June 30, 2016, this land was under a sales contract subject to a re-zoning contingency. During the third quarter, we were denied favorable re-zoning and the contract was canceled. As a result, we determined this property will be sold as is, reclassified it to held for sale and adjusted its carrying value to its estimated fair value less costs to sell.

During our review we also recognized additional impairment losses of \$11.5 million on properties previously classified as held for sale. Approximately \$10 million of these losses pertained to properties in White Marsh due to our assessment that certain significant tenants will likely exercise lease termination rights and to reflect market conditions. The remainder of these losses pertained primarily to properties in San Antonio, Texas (in our Other segment), where prospective purchasers reduced offering prices late in the third quarter. We executed property sales of \$210.7 million in the third quarter of 2016 (discussed further in Note 4), and had \$161.5 million of assets held for sale at September 30, 2016.

Changes in the expected future cash flows due to changes in our plans for specific properties (especially our expected holding period) could result in the recognition of additional impairment losses. In addition, because properties held for sale are carried at the lower of carrying value or estimated fair values less costs to sell, declines in their estimated fair values due to market conditions and other factors could result in the recognition of additional impairment losses.

General, Administrative and Leasing Expenses

The increase in general, administrative and leasing expenses was attributable primarily to \$6.0 million in executive transition costs incurred in the current period, mostly in connection with the departures of Mr. Waesche, Mr. Lingafelter and Ms. Singer.

Business Development Expenses and Land Carry Costs

The decrease in business development expenses and land carry costs was due primarily to additional expense in the prior period of \$4.1 million in acquisition costs expensed in connection with operating property acquisitions.

(Loss) Gain on Early Extinguishment of Debt

We recognized a gain on early extinguishment of \$85.7 million in the prior period as described above for the three-month period.

Gain on Sales of Real Estate

The increase in gain on sales of real estate in the current period was attributable to the gains described for the three month period ended September 30, 2016.

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. FFO also includes adjustments to net income for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. 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 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 net income 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 such properties, including property NOI and interest expense (discussed further below); loss on interest rate derivatives; demolition costs on redevelopment properties; executive transition costs (including separation related compensation and replacement recruitment for Vice President level positions and above); and issuance costs associated with redeemed preferred shares. This measure also includes adjustments for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. We believe this to be a useful supplemental measure alongside Diluted FFO as it excludes gains and losses from certain investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) 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 one 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 up until the transfer of ownership, 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 \$1.3 million in the three months ended September 30, 2015 and \$5.3 million in the nine months ended September 30, 2015. We

believe that net income 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 this to be a useful supplemental measure alongside Diluted FFO per share as it excludes gains and losses from certain investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) our operating performance. 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.

