CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
May 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark one)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)
Corporate Office Properties Trust
Corporate Office Properties, L.P.
(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust	Maryland (State or other jurisdiction of incorporation or organization)	23-2947217 (IRS Employer Identification No.)
Corporate Office Properties, L.P.	Delaware (State or other jurisdiction of incorporation or organization)	23-2930022 (IRS Employer Identification No.)

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

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

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

Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o 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 ý Yes o No

Corporate Office Properties, L.P. ý Yes o No

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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

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

Corporate Office Properties Trust o Yes ý No
Corporate Office Properties, L.P. o Yes ý No

As of April 20, 2016, 94,650,659 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 March 31, 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 March 31, 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 13, 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)

	March 31, 2016	December 31, 2015
Assets		
Properties, net:		
Operating properties, net	$2,863,262	$2,920,529
Projects in development or held for future development	416,169	429,219
Total properties, net	3,279,431	3,349,748
Assets held for sale, net	225,897	96,782
Cash and cash equivalents	62,489	60,310
Restricted cash and marketable securities	7,763	7,716
Accounts receivable (net of allowance for doubtful accounts of $1,789 and $1,525, respectively)	28,776	29,167
Deferred rent receivable (net of allowance of $881 and $1,962, respectively)	96,936	105,484
Intangible assets on real estate acquisitions, net	93,526	98,338
Deferred leasing costs (net of accumulated amortization of $66,237 and $66,364, respectively)	44,768	53,868
Investing receivables	48,998	47,875
Prepaid expenses and other assets, net	49,324	60,024
Total assets	$3,937,908	$3,909,312
Liabilities and equity		
Liabilities:		
Debt, net	$2,140,212	$2,077,752
Accounts payable and accrued expenses	78,597	91,755
Rents received in advance and security deposits	33,457	37,148
Dividends and distributions payable	30,217	30,178
Deferred revenue associated with operating leases	19,093	19,758
Interest rate derivatives	15,072	3,160
Other liabilities	15,046	13,779
Total liabilities	2,331,694	2,273,530
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests	22,333	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 March 31, 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 94,661,381 at March 31, 2016 and 94,531,512 at December 31, 2015)	947	945
Additional paid-in capital	2,005,523	2,004,507
Cumulative distributions in excess of net income	(679,935)	(657,172)

Accumulated other comprehensive loss	(12,862)	(2,838)
Total Corporate Office Properties Trust’s shareholders’ equity	1,512,756	1,544,525
Noncontrolling interests in subsidiaries:		
Common units in COPLP	51,031	52,359
Preferred units in COPLP	8,800	8,800
Other consolidated entities	11,294	10,880
Noncontrolling interests in subsidiaries	71,125	72,039
Total equity	1,583,881	1,616,564
Total liabilities, redeemable noncontrolling interest and equity	$ 3,937,908	$ 3,909,312

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
Revenues		
Rental revenue	$105,382	$98,238
Tenant recoveries and other real estate operations revenue	27,705	24,472
Construction contract and other service revenues	11,220	38,324
Total revenues	144,307	161,034
Expenses		
Property operating expenses	51,875	50,681
Depreciation and amortization associated with real estate operations	34,527	31,599
Construction contract and other service expenses	10,694	37,498
Impairment losses	2,446	—
General, administrative and leasing expenses	11,883	7,891
Business development expenses and land carry costs	2,418	2,790
Total operating expenses	113,843	130,459
Operating income	30,464	30,575
Interest expense	(23,559)	(20,838)
Interest and other income	1,156	1,283
Gain (loss) on early extinguishment of debt	17	(3)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	8,078	11,017
Equity in income of unconsolidated entities	10	25
Income tax benefit (expense)	8	(55)
Income from continuing operations	8,096	10,987
Discontinued operations	—	(238)
Income before gain on sales of real estate	8,096	10,749
Gain on sales of real estate	—	3,986
Net income	8,096	14,735
Net income attributable to noncontrolling interests:		
Common units in COPLP	(127)	(398)
Preferred units in COPLP	(165)	(165)
Other consolidated entities	(978)	(817)
Net income attributable to COPT	6,826	13,355
Preferred share dividends	(3,552)	(3,552)
Net income attributable to COPT common shareholders	$3,274	$9,803
Net income attributable to COPT:		
Income from continuing operations	$6,826	$13,581
Discontinued operations, net	—	(226)
Net income attributable to COPT	$6,826	$13,355
Basic earnings per common share (1)		
Income from continuing operations	$0.03	$0.10
Discontinued operations	0.00	0.00

