MINERALS TECHNOLOGIES INC
Form 10-Q/A
August 04, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended September 28, 2003

or

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

Commission File Number 1-3295

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MINERALS TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

DELAWARE	25-1190717
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

405 Lexington Avenue, New York, New York 10174-1901

(Address of principal executive offices, including zip code)

(212) 878-1800

(Registrant's telephone number, including area code)

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

YES X___ **NO** ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES X___ **NO** ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 24, 2003
Common Stock, $0.10 par value	20,373,203

EXPLANATORY NOTE

Minerals Technologies Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q/A (this "Form 10-Q/A") to reflect a revision to the accounting treatment of the reversal in the third quarter of 2003 of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. As a result of this revision, the Company is restating its financial statements for the fiscal quarter ended September 28, 2003.

During the third quarter of 2003, the Company reversed tax reserves no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. In its Quarterly Report on Form 10-Q for the quarter ended September 28, 2003 (the "Form 10-Q"), filed with the Securities and Exchange Commission (the "Commission") on November 10, 2003, the Company reported that this reversal resulted in a reduction to the 2003 income tax provision of approximately $15 million, of which $11.5 million was reversed in the third quarter. This Form 10-Q/A reflects the Company's determination that the reversal of such tax reserves should be treated as an equity transaction and reflected as an increase in additional paid-in capital of $15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992. For a detailed description of the effect of the restatement of the financial statements see Note 3 to the financial statements.

This technical restatement has no impact on the income from operations, cash flows, or assets and liabilities of the Company. In addition, the original treatment or the restatement had no effect on any payments under the Company's officer and management compensation plans.

In accordance with the rules of the Commission, the affected items of the Form 10-Q, Items 1 through 4 of Part I and Item 6 of Part II, are being amended and restated in their entirety. Except as described above, no other amendments are being made to the Form 10-Q. This Form 10-Q/A does not reflect events occurring after September 28, 2003 or substantively modify or update the disclosure contained in the Form 10-Q in any way other than as required to reflect the amendments discussed above and reflected below.

MINERALS TECHNOLOGIES INC.
INDEX TO AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-Q/A

PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended		**Nine Months Ended**	
(in thousands, except per share data)	Restated Sept. 28, 2003	Sept. 29, 2002	Restated Sept. 28, 2003	Sept. 29, 2002
Net sales	$198,234	$192,134	$602,058	$557,962
Operating costs and expenses:				
Cost of goods sold	150,748	145,737	454,809	419,823
Marketing and administrative expenses	21,854	19,464	64,853	57,257
Research and development expenses	6,093	5,304	18,713	16,833
Income from operations	19,539	21,629	63,683	64,049
Non-operating deductions, net	1,100	1,081	3,568	4,040

Income before provision for taxes on income and minority interests	18,439	20,548	60,115	60,009
Provision for taxes on income	5,144	5,853	16,772	17,087
Minority interests	526	482	1,374	1,169
Income before cumulative effect of accounting change	12,769	14,213	41,969	41,753
Cumulative effect of accounting change	--	--	3,433	--
Net income	$ 12,769	$ 14,213	$ 38,536	$ 41,753
	=====	======	=====	=====
Earnings per share:				
Basic:				
Before cumulative effect of accounting change	$ 0.63	$ 0.70	$ 2.08	$ 2.07
Cumulative effect of accounting change --	--	--	(0.17)	--
Basic earnings per share	$ 0.63	$ 0.70	$ 1.91	$ 2.07
	======	=======	======	======
Diluted:				
Before cumulative effect of accounting change	$ 0.62	$ 0.70	$ 2.06	$ 2.02
Cumulative effect of accounting change --	--	--	(0.17)	--
Diluted earnings per share	$ 0.62	$ 0.70	$ 1.89	$ 2.02
	======	=======	======	======
Cash dividends declared per common share	$ 0.025	$ 0.025	$ 0.075	$ 0.075

Shares used in computation of earnings per share:				
Basic	20,185	20,201	20,132	20,216
Diluted	20,489	20,366	20,349	20,635

See accompanying notes to Condensed Consolidated Financial Statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

(thousands of dollars)	Restated September 28, 2003*	December 31, 2002**
Current assets		
Cash and cash equivalents	$ 56,799	$ 31,762
Accounts receivable, net	151,425	129,608
Inventories	86,520	82,909
Prepaid expenses and other current assets	59,682	46,686
Total current assets	354,426	290,965
Property, plant and equipment, less accumulated depreciation and depletion -- September 28, 2003 - $638,771; December 31, 2002 - $578,580	554,825	537,424
Goodwill	51,732	51,291
Other assets and deferred charges	35,593	20,197
Total assets	$996,576	$899,877
	======	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Short-term debt	$ 30,000	$ 30,000
Current maturities of long-term debt	2,228	1,331
Accounts payable	42,416	37,435
	44,990	55,171
Other current liabilities		
Total current liabilities	119,634	123,937
Long-term debt	99,536	89,020
	103,494	92,763
Other non-current liabilities		
Total liabilities	322,664	305,720
Shareholders' equity:		
Common stock	2,725	2,694
Additional paid-in capital	216,787	190,144
Deferred compensation	(1,305)	--
Retained earnings	715,763	678,740
	(12,955	(35,034
Accumulated other comprehensive loss	)	)
	921,015	836,544
	247,103	242,387
Less treasury stock		
	673,912	594,157
Total shareholders' equity		
Total liabilities and shareholders' equity	$996,576	$899,877
	=====	=====

* Unaudited
** Condensed from audited financial statements

See accompanying Notes to Condensed Consolidated Financial Statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(thousands of dollars)	Nine Months Ended Restated Sept. 28, 2003	Nine Months Ended Sept. 29, 2002
Operating Activities:		
Net income	$ 38,536	$ 41,753
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Cumulative effect of accounting change	3,433	--
Depreciation, depletion and amortization	51,079	51,322
Other non-cash items	4,254	7,650
Net changes in operating assets and liabilities	(36,228)	(17,339)
Net cash provided by operating activities	61,074	83,386
Investing Activities:		
Purchases of property, plant and equipment	(40,090)	(27,772)
Acquisition of businesses	(1,900)	(34,100)
Other	1,229	193
Net cash used in investing activities	(40,761)	(61,679)
Financing Activities:		
Proceeds from issuance of short-term debt	5,318	110,350
Repayment of debt	(5,919)	(138,310)
Purchase of common shares for treasury	(4,716)	(17,332)
Proceeds from issuance of stock under option plan	9,937	29,141

Cash dividends paid	(1,513)	(1,523)
Net cash provided by (used in) financing activities	3,107	(17,674)
Effect of exchange rate changes on cash and cash equivalents	1,617	(363)
Net increase in cash and cash equivalents	25,037	3,670
Cash and cash equivalents at beginning of period	31,762	13,046
Cash and cash equivalents at end of period	$ 56,799	$ 16,716
Supplemental disclosure of cash flow information:		
Interest paid	$ 5,518	$ 5,569
Income taxes paid	$ 10,923	$ 10,459
Non-cash investing and financing activities:		
Property, plant and equipment acquired by incurring installment obligations	$ 11,368	$ --
Property, plant and equipment additions related to asset retirement obligations	$ 6,762	$ --

See accompanying Notes to Condensed Consolidated Financial Statements.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments necessary for a fair presentation of the financial information for the periods indicated, have been included. The results for the three-month and nine-month periods ended September 28, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Note 2 -- Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant improvements are capitalized, while maintenance and repair expenditures are charged to operations as incurred. The Company capitalizes interest cost as a component of construction in progress. In general, the straight-line method of depreciation is used for financial reporting purposes and accelerated methods are used for U.S. and certain foreign tax reporting purposes. The annual rates of depreciation are 3% - 6.67% for buildings, 6.67% - 12.5% for machinery and equipment, 8% - 12.5% for furniture and fixtures and 12.5% - 25% for computer equipment and software-related assets.

Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. The Company's sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. The Company also continues to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from a Company facility could result in an impairment of assets charge at such facility.

In the third quarter of 2002, the Company reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, the Company also reviewed the useful lives of the assets at its remaining satellite PCC facilities and other plants. During the first quarter of 2003, the Company revised the estimated useful lives of machinery and equipment pertaining to its natural stone mining and processing plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). The Company also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, the Company reached an agreement with IP that extended eight PCC supply contracts and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of $0.04 in the third quarter of 2003 and $0.04 for the first nine months of 2003.

Depletion of mineral reserves is determined on a unit-of-extraction basis for financial reporting purposes and on a percentage depletion basis for tax purposes.

Mining costs associated with waste gravel and rock removal in excess of the expected average life of mine stripping ratio are deferred. These costs are charged to production on a unit-of-production basis when the ratio of waste to ore mined is less than the average life of mine stripping ratio.