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The table appearing on the following page sets forth the computation of the above stated measures for the three and nine months ended September 30, 2016 and 2015, and provides reconciliations to the GAAP measures of COPT and subsidiaries associated with such measures:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars and shares in thousands, except per share data)			
Net income (loss)	\$29,272	\$94,294	\$(10,948)	\$126,261
Add Real estate-related depreciation and amortization	32,015	38,403	99,790	103,788
Add: Depreciation and amortization on UJV allocable to COPT	207	—	207	—
Add: Impairment losses on previously depreciated operating properties	25,857	2,307	81,828	3,779
Add: Gain on sales of previously depreciated operating properties	(34,101)	(15)	(34,101)	(15)
FFO	53,250	134,989	136,776	233,813
Less: Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Less: FFO allocable to other noncontrolling interests	(894)	(1,027)	(2,935)	(2,769)
Less: Preferred share dividends	(3,552)	(3,552)	(10,657)	(10,657)
Basic FFO allocable to share-based compensation awards	(190)	(541)	(486)	(926)
Basic FFO available to common share and common unit holders	\$48,449	\$129,704	\$122,203	\$218,966
Dividends on dilutive convertible preferred shares	—	372	—	—
Distributions on dilutive preferred units in the Operating Partnership	—	165	—	—
Diluted FFO available to common share and common unit holders	\$48,449	\$130,241	\$122,203	\$218,966
Add: Operating property acquisition costs	—	2,695	—	4,102
Less: Gain on sales of non-operating properties	—	—	—	(3,985)
Impairment losses on non-operating properties	1,842	—	18,009	—
Losses on interest rate derivatives	(1,523)	—	347	—
Less: Gain on early extinguishment of debt	59	(85,745)	37	(86,057)
Add: Executive transition costs	1,639	—	6,023	—
Add: Negative FFO of properties conveyed to extinguish debt in default	—	2,766	—	10,456
Add: Demolition costs on redevelopment properties	—	930	578	1,171
Less: Diluted FFO comparability adjustments allocable to share-based compensation awards	(5)	334	(99)	313
Dividends and distributions on antidilutive preferred securities	—	(537)	—	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$50,461	\$50,684	\$147,098	\$144,966
Weighted average common shares	94,433	94,153	94,312	93,830
Conversion of weighted average common units	3,591	3,679	3,648	3,697
Weighted average common shares/units - Basic FFO	98,024	97,832	97,960	97,527
Dilutive convertible preferred shares	—	434	—	—
Dilutive convertible preferred units in the Operating Partnership	—	176	—	—
Dilutive effect of share-based compensation awards	81	21	98	82
Weighted average common shares/units - Diluted FFO	98,105	98,463	98,058	97,609
Antidilutive preferred securities for diluted FFO, as adjusted for comparability	—	(610)	—	—
Weighted average common shares/units - Diluted FFO, as adj. for comparability	98,105	97,853	98,058	97,609

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Diluted FFO per share	\$0.49	\$1.32	\$1.25	\$2.24
Diluted FFO per share, as adjusted for comparability	\$0.51	\$0.52	\$1.50	\$1.49
Denominator for diluted EPS	94,514	94,608	94,312	97,609
Weighted average common units	3,591	3,679	3,648	—
Convertible preferred units	—	176	—	—
Anti-dilutive EPS effect of share-based compensation awards	—	—	98	—
Denominator for diluted FFO per share measures	98,105	98,463	98,058	97,609

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Property Additions

The table below sets forth the major components of our additions to properties for the nine months ended September 30, 2016 (in thousands):

Construction, development and redevelopment	\$136,815	
Tenant improvements on operating properties	26,226	(1)
Capital improvements on operating properties	14,850	
	\$177,891	

(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 \$22.2 million when comparing the nine months ended September 30, 2016 and 2015. This increase included: a \$29.0 million increase in cash flow from construction contracts and other services from 2015 to 2016 due in large part to the timing of cash collections and payments on third party construction services; and a \$10.0 million increase in cash flow from real estate operations due primarily to properties acquired and placed in service since the prior period; offset in part by a \$15.4 million increase in interest expense paid from the prior to the current period due primarily to the timing of interest payments from new debt requiring interest payments semi-annually rather than monthly.

Net cash flow provided by investing activities increased \$449.2 million when comparing the nine months ended September 30, 2016 and 2015 due primarily to: an increase in property sales in 2016 relative to 2015; operating property acquisitions in 2015 when none occurred in 2016; and lower development expenditures in 2016.

Net cash flow used in financing activities in the nine months ended September 30, 2016 was \$260.6 million, and included the following:

- dividends and/or distributions to equity holders of \$92.2 million; and
- distributions to redeemable noncontrolling interests of \$14.3 million related primarily to distributions to our partner in Stevens Investors, LLC, as discussed in Note 5 to the consolidated financial statements; offset in part by
- net proceeds from debt borrowings of \$146.0 million.

Net cash flow provided by financing activities in the nine months ended September 30, 2015 was \$221.3 million, and included the following:

- net proceeds from debt borrowings of \$294.9 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 \$91.9 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 September 30, 2016, 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 8 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

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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 September 30, 2016, we had \$47.6 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 September 30, 2016, the maximum borrowing capacity under this facility totaled \$800.0 million, all of which was available.