Net income attributable to COPT common shareholders	$0.03	$0.10
Diluted earnings per common share (1)		
Income from continuing operations	$0.03	$0.10
Discontinued operations	0.00	0.00
Net income attributable to COPT common shareholders	$0.03	$0.10
Dividends declared per common share	$0.275	$0.275

(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 March 31,	
	2016	2015
Net income	$8,096	$14,735
Other comprehensive loss		
Unrealized losses on interest rate derivatives	(11,284)	(3,474)
Losses on interest rate derivatives included in interest expense	870	773
Other comprehensive loss	(10,414)	(2,701)
Comprehensive (loss) income	(2,318)	12,034
Comprehensive income attributable to noncontrolling interests	(880)	(1,329)
Comprehensive (loss) income attributable to COPT	$(3,198)	$10,705

See accompanying notes to consolidated financial statements.

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

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive 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 (158,000 shares)	—	2	2,120	—	—	(2,122)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (70,374 shares)	—	—	1,845	—	—	—	1,845
Share-based compensation (162,370 shares issued, net of redemptions)	—	1	1,828	—	—	—	1,829
Redemption of vested equity awards	—	—	(2,031)	—	—	—	(2,031)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(475)	—	—	475	—
Comprehensive income	—	—	—	13,355	(2,650)	767	11,472
Dividends	—	—	—	(29,550)	—	—	(29,550)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(1,177)	(1,177)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(73)	—	—	—	(73)
Balance at March 31, 2015 (94,536,269 common shares outstanding)	$199,083	$ 945	$1,999,708	$ (733,459)	$ (3,947)	$ 67,400	$1,529,730
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
Costs associated with common shares issued to the public	—	—	(5)	—	—	—	(5)
	—	2	2,423	—	—	—	2,425

Share-based compensation (129,869 shares issued, net of redemptions)							
Redemption of vested equity awards	—	—	(1,154)	—	—	—	(1,154)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	54	—	—	(54)	—
Comprehensive loss	—	—	—	6,826	(10,024)	320	(2,878)
Dividends	—	—	—	(29,589)	—	—	(29,589)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(1,176)	(1,176)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(302)	—	—	—	(302)
Balance at March 31, 2016 (94,661,381common shares outstanding)	$199,083	$ 947	$2,005,523	$ (679,935)	$ (12,862)	$ 71,125	$1,583,881

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 Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Revenues from real estate operations received	$130,059	$117,521
Construction contract and other service revenues received	7,747	19,968
Property operating expenses paid	(46,084)	(42,768)
Construction contract and other service expenses paid	(10,765)	(27,853)
General, administrative, leasing, business development and land carry costs paid	(12,175)	(12,728)
Interest expense paid	(21,386)	(12,795)
Other	43	545
Net cash provided by operating activities	47,439	41,890
Cash flows from investing activities		
Construction, development and redevelopment	(45,146)	(62,057)
Acquisitions of operating properties and related intangible assets	—	(56,622)
Tenant improvements on operating properties	(6,388)	(5,520)
Other capital improvements on operating properties	(9,505)	(3,720)
Proceeds from dispositions of properties	5,452	17,424
Leasing costs paid	(1,593)	(1,935)
Other	1,121	(5,956)
Net cash used in investing activities	(56,059)	(118,386)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	88,500	150,000
Repayments of debt		
Revolving Credit Facility	(25,000)	(69,000)
Scheduled principal amortization	(1,800)	(1,649)
Other debt repayments	(50)	(50)
Net proceeds from issuance of common shares	(5)	28,404
Common share dividends paid	(26,002)	(25,646)
Preferred share dividends paid	(3,552)	(3,552)
Distributions paid to noncontrolling interests in COPLP	(1,171)	(1,217)
Distributions paid to redeemable noncontrolling interests	(13,848)	(122)
Redemption of vested equity awards	(1,154)	(2,031)
Other	(5,119)	(289)
Net cash provided by financing activities	10,799	74,848
Net increase (decrease) in cash and cash equivalents	2,179	(1,648)
Cash and cash equivalents		
Beginning of period	60,310	6,077
End of period	$62,489	$4,429