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Accounting for Stock-Based Compensation

In December 2002, The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, and requires additional disclosures in interim and annual financial statements. The disclosure in interim periods requires pro forma net income and net income per share as if the Company adopted the fair value method of accounting for stock-based awards. The fair value of stock-based awards to employees was calculated using the Black-Scholes option-pricing model, modified for dividends. Pro forma net income and earnings per share reflecting compensation cost for the fair value of stock options were as follows:

	Three Months Ended		Nine Months Ended	
(millions of dollars, except per share amounts)	Restated Sept. 28, 2003	Sept. 29, 2002	Restated Sept. 28, 2003	Sept. 29, 2002
Income before cumulative effect of				
accounting change, as reported	$ 12.8	$ 14.2	$ 42.0	$ 41.8
Deduct: Total stock-based employee compensation				
expense determined under fair value based method				
for all awards, net of related tax effects	0.5	0.5	1.4	1.6
Pro forma income before cumulative effect of				
accounting change	12.3	13.7	40.6	40.2
Cumulative effect of accounting change	--	--	3.4	--
Pro forma net income	$ 12.3	$ 13.7	$ 37.2	$ 40.2
	====	====	====	====
Net income, as reported	$ 12.8	$ 14.2	$ 38.5	$ 41.8
	====	====	====	====

Basic EPS				
Income before cumulative effect of accounting				
change, as reported	$ 0.63	$ 0.70	$ 2.08	$ 2.07
Pro forma income before cumulative effect of				
accounting change	0.61	0.68	2.02	1.99
Pro forma net income	0.61	0.68	1.85	1.99
Net income, as reported	0.63	0.70	1.91	2.07
Diluted EPS				
Income before cumulative effect of accounting				
change, as reported	0.62	0.70	2.06	2.02
Pro forma income before cumulative effect of				
accounting change	0.60	0.67	2.00	1.95
Pro forma net income	0.60	0.67	1.83	1.95
Net income, as reported	0.62	0.70	1.89	2.02

Note 3. Restatement of Previously Issued Financial Statements

The Company has restated its consolidated balance sheet at September 28, 2003, and consolidated statements of income and cash flows for the three-month and nine-month periods ended September 28, 2003. The restatement is due entirely to a revision to the accounting treatment of the reversal of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years.

During the third and fourth quarters of 2003, the Company reversed tax reserves no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. Accordingly, the Company previously reported that this reversal resulted in a reduction to the 2003 income tax provision of

approximately $15 million, of which $11.5 million was reversed in the third quarter, and a reduction to the overall effective tax rate for 2003 from 26.4% to 5.7%.

The Company has now determined that the reversal of such tax reserves should be treated as an equity transaction and should be reflected as an increase in additional paid-in capital of $15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the

Company's common stock in October 1992.

The following table presents the impact of the restatement adjustments on the Company's previously reported results as of September 28, 2003 and for the three and nine-month periods ended September 28, 2003 on a condensed basis:

	Three Months Ended Sept. 28, 2003		Nine Months Ended Sept. 28, 2003	
Condensed Consolidated Statement of Income	As Previously Reported	As Restated	As Previously Reported	As Restated
Net sales	$ 198,234	$ 198,234	$ 602,058	$ 602,058
Operating costs and expenses	178,695	178,695	538,375	538,375
Income from operations	19,539	19,539	63,683	63,683
Non-operating deductions, net	1,100	1,100	3,568	3,568
Income before provisions for taxes on income and minority interests	18,439	18,439	60,115	60,115
Provision (benefit) for taxes on income	(6,338)	5,144	5,290	16,772
Minority interests	526	526	1,374	1,374
Income before cumulative effect of accounting change	24,251	12,769	53,451	41,969
Cumulative effect of accounting change, net of tax benefit of $2,072	--	--	3,433	3,433
Net income	$ 24,251	$ 12,769	$ 50,018	$ 38,536

	Three Months Ended Sept. 28, 2003		Nine Months Ended Sept. 28, 2003	
Earning per share:	As Previously Reported	As Restated	As Previously Reported	As Restated
Basic:				
Before cumulative effect of accounting change	$ 1.20	$ 0.63	$ 2.65	$ 2.08
Cumulative effect of accounting change	--	--	(0.17)	(0.17)
Basic earnings per share	$ 1.20	$ 0.63	2.48	1.91
Diluted:				
Before cumulative effect of accounting change	$ 1.18	$ 0.62	$ 2.63	$ 2.06

Cumulative effect of accounting change	--	--	(0.17)	(0.17)
Diluted earnings per share	$ 1.18	$ 0.62	$ 2.46	$ 1.89

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	September 28, 2003	
Condensed Consolidated Balance Sheet	As Previously Reported	As Restated
Assets		
Total assets	$ 996,576	$ 996,576
Liabilities		
Total liabilities	$ 326,182	$ 322,664
Shareholders' Equity		
Common stock	$ 2,725	$ 2,725
Additional paid-in capital	201,787	216,787
Deferred compensation	(1,305)	(1,305)
Retained earnings	727,245	715,763
Accumulated other comprehensive income	(12,955)	(12,955)
	917,497	921,015
Less common stock held in treasury	247,103	247,103
Total shareholders' equity	670,394	673,912
Total liabilities and shareholders' equity	$ 996,576	$ 996,576

This restatement had no impact on the net cash provided by operating activities, net cash used in investing activities or net cash provided by financing activities in the Consolidated Statement of Cash Flows for the nine months ended September 28, 2003.

Note 4 -- Inventories

The following is a summary of inventories by major category:

(thousands of dollars)	September 28, 2003	December 31, 2002
Raw materials	$36,129	$32,967
Work-in-process	7,851	7,153
Finished goods	25,598	25,459
Packaging and supplies	16,942	17,330
Total inventories	$86,520	$82,909
	=====	=====

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MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 -- Long-Term Debt and Commitments

The following is a summary of long-term debt:

(thousands of dollars)	September 28, 2003	December 31, 2002
7.49% Guaranteed Senior Notes Due July 24, 2006	$ 50,000	$ 50,000
Yen-denominated Guaranteed Credit Agreement Due March 31, 2007	8,851	8,957
Variable/Fixed Rate Industrial Development Revenue Bonds Due 2009	4,000	4,000
Economic Development Authority Refunding Revenue Bonds Series 1999 Due 2010	4,600	4,600
Variable/Fixed Rate Industrial Development Revenue Bonds Due August 1, 2012	8,000	8,000
Variable/Fixed Rate Industrial Development Revenue Bonds Series 1999 Due November 1, 2014	8,200	8,200
Variable/Fixed Rate Industrial Development Revenue Bonds Due March 31, 2020	5,000	5,000
Installment obligations	11,368	--
Other borrowings	1,745	1,594
Total	101,764	90,351
Less: Current maturities	2,228	1,331

Long-term debt	$ 99,536	$ 89,020
	======	======

On May 31, 2003, the Company acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately $17.5 million. Approximately $6.1 million was paid at the closing and $11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - $0.8 million; 2005 - $0.9 million; 2006 - $0.9 million; 2007 - $0.9 million; 2008 - $6.5 million; 2013 - $1.4 million.

Note 6 -- Earnings Per Share (EPS)

Basic earnings per share are based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share are based upon the weighted average number of common shares outstanding during the period assuming the issuance of common shares for all dilutive potential common shares outstanding. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
Basic EPS (in thousands, except per share data)	Restated Sept. 28, 2003	Sept. 29, 2002	Restated Sept. 28, 2003	Sept. 29, 2002
Income before cumulative effect of accounting change	$12,769	$14,213	$41,969	$41,753
Cumulative effect of accounting change	--	--	3,433	--
Net income	$12,769	$14,213	$38,536	$41,753
Weighted average shares outstanding	20,185	20,201	20,132	20,216
Basic earnings per share before cumulative effect of accounting change	$ 0.63	$ 0.70	$ 2.08	$ 2.07
Cumulative effect of accounting change	--	--	(0.17)	--
Basic earnings per share	$ 0.63	$ 0.70	$ 1.91	$ 2.07
	======	======	=====	======

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Diluted EPS (in thousands, except per share data)	Three Months Ended Restated Sept. 28, 2003	Three Months Ended Sept. 29, 2002	Nine Months Ended Restated Sept 28, 2003	Nine Months Ended Sept 29, 2002
Income before cumulative effect of accounting change	$12,769	$14,213	$41,969	$41,753
Cumulative effect of accounting change	--	--	3,433	--
Net income	$12,769	$14,213	$38,536	$41,753
Weighted average shares outstanding	20,185	20,201	20,132	20,216
Dilutive effect of stock options and stock units	304	165	217	419
Weighted average shares outstanding, adjusted	20,489	20,366	20,349	20,635
Diluted earnings per share before cumulative effect of accounting change	$ 0.62	$ 0.70	$ 2.06	$ 2.02
Cumulative effect of accounting change	--	--	(0.17)	--
Diluted earnings per share	$ 0.62	$ 0.70	$ 1.89	$ 2.02
	=====	======	=====	======

Note 7 -- Comprehensive Income (Loss)

The following are the components of comprehensive income:

(thousands of dollars)	Three Months Ended Restated Sept. 28, 2003	Three Months Ended Sept. 29, 2002	Nine Months Ended Restated Sept. 28, 2003	Nine Months Ended Sept. 29, 2002
Net income	$12,769	$14,213	$38,536	$41,753
Other comprehensive income, net of tax:				