In addition, as of September 30, 2016, we have \$150.0 million available to be drawn upon under an unsecured term loan that we expect to use for general corporate purposes.

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 raise in excess of \$100 million from sales of interests in properties during the remainder of 2016 and use the proceeds to repay borrowings and fund development costs.

The following table summarizes our contractual obligations as of September 30, 2016 (in thousands):

	For the Periods Ending December 31,						Total
	2016	2017	2018	2019	2020	Thereafter	
Contractual obligations (1)							
Debt (2)							
Balloon payments due upon maturity	\$—	\$—	\$—	\$120,000	\$312,132	\$1,426,832	\$1,858,964
Scheduled principal payments	989	4,061	4,241	4,387	4,024	14,553	32,255
Interest on debt (3)	17,556	70,006	69,832	68,320	62,387	165,716	453,817
New development and redevelopment obligations (4)(5)	33,147	41,620	2,876	—	—	—	77,643
Third-party construction and development obligations (5)(6)	8,380	2,079	—	—	—	—	10,459
Capital expenditures for operating properties (5)(7)	2,946	39,679	17,877	—	—	—	60,502
Operating leases (8)	307	1,159	1,113	1,082	1,089	86,806	91,556
Other obligations	278	730	388	310	120	5	1,831
Total contractual cash obligations	\$63,603	\$159,334	\$96,327	\$194,099	\$379,752	\$1,693,912	\$2,587,027

The contractual obligations set forth in this table exclude property operations contracts that may be terminated with (1) notice of one month or less and also excludes accruals and payables incurred and therefore reflected in our reported liabilities.

Represents scheduled principal amortization payments and maturities only and therefore excludes net debt (2) discounts and deferred financing costs of \$17.4 million. On October 12, 2016, we repaid a \$120.0 million term loan that was scheduled to mature in 2019 primarily using cash on hand and proceeds from our Revolving Credit Facility.

Represents interest costs for our outstanding debt as of September 30, 2016 for the terms of such debt. For (3) variable rate debt, the amounts reflected above used September 30, 2016 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new development 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 approximately \$30 million on construction and development costs and approximately \$20 million on improvements to operating properties (including the commitments set forth in the table above) during the remainder of 2016. We expect to fund the construction and development costs using primarily cash on hand and borrowings under our Revolving Credit Facility. We expect to use proceeds from the disposition of properties to repay 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 September 30, 2016, we were in compliance with these financial covenants.

Off-Balance Sheet Arrangements

On July 21, 2016, we sold a 50% interest in six triple-net leased, single-tenant data center properties in Virginia by contributing them into GI-COPT, a newly-formed joint venture. We account for our 50% interest in the joint venture using the equity method of accounting.

We managed the joint venture's property operations and earned fees for these services in 2016 since its formation. This joint venture has a two-member management committee that is responsible for making major decisions (as defined in the joint venture agreement) and we control one of the management committee positions. We and our partner receive returns generally in proportion to our investments in the joint venture.

As of September 30, 2016, we had an investment balance in GI-COPT of \$25.7 million. Our balance is \$18.5 million lower than our share of the joint venture's equity due to a difference between our cost basis and our share of the underlying equity in the net assets upon formation of the joint venture; we are amortizing this basis difference into equity in income from unconsolidated entities over the lives of the underlying assets. We recognized income on our investment in this joint venture of \$593,000 in 2016. We also realized a net cash inflow from this joint venture of \$552,000 in 2016. In addition, we earned fees totaling \$26,000 from the joint venture in 2016 for property management services.

We had no other material off-balance sheet arrangements during the nine months ended September 30, 2016.