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
Reconciliation of net income to net cash provided by operating activities:		
Net income	$8,096	$14,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	35,129	32,091
Impairment losses	2,446	233
Losses on interest rate derivatives	1,551	—
Amortization of deferred financing costs and net debt discounts	1,495	1,254
Increase in deferred rent receivable	(1,456)	(1,746)
Gain on sales of real estate	—	(3,986)
Share-based compensation	2,108	1,552
Other	(802)	(640)
Operating changes in assets and liabilities:		
Decrease (increase) in accounts receivable	409	(6,918)
Decrease (increase) in restricted cash and marketable securities	15	(1,577)
Decrease (increase) in prepaid expenses and other assets, net	5,941	(6,352)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,802)	12,704
(Decrease) increase in rents received in advance and security deposits	(3,691)	540
Net cash provided by operating activities	$47,439	$41,890
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	$(9,420)	$(3,897)
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	$6,675	$—
Other liabilities assumed on acquisition of operating properties	$—	$5,265
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	$(10,414)	$(2,701)
Dividends/distribution payable	$30,217	$30,174
Decrease in noncontrolling interests and increase in shareholders’ equity in connection with the conversion of common units into common shares	$—	$2,122
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	$(54)	$475
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	$302	$73

See accompanying notes to consolidated financial statements.

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

	March 31, 2016	December 31, 2015
Assets		
Properties, net:		
Operating properties, net	$2,863,262	$2,920,529
Projects in development or held for future development	416,169	429,219
Total properties, net	3,279,431	3,349,748
Assets held for sale, net	225,897	96,782
Cash and cash equivalents	62,489	60,310
Restricted cash and marketable securities	2,092	1,953
Accounts receivable (net of allowance for doubtful accounts of $1,789 and $1,525, respectively)	28,776	29,167
Deferred rent receivable (net of allowance of $881 and $1,962, respectively)	96,936	105,484
Intangible assets on real estate acquisitions, net	93,526	98,338
Deferred leasing costs (net of accumulated amortization of $66,237 and $66,364, respectively)	44,768	53,868
Investing receivables	48,998	47,875
Prepaid expenses and other assets, net	49,324	60,024
Total assets	$3,932,237	$3,903,549
Liabilities and equity		
Liabilities:		
Debt, net	$2,140,212	$2,077,752
Accounts payable and accrued expenses	78,597	91,755
Rents received in advance and security deposits	33,457	37,148
Distributions payable	30,217	30,178
Deferred revenue associated with operating leases	19,093	19,758
Interest rate derivatives	15,072	3,160
Other liabilities	9,375	8,016
Total liabilities	2,326,023	2,267,767
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests	22,333	19,218
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at March 31, 2016 and December 31, 2015	199,083	199,083
Limited partner, 352,000 preferred units outstanding at March 31, 2016 and December 31, 2015	8,800	8,800
Common units, 94,661,381 and 94,531,512 held by the general partner and 3,677,391 held by limited partners at March 31, 2016 and December 31, 2015, respectively	1,378,061	1,400,745
Accumulated other comprehensive loss	(13,399)	(2,985)
Total Corporate Office Properties, L.P.'s equity	1,572,545	1,605,643

Noncontrolling interests in subsidiaries	11,336	10,921
Total equity	1,583,881	1,616,564
Total liabilities, redeemable noncontrolling interest and equity	$3,932,237	$3,903,549

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
Revenues		
Rental revenue	$105,382	$98,238
Tenant recoveries and other real estate operations revenue	27,705	24,472
Construction contract and other service revenues	11,220	38,324
Total revenues	144,307	161,034
Expenses		
Property operating expenses	51,875	50,681
Depreciation and amortization associated with real estate operations	34,527	31,599
Construction contract and other service expenses	10,694	37,498
Impairment losses	2,446	—
General, administrative and leasing expenses	11,883	7,891
Business development expenses and land carry costs	2,418	2,790
Total operating expenses	113,843	130,459
Operating income	30,464	30,575
Interest expense	(23,559)	(20,838)
Interest and other income	1,156	1,283
Gain (loss) on early extinguishment of debt	17	(3)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	8,078	11,017
Equity in income of unconsolidated entities	10	25
Income tax benefit (expense)	8	(55)
Income from continuing operations	8,096	10,987
Discontinued operations	—	(238)
Income before gain on sales of real estate	8,096	10,749
Gain on sales of real estate	—	3,986
Net income	8,096	14,735
Net income attributable to noncontrolling interests in consolidated entities	(979)	(818)
Net income attributable to COPLP	7,117	13,917
Preferred unit distributions	(3,717)	(3,717)
Net income attributable to COPLP common unitholders	$3,400	$10,200
Net income attributable to COPLP:		
Income from continuing operations	$7,117	$14,152
Discontinued operations, net	—	(235)
Net income attributable to COPLP	$7,117	$13,917
Basic earnings per common unit (1)		
Income from continuing operations	$0.03	$0.10
Discontinued operations	0.00	0.00
Net income attributable to COPLP common unitholders	$0.03	$0.10
Diluted earnings per common unit (1)		
Income from continuing operations	$0.03	$0.10
Discontinued operations	0.00	0.00