Foreign currency translation adjustments	2,439	(7,867)	21,957	7,044
Cash flow hedges:				
Net derivative gains (losses) arising during the period	122	(559)	122	(781)
Reclassification adjustment	--	(20)	--	(243)
Comprehensive income	$15,330	$ 5,767	$60,615	$47,773
	=====	====	====	=====

The components of accumulated other comprehensive loss, net of related tax, are as follows:

(millions of dollars)	September 28, 2003	December 31, 2002
Foreign currency translation adjustments	$(10.9)	$(32.8)
Minimum pension liability adjustment	(1.3)	(1.3)
Net loss on cash flow hedges	(0.8)	(0.9)
Accumulated other comprehensive loss	$(13.0)	$(35.0)
	====	====

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 -- Segment and Related Information

Segment information for the three months and nine months ended September 28, 2003 and September 29, 2002 was as follows:

(thousands of dollars)	Net Sales			
	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
Specialty Minerals	$139,106	$132,108	$414,238	$384,123
Refractories	59,128	60,026	187,820	173,839
Total	$198,234	$192,134	$602,058	$557,962
	=====	=====	======	=====

(thousands of dollars)	Income from Operations			
	Three Months Ended		Nine Months Ended	
	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
Specialty Minerals	$15,012	$16,933	$46,140	$47,766
Refractories	4,527	4,696	17,543	16,283
Total	$19,539	$21,629	$63,683	$64,049
	=====	=====	=====	=====

Included in income from operations of the Specialty Minerals segment for the first quarter of 2003 was a charge for one-time termination benefits of $660,000. Included in income from operations of the Specialty Minerals segment for the first quarter of 2002 was a write-down of impaired assets of $750,000.

The carrying amount of goodwill by reportable segment as of September 28, 2003 and December 31, 2002 was as follows:

	Goodwill	
(thousands of dollars)	September 28, 2003	December 31, 2002
Specialty Minerals	$14,959	$14,637
Refractories	36,773	36,654
Total	$51,732	$51,291
	====	====

A reconciliation of the totals reported for the operating segments to the applicable line items in the condensed consolidated financial statements is as follows:

(thousands of dollars)	Three Months Ended		Nine Months Ended	
Income before provision for taxes on income and minority interests:	Sept. 28, 2003	Sept. 29, 2002	Sept. 28, 2003	Sept. 29, 2002
Income from operations for reportable segments	$19,539	$21,629	$63,683	$64,049
Non-operating deductions, net	1,100	1,081	3,568	4,040
Income before provision for taxes on incomeand minority interests	$18,439	$20,548	$60,115	$60,009
	====	=====	=====	====

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 9 -- Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

The carrying amount of goodwill was $51.7 million and $51.3 million as of September 28, 2003 and December 31, 2002, respectively. The net change in goodwill since January 1, 2003 was primarily attributable to the effects of foreign exchange rates.

Acquired intangible assets subject to amortization as of September 28, 2003 and December 31, 2002 were as follows:

	September 28, 2003		December 31, 2002	
(millions of dollars)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	$ 5.8	$ 0.8	$ 5.8	$ 0.7
Customer lists	1.4	0.2	1.4	0.1
Other	0.2	--	0.2	--
	$ 7.4	$ 1.0	$ 7.4	$ 0.8
	===	===	===	===

The weighted average amortization period for acquired intangible assets subject to amortization is approximately 16 years. Estimated amortization expense is $0.4 million for each of the next five years through 2008.

Included in other assets and deferred charges is an intangible asset of approximately $13.1 million which represents the non-current unamortized amount paid to a customer in connection with contract extensions at eight PCC satellite facilities. In addition, a current portion of $1.8 million is included in prepaid expenses and other current assets. Such amounts will be amortized as a reduction of sales over the remaining lives of the customer contracts. Approximately $0.4 million was amortized in the third quarter of 2003. Estimated amortization as a reduction of sales is as follows: fourth quarter 2003 - $0.5 million; 2004 - $1.8 million; 2005 - $1.8 million; 2006 - $1.8 million; 2007 - $1.8 million; 2008 - $1.8 million; with smaller reductions thereafter over the remaining lives of the contracts.

Note 10 -- Accounting for Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 establishes a uniform accounting model for disposition of long-lived assets. This Statement also requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the first quarter of 2002, the Company recorded a write-down of impaired assets of $750,000 for a precipitated calcium carbonate plant at a paper mill that had ceased operations. Such charge was included in cost of goods sold. There was no charge for impairment during the third quarter of 2003.

Note 11 -- Accounting for Asset Retirement Obligations

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair

value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption, the Company recorded a non-cash, after-tax charge to earnings of approximately $3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with the Company's PCC satellite facilities and its mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, the Company recorded additional depreciation and accretion expenses of approximately $0.2 million in the third quarter of 2003 and $0.6 million in the first nine months of 2003. Such charge is included in cost of goods sold. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately $0.1 million in the third quarter of 2002 and $0.3 million for the first nine months of 2002.

The following is a reconciliation of asset retirement obligations as of September 28, 2003:

(thousands of dollars)

Asset retirement liability, beginning of period	$8,953
Accretion expense	307
Asset retirement liability, end of period	$9,260
	====

Note 12 -- Accounting for Costs Associated with Exit or Disposal Activities

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. During the first quarter of 2003, the Company paid approximately $660,000 of one-time termination benefits to a group of employees at the Specialty Minerals facility in the United Kingdom. Such charge is included in cost of goods sold.

Note 13 -- Deferred Compensation

In July 2003, the Company granted to certain corporate officers rights to receive 27,600 shares of the Company's common stock under the Company's 2001 Stock Award and Incentive Plan (the 2001 Plan). The rights will be deferred for a specified number of years of service, subject to restrictions on transfer and other conditions. Upon issuance of the rights, a deferred compensation expense equivalent to the market value of the underlying shares on the date of the grant was charged to stockholders' equity and is being amortized over the estimated average deferral period of approximately 5 years. The compensation expense amortized with respect to the units during the quarter ended September 28, 2003 was approximately $51,000.

Note 14 -- Income Taxes (Restated)

The Company reversed certain tax reserves during the third quarter as a result of the expiration of the statute of limitations on the Company's U.S. tax returns for certain earlier years. This one-time, non-cash item resulted in a reduction to the 2003 income tax liabilities of approximately $15 million and an increase in additional paid-in capital of $15 million because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992.

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Minerals Technologies Inc.:

We have reviewed the condensed consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of September 28, 2003 and the related condensed consolidated statements of income and cash flows for the three-month and nine-month periods ended September 28, 2003 and September 29, 2002. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the condensed consolidated financial statements, effective January 1, 2003, the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations."

As discussed in Note 3, the Company has restated the condensed consolidated balance sheet as of September 28, 2003, and the related condensed consolidated statements of income and cash flows for the three-month and nine-month periods ended September 28, 2003.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Minerals Technologies Inc. and subsidiary companies as of December 31, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 23, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

New York, New York
October 23, 2003 (July 28, 2004 as to Note 3)

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

	Income and Expense Items As a Percentage of Net Sales			
	Three Months Ended		Nine Months Ended	
	Restated Sept. 28, 2003	Sept. 29, 2002	Restated Sept. 28, 2003	Sept. 29, 2002

Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	76.0	75.8	75.5	75.2
Marketing and administrative expenses	11.0	10.1	10.8	10.3
Research and development expenses	3.1	2.8	3.1	3.0
Income from operations	9.9	11.3	10.6	11.5
Income before cumulative effect of accounting change	6.4	7.4	7.0	7.5
Cumulative effect of accounting change	--	--	0.6	--
Net income	6.4%	7.4%	6.4%	7.5%

Restatement of Previously Issued Financial Statements

Minerals Technologies Inc. (the "Company") is filing this Amendment No. 1 to Quarterly Report on Form 10-Q/A (this "Form 10-Q/A") to reflect a revision to the accounting treatment of the reversal in the third quarter of 2003 of tax reserves for potential exposure items no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. As a result of this revision, the Company is restating its financial statements for the fiscal quarter ended September 28, 2003.

During the third quarter of 2003, the Company reversed tax reserves no longer necessary due to the expiration of the statute of limitations on the Company's U.S. tax returns for earlier years. In its Quarterly Report on Form 10-Q for the quarter ended September 28, 2003, filed with the Securities and Exchange Commission (the "Commission") on November 10, 2003, (the "Form 10-Q"), the Company reported that this reversal resulted in a reduction to the 2003 income tax provision of approximately $15 million, of which $11.5 million was reversed in the third quarter. This Form 10-Q/A reflects the Company's determination that the reversal of such tax reserves should be treated as an equity transaction and reflected as an increase in additional paid in capital because such tax reserves were established for potential exposure items related to the tax bases of assets caused by the initial public offering of the Company's common stock in October 1992. For a detailed description of the effect of the restatement of the financial statements see Note 3 to the financial statements.

This technical restatement has no impact on our income from operations, cash flows, or assets and liabilities. In addition, the original treatment or the restatement had no effect on any payments under our officer and management compensation plans.

Results of Operations

Three Months Ended September 28, 2003 as Compared with Three Months Ended September 29, 2002

Net sales in the third quarter of 2003 increased 3.2% to $198.2 million from $192.1 million in the third quarter of 2002. Foreign exchange had a favorable impact on sales of approximately $6 million, or 3 percentage points of sales growth.