During 2016, we also owned investments in three consolidated joint ventures. We enter into joint ventures such as these from time to time for reasons that include the following: (1) they can provide access to new markets and investment opportunities while enabling us to benefit from the expertise and relationships of our partners; (2) they are an alternative source for raising capital to put towards acquisition or development activities; and (3) they can reduce our exposure to risks associated with a property and its activities. Our consolidated and unconsolidated joint ventures are discussed in Note 5 to our Consolidated Financial Statements.

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

See Note 2 to our consolidated financial statements for information regarding recent accounting pronouncements.

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.

The following table sets forth as of September 30, 2016 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

For the Periods Ending December 31,

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	2016	2017	2018	2019	2020	Thereafter	Total
Debt:							
Fixed rate debt (1)	\$900	\$3,692	\$3,858	\$3,991	\$3,718	\$1,341,385	\$1,357,544
Weighted average interest rate	4.33 %	4.34 %	4.37 %	4.36 %	3.96 %	4.30 %	4.30 %
Variable rate debt (2)	\$89	\$369	\$383	\$120,396	\$312,438	\$100,000	\$533,675
Weighted average interest rate (3)	2.37 %	2.37 %	2.37 %	2.62 %	1.95 %	2.33 %	2.17 %

(1) Represents principal maturities only and therefore excludes net discounts and deferred financing costs of \$17.4 million.

(2) On October 12, 2016, we repaid a \$120.0 million term loan that was scheduled to mature in 2019 primarily using cash on hand and proceeds from our Revolving Credit Facility.

(3) The amounts reflected above used September 30, 2016 interest rates on variable rate debt.

The fair value of our debt was \$1.9 billion as of September 30, 2016. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$103 million as of September 30, 2016.

The following table sets forth information pertaining to interest rate swap contracts in place as of September 30, 2016 and December 31, 2015 and their respective fair values (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					September 30, 2016	December 31, 2015
\$100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	\$(2,339)	\$ (1,217)
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(2,500)	(1,429)
13,676	(1)1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	(236)	53
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(4,879)	(138)
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	(4,872)	(45)
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	(2,446)	(32)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	—	(148)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	—	(151)
					\$(17,272)	\$ (3,107)

(1)The notional amount of this instrument is scheduled to amortize to \$12.1 million.

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by \$1.7 million in the nine months ended September 30, 2016 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 September 30, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2016 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 September 30, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Operating Partnership's disclosure controls and procedures as of September 30, 2016 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 2015 Annual Report on Form 10-K.

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

(a) During the three months ended September 30, 2016, 60,242 of COPLP's common units were exchanged for 60,242 COPT common shares in accordance with COPLP's Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

(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

On November 1, 2016, we entered into a Letter Agreement (the "2016 Agreement") with Anthony Mifsud, our Executive Vice President and Chief Financial Officer, regarding Mr. Mifsud's participation in our Executive Change in Control and Severance Plan (the "Plan"). The 2016 Agreement supersedes a previous Letter Agreement between us and Mr. Mifsud, dated January 19, 2015, pertaining to his participation in the Plan. The 2016 Agreement establishes a five-year participation period for Mr. Mifsud under the Plan, after which he will cease to participate in the Plan unless otherwise agreed to by us and Mr. Mifsud. The previous Letter Agreement had no defined term. Other than to reflect such change, the 2016 Agreement contains no changes in substantive terms.

Item 6. Exhibits

(a) Exhibits:

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EXHIBIT NO.	DESCRIPTION
10.1	Separation Agreement, dated July 26, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Karen M. Singer (filed with the Company's Form 8-K dated July 28, 2016 and incorporated herein by reference).
10.2	First Amendment to Term Loan Agreement, dated as of September 15, 2016, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; Capital One, National Association, PNC Capital Markets LLC and Regions Capital Markets, a division of Regions Bank, PNC Bank, National Association and Regions Bank (filed herewith).
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).

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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/ Stephen E. Budorick
Stephen E. Budorick
President and Chief Executive Officer

/s/ Stephen E. Budorick
Stephen E. Budorick
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: November 4, 2016

Dated: November 4, 2016