Net income attributable to COPLP common unitholders	$0.03	$0.10
Distributions declared per common unit	$0.275	$0.275

(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 March 31,	
	2016	2015
Net income	$8,096	$14,735
Other comprehensive loss		
Unrealized losses on interest rate derivatives	(11,284)	(3,474)
Losses on interest rate derivatives included in interest expense	870	773
Other comprehensive loss	(10,414)	(2,701)
Comprehensive (loss) income	(2,318)	12,034
Comprehensive income attributable to noncontrolling interests	(979)	(873)
Comprehensive (loss) income attributable to COPLP	$(3,297)	$11,161

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	—	—	—	—	70,374	1,845	—	—	1,845
Share-based compensation (units net of redemption)	—	—	—	—	162,370	1,829	—	—	1,829
Redemptions of vested equity awards	—	—	—	—	—	(2,031)	—	—	(2,031)
Comprehensive income	—	165	—	3,552	—	10,200	(2,756)	311	11,472
Distributions to owners of common and preferred units	—	(165)	—	(3,552)	—	(27,010)	—	—	(30,727)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(73)	—	—	(73)
Balance at March 31,	352,000	$8,800	7,431,667	$199,083	98,215,820	$1,316,514	$(4,137)	$9,470	$1,529,730

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)	—	—	—	—	129,869	2,425	—	—	2,425
Redemptions of vested equity awards	—	—	—	—	—	(1,154)	—	—	(1,154)
Comprehensive loss	—	165	—	3,552	—	3,400	(10,414)	419	(2,878)
Distributions to owners of common and preferred units	—	(165)	—	(3,552)	—	(27,048)	—	—	(30,765)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(302)	—	—	(302)
Balance at March 31, 2016	352,000	$8,800	7,431,667	$199,083	98,338,772	$1,378,061	$(13,399)	$11,336	$1,583,881

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 Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Revenues from real estate operations received	$130,059	$117,521
Construction contract and other service revenues received	7,747	19,968
Property operating expenses paid	(46,084)	(42,768)
Construction contract and other service expenses paid	(10,765)	(27,853)
General, administrative, leasing, business development and land carry costs paid	(12,175)	(12,728)
Interest expense paid	(21,386)	(12,795)
Other	43	545
Net cash provided by operating activities	47,439	41,890
Cash flows from investing activities		
Construction, development and redevelopment	(45,146)	(62,057)
Acquisitions of operating properties and related intangible assets	—	(56,622)
Tenant improvements on operating properties	(6,388)	(5,520)
Other capital improvements on operating properties	(9,505)	(3,720)
Proceeds from dispositions of properties	5,452	17,424
Leasing costs paid	(1,593)	(1,935)
Other	1,121	(5,956)
Net cash used in investing activities	(56,059)	(118,386)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	88,500	150,000
Repayments of debt		
Revolving Credit Facility	(25,000)	(69,000)
Scheduled principal amortization	(1,800)	(1,649)
Other debt repayments	(50)	(50)
Net proceeds from issuance of common units	(5)	28,404
Common unit distributions paid	(27,008)	(26,698)
Preferred unit distributions paid	(3,717)	(3,717)
Redemption of vested equity awards	(1,154)	(2,031)
Distributions paid to redeemable noncontrolling interests	(13,848)	(122)
Other	(5,119)	(289)
Net cash provided by financing activities	10,799	74,848
Net increase (decrease) in cash and cash equivalents	2,179	(1,648)
Cash and cash equivalents		
Beginning of period	60,310	6,077
End of period	$62,489	$4,429