Net sales in the Specialty Minerals segment, which includes the Precipitated Calcium Carbonate ("PCC") and Processed Minerals product lines, increased 5.3% in the third quarter of 2003 to $139.1 million from $132.1 million in the prior year.

Worldwide net sales of PCC, which is used primarily in the manufacturing processes of the paper industry, increased approximately 1% to $108.5 million from $107.6 million in the third quarter of 2002. Sales volume for PCC used for filling and coating paper declined 2%. This was primarily due to paper mill slowdowns and the idling in December 2002 of a satellite PCC facility at Great Northern Paper Company in Millinocket, Maine. Great Northern entered into bankruptcy in January 2003. The Great Northern paper mills have since been sold, and the Company expects the satellite PCC facility to resume operations in 2004. The Company began operation in the third quarter of its new one-unit PCC plant in Malaysia at a paper mill owned by Sabah Forest Industries Sdn.Bhd.

Net sales of the Specialty PCC product line, used in non-paper applications, declined slightly from the prior year. This decline was attributable primarily to continued weak industry conditions.

Net sales of Processed Minerals products increased 24.9% in the third quarter to $30.6 million from $24.5 million in the same period the prior year. Excluding the September 2002 acquisition of Polar Minerals Inc., sales growth was approximately 8% as high demand continued for residential construction and related industries.

Net sales in the Refractories segment declined 1.5% to $59.1 million as compared with $60.0 million in the prior year. Foreign exchange had a favorable impact on sales of approximately $2.4 million or 4 percentage points of growth. This segment experienced several temporary customer shutdowns in Europe and North America and overall weak demand. The segment continues to operate in a sluggish environment in the worldwide steel industry.

Net sales in the United States in the third quarter of 2003 increased approximately 2% as compared with the third quarter of 2002. This increase was primarily due to the Polar Minerals acquisition in September 2002. Foreign sales increased approximately 5% in the third quarter of 2003 primarily due to the favorable impact of foreign exchange.

On May 28, 2003, the Company reached a two-part agreement with International Paper Company ("IP") that extended eight satellite precipitated calcium carbonate plant supply contracts and gave the Company an exclusive license to patents held by IP relating to the use of novel fillers, such as PCC-fiber composites. The Company made a one-time $16 million payment to IP in exchange for the contract extensions and technology license. Approximately $15.8 million of this payment was attributed to the revisions to the contracts, including extensions of their lives, and will be amortized as a reduction of sales over the remaining lives of the extended contracts. The result was a reduction of sales of approximately $0.4 million in the third quarter, an anticipated overall reduction of approximately $1.8 million per year over the next five years, and smaller reductions thereafter over the remaining lives of the contracts. In addition, prices were adjusted at certain of the IP facilities covered by the contract extensions. The overall impact of the revisions to the IP contracts in the third quarter was to reduce earnings by approximately $0.04 per share.

In October 2003, the Company signed its first commercial contract with a major glass manufacturer for use of its SYNSIL&#174 products.

The Company's production margin increased approximately 2.4%, slightly less than the sales growth. The Specialty Minerals segment's gross margin remained flat as overall growth was impacted by the shutdown of the Millinocket satellite PCC plant, continuing development costs at the Hermalle, Belgium facility and the effect of the revisions to the IP contracts. The gross margin of the Refractories segment grew 8%, reflecting the benefit of an improved product mix and equipment sales.

Marketing and administrative expenses increased 12.3% from the prior year. The Refractories segment increased marketing expenses to support worldwide business development efforts. In addition, the Company realized higher information technology costs associated with the implementation of a new global enterprise resource planning system, incurred higher employee benefit costs, particularly pension and medical expenses, and increased its bad debt provision.

Research and development expenses increased 14.9% due to increased product development activities, primarily in the Specialty Minerals segment, and an increase in SYNSIL&#174 product development.

Income from operations decreased 9.7% to $19.5 million, as compared to $21.6 million for the same period last year, and was 9.9% of sales. Operating income in the Specialty Minerals segment decreased 11.2% to $15.0 million form $16.9 million in the prior year and was 10.8% of its sales. The Refractories segment's operating income decreased 4.3% to $4.5 million from $4.7 million in the prior year and was 7.7% of its sales.

Non-operating deductions increased in the third quarter due primarily to higher net interest costs.

Net income decreased 10.0% to $12.8 million from $14.2 million in the prior year. Diluted earnings per share were $0.62 in the third quarter of 2003 as compared with $0.70 in the prior year.

Nine Months Ended September 28, 2003 as Compared with Nine Months Ended September 29, 2002

Net sales for the first nine months of 2003 increased 7.9% to $602.1 million from $558.0 million in 2002. The favorable impact of foreign exchange on sales for the first nine months represented approximately 4 percentage points of sales growth.

Net sales in the Specialty Minerals segment increased 7.9% in the first nine months of 2003 to $414.3 million from $384.1 million in the same period in 2002. Worldwide net sales in the PCC product line grew 3.3% to $324.4 million for the first nine months of 2003. Volume growth was up approximately 1% despite the shutdown of the Millinocket, Maine satellite PCC facility. Foreign exchange had a favorable impact on sales growth, which was partially offset by the impact of the revisions to the IP contracts. Net sales in the Processed Minerals product line increased 27.9% to $89.9 million in the first nine months of 2003 from $70.3 million in the prior year. Excluding the Polar Minerals acquisition, sales growth was approximately 6% due to strong residential construction.

Net sales in the Refractories segment increased 8.1% to $187.8 million for the first nine months as compared with $173.8 million in the prior year. Foreign exchange had a favorable impact on sales growth of approximately 7 percentage points. The remaining growth was due to increased volume and higher equipment installations.

Net sales in the United States for the first nine months of 2003 increased approximately 5% as compared with the same period last year. This increase was primarily due to the acquisition of Polar Minerals in September 2002. Foreign sales increased approximately 14% in the first nine months of 2003 primarily due to increased sales in Europe and to the favorable impact of foreign exchange.

The Company's production margin increased approximately 6.6%, slightly below sales growth. The Specialty Minerals segment's gross margin increased 3.0% as overall growth was impacted by the Millinocket satellite PCC plant, the effect of the revisions to the IP contracts and SYNSIL&#174 product development costs. The gross margin of the Refractories segment grew 14.2% reflecting the benefit of improved operations, a better product mix and equipment sales.

Marketing and administrative costs increased 13.3% from the prior year. The Refractories segment increased marketing expenses to support worldwide business development efforts. In addition, the Company realized higher information technology costs associated with the implementation of a new global enterprise resource planning system, incurred higher employee benefit costs, particularly pension and medical expenses, and increased its bad debt provision.

Income from operations decreased less than 1% to $63.7 million from $64.0 million for the first nine months of 2003 and was 10.6% of net sales. Income from operations in the Specialty Minerals segment decreased 3.4% to $46.1 million and was 11.1% of its net sales. Income from operations in the Refractories segment increased 7.7% to $17.5 million and was 9.3% of its net sales.

Non-operating deductions decreased 11.7% to $3.6 million due to lower net interest expense and foreign currency gains.

Income before the cumulative effect of an accounting change increased 0.5% to $42.0 million from $41.8 million in 2002. Diluted earnings per common share before the cumulative effect of the accounting change increased 2% to $2.06 compared with $2.02 for the first nine months of 2002.

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes the financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Upon adoption of SFAS No. 143, the Company recorded a non-cash, after-tax charge to earnings of approximately $3.4 million for the cumulative effect of this accounting change related to retirement obligations associated with the Company's PCC satellite facilities and its mining properties, both within the Specialty Minerals segment. As a result of this pronouncement, the Company recorded additional depreciation and accretion expenses of approximately $0.2 million in the third quarter of 2003 and $0.6 million in the first nine months of 2003. Such charge is included in cost of goods sold. The pro forma effect on results, assuming that SFAS No. 143 were applied retroactively, would be a non-cash, after-tax charge to earnings of approximately $0.1 million in the third quarter of 2002 and $0.3 million for the first nine months of 2002.

Net income after the cumulative effect of accounting change decreased 7.7% to $38.5 million compared with $41.7 million in the prior year. Diluted earnings per share after the cumulative effect of accounting change was $1.89 per share in the first nine months of 2003 as compared with $2.02 in the prior year.

The Company's sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper companies at whose mills the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. Failure of a number of the Company's customers to renew existing agreements on terms as favorable to the Company as those currently in effect could cause the future growth rate of the Company to differ materially from its historical growth rate, and could also result in impairment of the assets associated with the PCC plant.

There is presently one satellite location at which the contract with the host mill has expired and one location, representing less than one unit of PCC production, at which the host mill has informed the Company that the contract will not be renewed upon its expiration in 2004. The Company continues to supply PCC at both of these locations. At the location at which the contract has expired, the Company hopes to reach agreement on a long-term extension of the contract; however, there can be no assurance that these negotiations will be successful.

In addition, Great Northern Paper, Inc. ceased operations at its two paper mills in Millinocket and East Millinocket, Maine, which were served by a PCC plant operated by the Company. Great Northern Paper filed for bankruptcy protection on January 9, 2003, and on April 29, 2003 the paper mills were sold to Brascan Corporation ("Brascan"), the parent company of Nexfor Fraser Papers Inc. The East Millinocket mill has resumed operations, and the Company is supplying it from other nearby PCC production facilities. Brascan has announced that it may not start the Millinocket mill, at which the Company's satellite plant is located, for a year or more. If the Millinocket mill does not resume production, the Company could incur an impairment charge of approximately $10 million.

Liquidity and Capital Resources

Cash flows in the first nine months of 2003 were provided from operations and were applied principally to fund capital expenditures and purchases of common shares for treasury. Cash provided from operating activities amounted to $61.1 million in the first nine months of 2003 as compared with $83.4 million for the same period last year. The reduction in cash from operations was primarily due to the IP payment of $16 million in exchange for customer contract extensions and a technology license.

On May 31, 2003, the Company acquired land and limestone ore reserves from the Cushenbury Mine Trust for approximately $17.5 million. Approximately $6.1 million was paid at the closing and $11.4 million was financed through an installment obligation. The average interest rate on this obligation is approximately 4.25%. The principal payments are as follows: 2004 - $0.8 million; 2005 - $0.9 million; 2006 - $0.9 million; 2007 - $0.9 million; 2008 - $6.5 million; 2013 - $1.4 million.

On February 22, 2001, the Company's Board of Directors authorized the Company's Management Committee, at its discretion, to repurchase up to $25 million in additional shares per year over a three-year period. As of September 28, 2003, the Company had repurchased approximately 595,000 under this program at an average price of approximately $39.50 per share.

On October 23, 2003, the Company's Board of Directors authorized the Company's Management Committee, at its discretion, to repurchase up to $75 million in additional shares over the next three-year period.

The Company has available approximately $115 million in uncommitted, short-term bank credit lines, of which $30 million was in use at September 28, 2003. The Company anticipates that capital expenditures for all of 2003 will approximate $60 million. The Company expects to meet its financing requirements from internally generated funds, uncommitted bank credit lines and, where appropriate, project financing of certain satellite plants.

Prospective Information and Factors That May Affect Future Results

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand the companies' future prospects and make informed investment decisions. This report may contain forward-looking statements that set out anticipated results based on management's plans and assumptions. Words such as "expects," "plans," "anticipates," "will," and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify these forward-looking statements.

The Company cannot guarantee that the outcomes suggested in any forward-looking statement will be realized, although it believes it has been prudent in its plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and should refer to the discussion of certain risks, uncertainties and assumptions under the heading "Cautionary Factors That May Affect Future Results" in Exhibit 99 to this Amendment No. 1 to the Quarterly Report.

Recently Issued Accounting Standards

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. The FASB recently indicated that they will require stock-based employee compensation to be recorded as a charge to earnings beginning in 2004. The Company will continue to monitor their progress on the issuance of this standard as well as evaluating its position with respect to current guidance.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company had no such instruments as of September 28, 2003.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of inventories, valuation of long-lived assets, goodwill and

other intangible assets, pension plan assumptions, income taxes, depreciation, income tax valuation allowances and litigation and environmental liabilities. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that can not readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets can generate revenue, which does not necessarily coincide with the remaining term of a customer's contractual obligation to purchase products made using those assets. The Company's sales of PCC are predominantly pursuant to long-term contracts, initially ten years in length, with paper mills at which the Company operates satellite PCC plants. The terms of many of these agreements have been extended, often in connection with an expansion of the satellite PCC plant. The Company also continues to supply PCC at one location at which the PCC contract has expired. Failure of a PCC customer to renew an agreement or continue to purchase PCC from the Company facility could result in an impairment of assets charge at such facility.

In the third quarter of 2002, the Company reduced the useful lives of satellite PCC plants at International Paper Company's ("IP") mills due to an increased risk that some or all of these PCC contracts would not be renewed. As a result of this change, the Company also reviewed the useful lives of the assets at its remaining satellite PCC facilities and other plants. During the first quarter of 2003, the Company revised the estimated useful lives of machinery and equipment pertaining to its natural stone mining and processing plants and chemical processing plants from 12.5 years (8%) to 15 years (6.67%) and reduced the useful lives of buildings at certain satellite PCC facilities from 25 years (4%) to 15 years (6.67%). The Company also reduced the estimated useful lives of certain software-related assets due to implementation of a new global enterprise resource planning system. During the second quarter of 2003, the Company reached an agreement with IP that extended eight PCC supply contracts and therefore extended the useful lives of the satellite PCC plants at those IP mills. The net effect of the changes in estimated useful lives, including the deceleration of depreciation at the IP plants, was an increase to diluted earnings per share of $0.04 in the third quarter of 2003 and $0.04 for the first nine months of 2003.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact the Company's financial position, results of operations or cash flows due to adverse changes in market prices and foreign currency exchange rates and interest rates. The Company is exposed to market risk because of changes in foreign currency exchange rates as measured against the U.S. dollar. It does not anticipate that near-term changes in exchange rates will have a material impact on its future earnings or cash flows. However, there can be no assurance that a sudden and significant decline in the value of foreign currencies would not have a material adverse effect on the Company's financial condition and results of operations. Approximately 25% of the Company's bank debt bears interest at variable rates; therefore the Company's results of operations would be affected by changes in the interest rate applicable to the variable-rate bank debt outstanding. An immediate 10 percent change in interest rates would not have a material effect on the Company's results of operations over the next fiscal year.

The Company is exposed to various market risks, including the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. When appropriate, the Company enters into derivative financial instruments, such as forward exchange contracts and interest rate swaps, to mitigate the impact of foreign exchange rate movements and interest rate movements on the Company's operating results. The counterparties are major financial institutions. Such forward exchange contracts and interest rate swaps would not subject the Company to additional risk from exchange rate or interest rate movements because gains and losses on these contracts would offset losses and gains on the assets, liabilities and transactions being hedged. The Company had no open forward exchange contracts as of September 28, 2003. The Company entered into > ü

Risk Oversight: The Company annually prepares an ERM assessment. The Committee carefully considers the risks associated with all elements of our compensation programs.

×

No Guaranteed Bonuses: The Company does not provide NEOs with guaranteed cash bonuses.

×

No Excise Tax Gross-Ups: We have no agreements in place that provide for reimbursement by the Company for the tax obligations of our employees resulting from severance payments made in the event of a change in control, and will not enter into such agreements in the future.

×

No Repricing of Stock Options: We do not reprice underwater stock options, i.e., modify outstanding option awards to lower the exercise price. The Company has not issued stock options since 2009.

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The Company's Executive Compensation Practices	Executive Compensation Practices the Company Does Not Engage In
ü **Annual Pay for Performance Analysis:** We assess pay and performance relative to peers to ensure that actual payouts are appropriately aligned from a competitive perspective.	× **No Hedging or Pledging**: The Company has an anti-pledging and anti-hedging policy. Subject to the terms of the policy, executives may not (i) hold securities of the Company in a margin account or pledge securities of the Company as collateral for a loan, or (ii) enter into hedging or monetization transactions or similar arrangements with respect to securities of the Company.
ü **Share Ownership and Retention Requirements:** Guidelines are in place for both executives and Trustees. Guidelines for the executives range from three times to six times salary and guidelines for non-employee Trustees are three times their initial cash retainer. These guidelines are validated against market practice periodically.	
ü **Clawback Policy:** An incentive recoupment (i.e., "clawback") policy is in place and will be revised, if necessary, in light of applicable SEC regulations regarding clawbacks, as and when such regulations are enacted.	
ü **Use of Independent Compensation Consultant:** The Committee uses an independent consultant that is precluded from performing any work directly for the management of the Company, unless pre-approved by the Committee. No such additional work was requested or performed in 2016.	
ü **Peer Group:** We use the same appropriately sized and defined peer group for compensation benchmarking purposes as we do for measuring relative TSR under the long-term equity incentive plan. We review the companies comprising the peer group annually for continued appropriateness.	

Pay and Governance Highlights for 2016:

Consistent with our pay philosophy, we believe that our CEO's compensation is aligned with Company performance. As reflected below, over the period 2014 to 2016, realizable pay for our CEO (Mr. Waesche in 2014-15 and Mr. Budorick in 2016) was closely correlated with the Company's indexed total shareholder return ("Indexed TSR"). Indexed TSR represents the cumulative return on a $100 investment in our common shares made at the beginning of the

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measurement period. Realizable pay is the combined value of salary, annual cash incentive awards and projected payout value of the equity awards as of December 31 of each year.

CEO

Mr. Budorick was promoted to CEO effective May 12, 2016 and at that time his base salary was increased to $540,000. Even with this increase, Mr. Budorick's base salary was in the lowest quartile compared to the CEOs in our peer group, reflective of being new in this position.