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
Reconciliation of net income to net cash provided by operating activities:		
Net income	$8,096	$14,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	35,129	32,091
Impairment losses	2,446	233
Losses on interest rate derivatives	1,551	—
Amortization of deferred financing costs and net debt discounts	1,495	1,254
Increase in deferred rent receivable	(1,456)	(1,746)
Gain on sales of real estate	—	(3,986)
Share-based compensation	2,108	1,552
Other	(802)	(640)
Operating changes in assets and liabilities:		
Decrease (increase) in accounts receivable	409	(6,918)
Increase in restricted cash and marketable securities	(77)	(1,523)
Decrease (increase) in prepaid expenses and other assets, net	5,941	(6,352)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,710)	12,650
(Decrease) increase in rents received in advance and security deposits	(3,691)	540
Net cash provided by operating activities	$47,439	$41,890
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	$(9,420)	$(3,897)
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	$6,675	$—
Other liabilities assumed on acquisition of operating properties	$—	$5,265
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	$(10,414)	$(2,701)
Distributions payable	$30,217	$30,174
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	$302	$73

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 March 31, 2016, our properties included the following:

- 179 operating office properties totaling 18.3 million square feet, including ten triple-net leased, single-tenant data center properties;
- 11 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.3 million square feet upon completion, including one partially operational property included above and a property 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 16.5 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 March 31, 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 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 present our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 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.

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 $5.7 million as of March 31, 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 March 31, 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.

As discussed further in Note 5, our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC, 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 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 March 31, 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
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	$ 5,580	$ —	$ —	$5,580
Other	91	—	—	91
Total assets	$ 5,671	$ —	$ —	$5,671
Liabilities:				
Deferred compensation plan liability (2)	$ —	$ 5,671	$ —	$5,671
Interest rate derivatives	—	15,072	—	15,072
Total liabilities	$ —	$ 20,743	$ —	$20,743

(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 March 31, 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	$ —	$ 15,072	$ —	$15,072

Nonrecurring Fair Value Measurements

During the three months ended March 31, 2016, we recognized the following impairment losses resulting from nonrecurring fair value measurements:

- $1.6 million on land in Colorado Springs, Colorado, the carrying amount of which exceeded the estimated fair value less costs to sell. Most of these losses pertained to land we decided to sell during the quarter that was reclassified as held for sale, and the remainder was attributable to further decreases in fair value of properties previously classified as held for sale based on recent bids from and negotiations with prospective buyers; and
- $847,000 on operating properties in White Marsh, Maryland (included in our Regional Office segment) classified as held for sale whose carrying amounts exceeded their estimated fair values less costs to sell based on recent negotiations with prospective buyers.

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 March 31, 2016 (dollars in thousands):

Fair Values as of March 31, 2016

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Assets held for sale, net (1)	$ —	$ —	$ 14,886	$ 14,886

(1) Represents estimated fair values less costs to sell. Fair values were derived from bids for the properties that were deemed to be indicative of value.

4. Properties, Net

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

	March 31, 2016	December 31, 2015
Land	$464,674	$463,305
Buildings and improvements	3,111,871	3,157,587
Less: Accumulated depreciation	(713,283)	(700,363)
Operating properties, net	$2,863,262	$2,920,529

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

	March 31, 2016	December 31, 2015
Land	$220,834	$ 207,774
Development in progress, excluding land	195,335	221,445
Projects in development or held for future development	$416,169	$ 429,219

Our properties held for sale included:

- as of March 31, 2016: 13 operating properties in White Marsh, Maryland (included in our Regional Office segment); four operating properties in Greater Philadelphia (included in our Regional Office segment); two operating properties in Hanover, Maryland (included in our Fort Meade/BW Corridor sub-segment); two operating properties in San Antonio (included in our Other segment); and land in Northern Virginia, Colorado Springs and Greater Philadelphia; and
- as of December 31, 2015: 13 operating properties in White Marsh, Maryland (included in our Regional Office segment); two operating properties in San Antonio (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):

	March 31, 2016	December 31, 2015
Properties, net	$199,481	$ 90,188
Deferred rent receivable	12,542	2,891
Intangible assets on real estate acquisitions, net	1,591	1,591
Deferred leasing costs, net	9,228	1,391
Lease incentives, net	3,055	721
Assets held for sale, net	$225,897	$ 96,782

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;
- 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 March 31, 2016 and $332,000 for the three months ended March 31, 2015, and net income from continuing operations of $942,000 for the three months ended March 31, 2016 and $170,000 for the three months ended March 31, 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 March 31, 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 three months ended March 31, 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 March 31, 2015 (Unaudited)
Pro forma total revenues	$ 169,925
Pro forma net income attributable to COPT common shareholders	$ 10,847
Pro forma EPS:	
Basic	$ 0.11
Diluted	$ 0.11

2016 Dispositions

We sold land in the three months ended March 31, 2016 for $5.7 million, with no gain recognized.

2016 Construction Activities

During the three months ended March 31, 2016, we placed into service 149,000 square feet in one newly constructed office property and 51,000 square feet in a redeveloped property. As of March 31, 2016, we had eight office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.2 million square feet upon completion (including a property 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

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of March 31, 2016 (dollars in thousands):

	Date Acquired	Nominal Ownership % as of 3/31/2016	Nature of Activity	March 31, 2016 Total Assets	Encumbered Assets	(1) Total Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Development and operation of real estate (2)	$149,301	$ 82,018	$ 53,356
M Square Associates, LLC	6/26/2007	50%	Development and operation of real estate (3)	56,333	47,820	37,462
Stevens Investors, LLC	8/11/2015	95%	Development of real estate (4)	37,724	—	6,937
				$243,358	$ 129,838	$ 97,755

(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 later in 2016 or 2017) that was reported in other liabilities on our consolidated balance sheet as of March 31, 2016.

6. Investing Receivables

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

	March 31, 2016	December 31, 2015
Notes receivable from the City of Huntsville	$ 45,998	$ 44,875
Other investing loans receivable	3,000	3,000
	$ 48,998	$ 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 March 31, 2016 or December 31, 2015. The fair value of these receivables approximated their carrying amounts as of March 31, 2016 and December 31, 2015.

7. Prepaid Expenses and Other Assets, Net

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

	March 31, 2016	December 31, 2015
Prepaid expenses	$ 15,516	$ 23,009
Lease incentives, net	8,375	11,133
Furniture, fixtures and equipment, net	5,669	6,004
Construction contract costs incurred in excess of billings	5,232	3,261
Deferred financing costs, net (1)	5,182	5,867
Deferred tax asset, net (2)	3,474	3,467
Equity method investments	1,646	1,636
Other assets	4,230	5,647
Prepaid expenses and other assets, net	$ 49,324	$ 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			Scheduled Maturity as of
	March 31, 2016	December 31, 2015	Stated Interest Rates as of March 31, 2016	March 31, 2016
Mortgage and Other Secured Loans:				
Fixed rate mortgage loans (2)	$279,782	$ 281,208	3.96% - 7.87% (3)	2016-2024
Variable rate secured loans	49,488	49,792	LIBOR + 1.85% - 2.00% (4)	2016-2020
Total mortgage and other secured loans	329,270	331,000		
Revolving Credit Facility	107,000	43,500	LIBOR + 0.875% to 1.60% (5)	May 2019
Term Loan Facilities (6)	516,205	515,902	LIBOR + 0.90% to 2.60% (7)	2019-2022
Unsecured Senior Notes				
3.600%, $350,000 aggregate principal	346,817	346,714	3.60% (8)	May 2023
5.250%, $250,000 aggregate principal	245,840	245,731	5.25% (9)	February 2024
3.700%, $300,000 aggregate principal	297,493	297,378	3.70% (10)	June 2021
5.000%, $300,000 aggregate principal	296,105	296,019	5.00% (11)	July 2025
Unsecured notes payable	1,482	1,508	0% (12)	2026
Total debt, net	$2,140,212	$ 2,077,752		

(1) The carrying values of our loans other than the Revolving Credit Facility reflect net deferred financing costs of $7.5 million as of March 31, 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 $489,000 as of March 31, 2016 and $514,000 as of December 31, 2015.

(3) The weighted average interest rate on our fixed rate mortgage loans was 6.08% as of March 31, 2016.

(4) The weighted average interest rate on our variable rate secured loans was 2.40% as of March 31, 2016.

(5) The weighted average interest rate on the Revolving Credit Facility was 1.60% as of March 31, 2016.

(6) An additional $150 million in borrowings is available to be drawn under a term loan. In addition, we have 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.

(7) The weighted average interest rate on these loans was 2.08% as of March 31, 2016.

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

(9) The carrying value of these notes reflects an unamortized discount totaling $3.7 million as of March 31, 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%.

(10) The carrying value of these notes reflects an unamortized discount totaling $2.0 million as of March 31, 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%.