Our executives are no longer parties to employment agreements. Mr. Budorick, Mr. Adkins and Mr. Mifsud are included in the Company's "Executive Change in Control and Severance Plan" ("CIC Plan") (see additional disclosure in the section entitled "Severance and Change in Control Benefits"). We believe the CIC Plan encourages our executives to act in the best interests of our shareholders, while also providing financial security to our executives in the event of a change in control. We believe the design of the CIC Plan is competitive with similar plans found in our industry. Our CIC Plan requires that for severance benefits to be payable in connection with a change in control event, a qualified termination must also occur (referred to as a "double trigger"). Our CIC Plan also does not provide for excise tax gross-ups.

The performance period for the March 2014 performance share unit ("PSU") grant terminated on December 31, 2016. The Company ended the three-year performance period at the 50th percentile relative to our peers' TSR, resulting in a payout of 100% of the target award to our CEO in 2017 for that plan. We believe this result further demonstrates our commitment to align executive pay with Company performance and shareholder value creation.

We used a balanced scorecard approach to drive the achievement of strategic objectives, measure Company performance and determine the executives' annual cash incentive awards. We believe this approach rewards our executives for the achievement of strategic objectives that will create value for our shareholders over the longer term. The scorecard weighted the following three categories of objectives using both quantitative and qualitative evaluations: Financial Metrics at 70%; Strategic Asset Recycling at 15%; and Execution of Low Risk Development Opportunities at 15%. Performance goals in each of these areas were established in the first quarter of the year. Overall, the Company performed just under target level for 2016 when all metrics across our balanced scorecard were considered, achieving 97.2% of target for our Corporate Objectives. In light of management's efforts resulting in (i) a reorganized management structure that significantly reduced costs and positions the Company for future value creation, (ii) improvements to our balance sheet, (iii) expanded strategic customer relationships, (iv) a newly defined development strategy and (v) our strong 2016 TSR performance, the Committee exercised its discretion and increased our CEO and CFO's Corporate Objectives weighting factor from 97.2% to 110%. The Committee believes that a

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payout at this level is reflective of the Company's overall strong performance for the year when taking these other factors into account and viewed on a holistic basis.

Our executive long-term equity incentive program was comprised of two elements in 2016:

- The majority of the executives' long-term equity incentives (60%, except 20% in Ms. Singer's case) were awarded in the form of PSUs. We believe these forward-looking awards closely align our executives' interests with those of our shareholders. The number of shares earned at the end of the three-year performance period depends entirely on TSR relative to our established peer group, and if the Company's results are in the bottom quartile, no shares will be earned. We believe that the PSU plan further motivates our executives to achieve strong returns over a sustained period of time.

- 40% of the executives' long-term equity incentives (80% for Ms. Singer) were in the form of restricted share grants ("RSs") with a three-year ratable vesting period. We believe this portion of their award reinforces our goal of retention, in addition to incentivizing our executives to increase shareholder value over an extended time frame.

Key Leadership Changes and Succession Planning

The following key leadership changes occurred in 2016:

Wayne H. Lingafelter, our Executive Vice President of Development and Construction, separated from the Company on March 31, 2016.

Roger A. Waesche, Jr., our CEO, departed the Company on May 12, 2016, and he was succeeded by our COO, Stephen E. Budorick.

Karen M. Singer, our SVP, General Counsel and Secretary, separated from the Company on August 31, 2016.

Paul R. Adkins joined the Company on November 28, 2016 as Chief Operating Officer.

Named Executive Officers

This Compensation Discussion and Analysis describes the material elements of compensation for our Named Executive Officers ("NEOs") as listed in the Summary Compensation Table of this proxy.

Compensation Objectives

The compensation of each executive is closely tied to the Company's performance. We generally target compensation to be commensurate with that of executives performing similar responsibilities for an appropriate peer group of companies. Our executives' compensation relative to that of their counterparts in the peer group can vary based on the individual's skill and experience in the position (both overall and with the Company), the performance of the executive and the business unit managed, the amount that we pay our other executives and the competition in the marketplace for the talents of the executive. We believe that providing the opportunity to earn a higher relative level of total compensation when warranted by superior results and performance is important in order for us to attract, retain and motivate our executives.

Our incentive programs provide compensation in the form of both annual cash and long-term equity awards in order to reward both annual and long-term performance. The allocation of total compensation between cash and long-term equity awards is reviewed annually in comparison to the peer group to assist in determining the compensation of our executives both in total and by component. The majority of compensation provided is performance-based, linked to a combination of annual and long-term goals. Long-term equity awards represent a significant, if not the largest, component of our NEOs' incentive compensation, as further described in the section below entitled "Long-Term Equity Incentive Awards."

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Role of the Compensation Committee of the Board

The Compensation Committee is appointed by, and acts on behalf of, the Board. The Committee's general purpose includes establishing and periodically reviewing the Company's compensation philosophy and the adequacy of compensation plans and programs for executives and other Company employees. Other responsibilities of the Committee are described in the section entitled "Our Board of Trustees" in this proxy statement.

Compensation decisions for our NEOs must be approved by the independent non-management members of the Board after recommendation by the Committee. The Board is responsible for oversight of the Committee's activities, except where the Committee has sole authority to act as required by a NYSE listing standard or applicable law or regulation. The Committee has complete and open access to management and any other resources of the Company required to assist it in carrying out its duties and responsibilities, including sole authority, in its discretion, to retain, set compensation for and terminate any consultants, legal counsel or other advisors.

Annual Shareholder Say-on-Pay Votes

The Company provides its shareholders with the opportunity to cast an annual advisory vote on executive compensation (a "say-on-pay proposal"). At the Company's annual meeting of shareholders held in May 2016, a substantial majority (98.0%) of the votes cast on the say-on-pay proposal were voted in favor of the proposal. The Compensation Committee believes this vote was indicative of our shareholders' support of the Company's approach to executive compensation.

We engage in shareholder outreach throughout the year by hosting investor meetings (with both current and prospective investors) and participating in conferences. The Committee will continue to consider shareholder feedback and the outcome of the Company's say-on-pay votes when making future compensation decisions for the NEOs.

Use of Independent Consultants

The Committee makes use of analyses provided, at its request, by external consultants in determining executive compensation. Since 2010, the Committee has utilized Pay Governance LLC for these services. The Committee has reviewed the independence of Pay Governance LLC's advisory role relative to the six consultant independence factors adopted by the SEC to guide listed companies in determining the independence of their compensation consultants, legal counsel and other advisors. Following its review, the Committee concluded that Pay Governance LLC has no conflicts of interest, and provides the Committee with objective and independent executive compensation advisory services. Pay Governance LLC provides data relevant to reviewing executive compensation, discussions of compensation practices and observations to the Committee regarding compensation programs and pay levels. Pay Governance LLC did not perform any work for the Company at the direction of management during 2016. As appropriate, the Committee meets with its independent consultant in executive session without management present.

Role of Management

The CEO meets with the Committee to review our compensation philosophy, present analyses based on the Committee's requests and discuss the compensation recommendations the Committee makes to the Board. The CEO presents management's perspective on business objectives, discusses the effect of business results on compensation recommendations, reviews executive compensation data and discusses the other NEOs' performance. Our CEO attends Committee meetings and general meetings of the Board, but he does not attend those portions of Board and Compensation Committee meetings intended to be held without members of management present, including those relating to the CEO's compensation.

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Our Senior Vice President, Human Resources, who reports directly to our CEO, also takes direction from, and provides suggestions to, the Committee, oversees the formulation of compensation plans incorporating the recommendations of the Committee, and assists the Chairman of the Compensation Committee in preparing agendas for the meetings.

Compensation Comparisons

To meet our objectives of attracting and retaining superior talent, we annually review pay practices of our peers. However, we do not set our NEO pay solely as it relates to peer pay levels. Instead, we use market data to help confirm that our pay practices are appropriate. We review our peer group annually, seeking to include companies that are similar in size and business structure to us. Within this peer group, we then focus on executives with responsibilities similar to ours. In order to provide data for this analysis, the independent consultant obtains an understanding of the goals, objectives and responsibilities of each executive position based on reviews of job descriptions and discussions with management and the Committee.

The Committee, with the assistance of its independent consultant, evaluated the companies comprising the 2015 peer group and determined that Alexandria Real Estate Equities, Inc. and BioMed Realty Trust, Inc. were no longer appropriate peers based on our defined criteria. The remaining 14 companies were deemed by the Committee to be an appropriately sized peer group for purposes of assessing the compensation of our NEOs for 2016. The peer group includes a blend of publicly-traded office and diversified REITs, with a heavier weighting on office companies. Inclusion was based on the following criteria: business focus; product mix; revenue; market capitalization; geographic location; and other factors. The companies included in the 2016 peer group are set forth below:

Brandywine Realty Trust	Hudson Pacific Properties, Inc.
Columbia Property Trust, Inc.	Kilroy Realty Corporation
Cousins Properties Incorporated(1)	Mack-Cali Realty Corporation
Douglas Emmett, Inc.	Parkway Properties, Inc.(1)
First Potomac Realty Trust.	Piedmont Office Realty Trust, Inc.
Government Properties Income Trust	PS Business Parks, Inc.
Highwoods Properties, Inc.	Washington Real Estate Investment Trust

(1) On October 7, 2016, following the merger of Cousins Properties Incorporated (CUZ) with Parkway Properties, Inc., CUZ completed a spin-off of certain assets under the name of "New Parkway" (PKY). Following discussion by the Committee, it was decided that PKY would be removed from the Peer Group, and as another suitable peer company was not identified, the remaining 13 companies would constitute the 2016 Peer Group for purposes of assessing TSR for the outstanding PSU Awards.

The independent consultant provided peer group compensation data to the Committee. Base salaries, annual cash incentive awards, long-term equity awards and total compensation for our NEOs were compared to compensation information for comparable positions in each of the companies in the peer group. The independent consultant provided detailed information at the 25th, 50th and 75th percentiles and the average in order to assist the Committee in understanding how the Company's executive compensation compared to that of its peers.

As in prior years, the independent consultant also conducted a comprehensive pay for performance assessment of the Company's executive compensation program and the linkage between organizational performance and the value of the compensation delivered to the executives. The assessment indicated that over the three-year period 2013 to 2015, the Company's management team's pay and performance relative to peers were generally aligned.

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Base Salary

We view base salary as the fixed rate of pay throughout the year that is required to attract and retain executives. The base salaries of our NEOs are determined in consideration of their position's scope of responsibilities and their individual skills and experience. They are eligible for periodic increases in their base salary as a result of individual performance and significant increases in their duties and responsibilities. NEOs' salary levels are also influenced by a variety of factors considered by the Committee, including peer group data, the desire to create an appropriate level of differentiation between the NEOs and budget considerations.

Annual base salary actions in 2016 included the following:

	Base Salary as of December 31,		
Name of Executive	**2015**	**2016**	**% Increase**
Stephen E. Budorick	$ 440,000	$ 540,000	22.7%
Roger A. Waesche, Jr.	$ 600,000	N/A	(1)
Paul R. Adkins	N/A	$ 400,000	N/A
Anthony Mifsud	$ 350,000	$ 367,500	5.0%
Wayne H. Lingafelter	$ 433,340	N/A	(1)
Karen M. Singer	$ 336,000	N/A	(1)

(1) Mr. Waesche, Mr. Lingafelter and Ms. Singer separated from the Company during 2016.

The Board determined that effective January 1, 2016, Mr. Budorick's base salary would be increased by $22,000, or 5.0%, in recognition of his performance as COO in 2015. Effective May 12, 2016, upon his promotion to CEO, Mr. Budorick's base salary was increased to $540,000. Even with this increase, Mr. Budorick is still in the lowest quartile relative to our peers, reflecting his tenure in the position. The Board determined that the base salaries for 2016 reflected above for Mr. Adkins and Mr. Mifsud appropriately reflect their level of responsibility in the Company based on a comparison to market data and to their peers. Effective January 1, 2016, Ms. Singer's base salary was increased 3% to $346,080, which she received until her separation from the Company in August 2016.

Annual Cash Incentive Awards

Our executives receive annual cash incentive awards based on the Company's overall financial performance and achievement of other stated corporate objectives, as well as each executive's performance against his or her individual objectives. In the first quarter of each year, the Committee approves both performance goals for the annual cash incentive plan and associated potential award payouts. Each executive's potential annual cash incentive award is set as a percentage of the executive's base salary. In 2016, the Committee used a balanced scorecard approach to measuring the Company's performance. We believe this approach rewards our executives for short-term financial achievement as well as for the achievement of strategic objectives that will create value for our shareholders over the longer term. Each objective on the scorecard has three levels of performance achievement (threshold, target and maximum) and the weighted average achievement of these measures establishes the associated payout. Performance at target approximates management's estimate of the related objective as set forth in the annual budget approved by the Board; this level of performance is intended to be challenging, yet attainable. The maximum level of performance for the established objectives is intended to still be attainable with superior performance. If the Company does not achieve threshold level performance of the weighted average of the scorecard objectives, then no annual incentive awards will be made. Actual awards are determined once actual performance with respect to these objectives is known, and results are interpolated between the performance levels as appropriate. The Committee retains the authority to recommend adjustments (increases or decreases) to annual cash incentive awards at its discretion.

2016 Performance Objectives for Annual Cash Incentive Awards

The Committee, with the assistance of management, developed the 2016 corporate scorecard using the Company's annual budget and information regarding other related business and operations initiatives. The scorecard consists of three categories of Corporate Objectives, weighted as follows:

1. Financial and Operating Measures 70%

   The Company's target financial measures for 2016 were the following:

   - diluted funds from operations per share, as adjusted for comparability (defined herein as "diluted FFO per share") of $2.00 (15%);
   - diluted adjusted funds from operations per share (defined herein as "diluted AFFO per share") of $1.56 (15%);
   - total cash net operating income ("NOI") of $324.6 million (10%);
   - same office cash NOI growth of 4.0% (15%); and
   - achievement of certain balance sheet metrics, including net debt to adjusted book, average net debt to in-place adjusted EBITDA and year-end debt to in-place adjusted EBITDA (15%).

   Diluted FFO per share, diluted AFFO per share and cash NOI are measures frequently used by equity REITs to evaluate performance. We use these measures because we believe they are useful metrics in evaluating the effectiveness of our operations and are core objectives in our annual budgets. Further, we believe that growth in these measures in the long run contributes to an increase in shareholder value and, as a result, that linking compensation to these measures helps to align the interests of our NEOs with those of our shareholders. The balance sheet metrics noted above are frequently used by equity REITs to evaluate borrowing levels relative to asset value and operating performance. They are integral components of our business plan.

2. Strategic Asset Recycling 15%

   This objective related to the strategic disposition of targeted assets in our portfolio (operating properties and certain land holdings of $458.6 million) that were deemed to be non-strategic to our primary investment strategy. We believe that this objective incentivized decisions in strategically repositioning our portfolio, while raising capital to fund development activities and strengthen our balance sheet.

3. Execution of Low Risk Development Opportunities 15%

   This objective focused our efforts on leasing 800,000 square feet in development properties, as well as, starting new and completing existing construction projects within budget. We feel this objective incentivized our executives to maximize the value of our development pipeline.

Each executive other than the CEO also had individual objectives approved by the Committee. These objectives were tailored to the operations of the business unit for which the individual was responsible and included managing the mitigation of risks identified by the Company's ERM assessment. As appropriate, individual objectives are either quantitative or qualitative in nature. The Committee evaluated the achievement of our Corporate Objectives for 2016 to assess the CEO's performance, and the CEO recommended his assessment of the other executives' achievement for

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approval by the Committee. The level of achievement of these objectives influenced the executives' annual cash incentive award payouts.

2016 Annual Cash Incentive Award Targets

The Committee sets target payouts in consideration of peer levels and differentiation between the NEOs. This is the level to be paid when target performance by the Company is achieved. The expectation is that actual payouts will compare more favorably to peer levels when performance is exceptional. The table below sets forth the 2016 potential award payouts as a percentage of the executive's base salary:

	2016 Annual Cash Incentive Award Opportunity as a % of Salary		
Name of Executive	**Threshold Level Payout**	**Target Level Payout**	**Maximum Level Payout**
Stephen E. Budorick(1)	61%	121%	183%
Roger A. Waesche, Jr.(2)	N/A	N/A	N/A
Paul R. Adkins(3)	N/A	N/A	N/A
Anthony Mifsud	50%	100%	150%
Wayne H. Lingafelter(2)	N/A	N/A	N/A
Karen M. Singer(2)	N/A	N/A	N/A

(1) Mr. Budorick, our COO, was promoted to CEO effective May 12, 2016; therefore, his payout levels were blended based on his time in each role.

(2) Due to the management restructuring that took place in 2016, Mr. Waesche, Mr. Lingafelter and Ms. Singer's 2016 cash incentive award was specified in their separation agreement as a prorated amount based on time worked in 2016 and included in their respective employment separation awards.

(3) Mr. Adkins joined the Company on November 28, 2016 and therefore was not eligible for a 2016 award.

Final award levels are determined based on a review of the Corporate Objectives and each executive's achievement of their individual objectives. While our CEO's annual cash incentive award is generally based 100% on achievement of the Corporate Objectives, the actual award payout can be influenced by other factors identified at the Committee's discretion, including our TSR. The other NEOs' annual cash incentive awards are based 75% on achievement of the Corporate Objectives and 25% on achievement of their individual performance objectives, also subject to the Committee's discretion. A summary of individual performance objectives for our other executives is presented below:

Mr. Budorick: as COO, operating metrics (such as achieving certain measures for revenue generation, leased square footage and occupancy per the Company's business plan) and strategic objectives (including portfolio repositioning, investor relations and organizational leadership). Each objective was weighted equally. As CEO, his annual incentive was determined 100% based on the Corporate Objectives and the Board's evaluation of his performance which for this year included our current year's TSR.

Mr. Mifsud: effectiveness in capital planning and plan execution; overseeing the budget, forecast and reporting processes; ensuring risk awareness and mitigation and effective internal controls; improvement of the effectiveness of communications with analysts and investors; effectiveness in guiding and leading the accounting and IT functions; and demonstrating executive leadership in strategy and organizational effectiveness. Each objective was weighted equally.