(11) The carrying value of these notes reflects an unamortized discount totaling $3.2 million as of March 31, 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%.

(12)

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 $530,000 as of March 31, 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 March 31, 2016, we were within the compliance requirements of these financial covenants.

We capitalized interest costs of $1.8 million in the three months ended March 31, 2016 and $2.1 million in the three months ended March 31, 2015.

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

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	$1,186,255	$1,216,295	$1,185,842	$1,211,658
Other fixed-rate debt	281,264	289,254	282,716	291,991
Variable-rate debt	672,693	677,203	609,194	610,987
	$2,140,212	$2,182,752	$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 March 31, 2016	Fair Value at December 31, 2015
$100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	$(137)	$ (148)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	(139)	(151)
100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	(2,738)	(1,217)
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(2,929)	(1,429)
13,853 (1)	1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	(242)	53
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(3,601)	(138)
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	(3,511)	(45)
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	(1,775)	(32)
					$(15,072)	$ (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 March 31, 2016	Fair Value at 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	(15,072)	(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 March 31, 2016	2015
Amount of (loss) gain recognized in accumulated other comprehensive loss ("AOCL") (effective portion)	$(11,284)	$(3,474)
Amount of losses reclassified from AOCL into interest expense (effective portion)	870	773
Amount of loss recognized in interest expense (ineffective portion)	1,551	—

Over the next 12 months, we estimate that approximately $4.5 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 March 31, 2016, the fair value of interest rate derivatives in a liability position related to these agreements was $15.8 million, excluding the effects of accrued interest and credit valuation adjustments. As of March 31, 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 $16.1 million.

10. Redeemable Noncontrolling Interests

The table below sets forth the activity for redeemable noncontrolling interests in our LW Redstone, LLC and Stevens Investors, LLC joint ventures described in Note 5 (in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Beginning balance	$19,218	$18,417
Contributions from noncontrolling interests	22,779	—
Distributions to noncontrolling interests	(20,526)	(157)
Net income attributable to noncontrolling interests	560	562
Adjustment to arrive at fair value of interests	302	73
Ending balance	$22,333	$18,895

11. Information by Business Segment

Our segment reporting includes the following segments: Defense/IT Locations; Regional Office; our operating wholesale data center; and other. Our segment reporting also includes reporting for 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). The table below reports segment financial information for our reportable segments (in thousands). We measure the performance of our segments through the measure we define as NOI from real estate operations, which is derived by subtracting property operating expenses from revenues from real estate operations.

	Operating Office Property Segments										
	Defense/Information Technology Locations										
	Fort Meade/BW Corridor	Northern Virginia Defense/IT	Lackland Air Force Base	Navy Support Locations	Redstone Arsenal	Data Center Shells	Total Defense/IT Locations	Regional Office	Operating Wholesale Data Center	Other	T
Three Months Ended March 31, 2016											
Revenues from real estate operations	$62,509	$12,116	$10,225	$6,934	$3,116	$6,330	$101,230	$23,502	$6,493	$1,862	$
Property operating expenses	23,246	4,541	5,420	3,524	978	810	38,519	9,831	2,661	864	5
NOI from real estate operations	$39,263	$7,575	$4,805	$3,410	$2,138	$5,520	$62,711	$13,671	$3,832	$998	$
Additions to long-lived assets	$6,519	$3,078	$—	$1,270	$618	$—	$11,485	$2,759	$—	$157	$
Transfers from non-operating properties	$35,751	$(94)	$6	$—	$211	$26,097	$61,971	$82	$51	$(11)	$
Segment assets at March 31, 2016	$1,319,444	$407,199	$133,757	$195,306	$107,693	$227,808	$2,391,207	$603,662	$240,484	$70,039	$
Three Months Ended March 31, 2015											
Revenues from real estate operations	$61,184	$11,046	$8,665	$7,265	$2,446	$5,114	$95,720	$21,960	$3,035	$1,995	$

Property operating expenses	23,516	5,616	4,763	3,398	829	695	38,817	8,748	2,212	909	5
NOI from real estate operations	$37,668	$5,430	$3,902	$3,867	$1,617	$4,419	$56,903	$13,212	$823	$1,086	$
Additions to long-lived assets	$3,445	$787	$—	$1,593	$83	$—	$5,908	$65,934	$30	$99	$
Transfers from non-operating properties	$										