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2016 Annual Cash Incentive Award Results

Following is the scorecard reflecting final results for 2016:

Objective	Weighting	Threshold Level	Target Level	Maximum Level	Actual Results, as Adjusted(3)	Achievement %	Weighted Results
Financial Results							
Diluted FFO per share	15.0%	$ 1.95	$ 2.00	$ 2.05	$ 1.97	70.0%	10.5%
Diluted AFFO per share	15.0%	$ 1.51	$ 1.56	$ 1.61	$ 1.58	120.0%	18.0%
Total Cash NOI(1)	10.0%	$ 308.40	$ 324.60	$ 340.80	$ 326.10	104.7%	10.5%
Same office cash NOI growth	15.0%	3.0%	4.0%	5.0%	4.1%	107.0%	16.1%
Maintain leverage at or below target level:							
Net debt to adjusted book	5.0%	N/A	39.0%	N/A	40.7%	85.6%	4.3%
Average net debt to in-place adjusted EBITDA	5.0%	N/A	6.5x	N/A	6.48x	100.0%	5.0%
Year-end net debt to in-place adjusted EBITDA	5.0%	N/A	6.1x	N/A	6.0x	106.6%	5.3%
Strategic Asset Recycling	15.0%					65.1%	9.8%
Execute operating property dispositions(1)		$ 371.1	$ 436.6	$ 502.1	$ 371.9		
Execute non-strategic land dispositions(1)		$ 15.0	$ 22.0	$ 30.0	$ 36.1		
Execution of Low Risk Development Opportunities	15.0%					118.0%	17.7%
Development leasing:							
Lease-up development properties(2)		600	800	1,000	843		
Complete existing construction projects within budget:							
Approved budget for projects under construction(1)		$ 138.5	$ 134.5	$ 130.5	$ 135.9		
Budgeted invested development capital for 2016(1)		$ 103.2	$ 100.2	$ 97.2	$ 62.5		
	100.0%						**97.2%**

(1) Presented in millions of dollars. Dispositions include assets under contract for sale as of December 31, 2016.

(2) Presented in thousands of square feet.

(3) Actual results reflect adjustments discussed below.

The actual Financial Results metric of the Corporate Objectives, as reflected above, included adjustments by the Committee to exclude the effect of the following:

- completion of property dispositions later in the year than originally planned that, if included, would have improved actual results for diluted FFO per share, AFFO per share and total cash NOI; and issuance of $110 million in common shares under the Company's at-the-market stock offering program that, if included, would have improved the three leverage measures included on the scorecard.

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The Committee deemed these adjustments necessary to more appropriately reflect the operating performance for the year, and those weighted results combined with below target achievement of Strategic Asset Recycling and above target performance related to Development Leasing resulted in achievement at 97.2% of target for our Corporate Objectives.

In light of management's efforts resulting in (i) a reorganized management structure that significantly reduced costs and positions the Company for future value creation, (ii) improvements to our balance sheet, (iii) expanded strategic customer relationships, (iv) a newly defined development strategy and (v) our strong 2016 TSR performance, the Committee exercised its discretion and increased our CEO and CFO's Corporate Objectives weighting factor from 97.2% to 110%. This resulted in additional cash incentive awards of $73,635 and $35,280, respectively, to our CEO and CFO. The Committee believes that a total payout including this additional amount at this level is reflective of the Company's overall strong performance for the year when taking these other factors into account and viewed on a holistic basis.

The chart below shows the actual cash incentive awards for 2016:

			Objectives Weighting %		Objectives Achievement %			
Name of Executive	**Base Salary**	**AIA % of Salary at Target**	**Corporate**	**Individual**	**Corporate**	**Individual**	**Actual AIA Award**	**Actual Payout as a % of Salary**
Stephen E. Budorick, CEO(1)	$ 540,000	125%	100%	0%	110%	N/A	$ 474,713	137.5%
Stephen E. Budorick, COO(1)	$ 462,000	115%	75%	25%	110%	100%	$ 205,988	123.6%
Anthony Mifsud	$ 367,500	100%	75%	25%	110%	100%	$ 395,063	107.5%

(1) Mr. Budorick, our COO, became CEO on May 12, 2016. His annual incentive award totaling $680,701 was calculated based on a blending of his base salary, objectives weighting and target achievements for the time worked in each role.

Mr. Waesche, Mr. Lingafelter and Ms. Singer's employment with the Company terminated on May 12, 2016, March 31, 2016 and August 31, 2016, respectively, and therefore were not entitled to a cash incentive award, though a portion of the payment due to them under the terms of their separation agreement was tied to their cash incentive award opportunity.

The chart below reflects our alignment of pay and performance, demonstrating that both our exiting and our incoming CEOs' payout as a percentage of target for actual annual cash incentive

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awards (and, for 2016, additional cash bonus) for the period 2014 to 2016 tracked commensurate with the indexed TSR in each of those years:

CEO

Long-Term Equity Incentive Awards

Our long-term equity incentive awards are designed to align the interests of the executives with those of our shareholders by rewarding them for sustained performance. Since these awards vest over time, they also encourage the executives to remain with the Company. The Company's practice is generally to issue such awards to the executives on the date of the first quarterly Board meeting of each year.

Long-term equity incentives are awarded in two components: PSUs and RSs. The PSU component is earned entirely as a function of the Company's TSR performance over a forward-looking three-year period in comparison to peers. The Committee believes that awarding a majority of the executive long-term equity incentive awards through the use of PSU grants provides for the following:

- Executive and shareholder risks and rewards are more closely aligned by a long-term, forward-looking plan focused solely on relative TSR;
- Retention of key executives is enhanced due to the payout opportunities available in the event of superior relative performance;
- Grants and potential awards under the plan are clearly determined and communicated to the NEOs at the beginning of the performance period; and
- Dividends are accrued but not paid out on the PSUs until, and to the extent, they are earned at the end of the defined performance period, thus putting additional compensation at risk based on performance.

The remainder of the executives' long-term incentive award is made in the form of RSs to provide an element of retention to our plan.

In 2016, the Board awarded long-term equity incentive grants to Mr. Budorick and Mr. Mifsud that consisted of 60% PSUs and 40% RSs. The 2016 award program continues to deliver the majority of annual long-term incentive awards in the form of performance-based equity, demonstrating our

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Board's belief that these awards underscore our objectives of aligning management and shareholder interests while emphasizing our goal of retention.

Ms. Singer was awarded long-term equity incentive grants that consisted of 20% PSUs and 80% RSs in order to align Ms. Singer's total compensation with that of executives in our peer group serving in comparable positions.

Due to Mr. Waesche and Mr. Lingafelter's previously disclosed impending separation from the Company, no long-term equity awards were granted to them.

PSU Awards Made in 2016

On March 1, 2016, the Board granted PSUs as set forth below, at 60% of the respective individuals' long-term equity incentive award (20% for Ms. Singer).

Name of Executive	Base Salary Used for Equity Award	Total Target Equity Award as a % of Base Salary	Value of PSUs Awarded	Number of PSUs Awarded
Stephen E. Budorick(1)	$ 540,000	225%	$ 729,009	19,079
Anthony Mifsud	$ 367,500	100%	$ 220,510	5,771
Karen M. Singer	$ 346,080	80%	$ 55,366	1,449

(1) Based on a review of peer compensation data related to long-term equity incentives and taking into account his impending promotion to CEO in May 2016, the Board approved increasing Mr. Budorick's target long-term equity award percentage from 140% of base salary to 225% of his base salary for his new role for awards made in March 2016.

These target award percentages were developed using a broad perspective and multiple data points, including: (1) peer long-term equity award data; (2) the Company's desire to differentiate between NEOs; and (3) the total target compensation to be delivered to NEOs. The number of PSUs granted was derived by dividing the value of the award by the value of each PSU. The value of each PSU was determined using a Monte Carlo simulation of our share price on March 1, 2016 for the performance period January 1, 2016 through December 31, 2018. These grants have a performance period beginning on January 1, 2016 and concluding the earlier of: (1) December 31, 2018; (2) the date of termination by the Company without cause, the death or disability of the executive, or the constructive discharge of the executive (collectively, "qualified termination") or (3) a change in control of the Company.

The actual number of shares that will be distributed at the end of the performance period ("earned PSUs") will be determined based on the percentile rank of the Company's TSR relative to those of the companies in the 2016 peer group, as set forth in the following schedule, with interpolation between points:

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

At the end of the performance period, the Company, in settlement of the award, will issue a number of fully-vested common shares equal to the sum of: (1) the number of earned PSUs in settlement of the award plan; and (2) 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

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shares been issued on the grant date, divided by the average of the closing price of our common shares for the 15 days trailing up to the issuance date. PSUs do not carry voting rights.

With regard to prior year PSU awards, the performance period for the March 2014 PSU grant terminated on December 31, 2016. The Company ended the three-year performance period at the 50^{th} percentile relative to our peers' TSR, resulting in a payout of 100% of the target award to Mr. Budorick in 2017 for that plan. Mr. Mifsud was not a NEO in March 2014; therefore he did not receive any awards under that plan.

If a performance period ends due to a change in control or qualified termination, the PSU program is terminated and any payout to the executives is prorated based on the portion of the three-year performance period that has elapsed. We believe that this feature of the PSU program is appropriate as it essentially compensates our executives only for the time worked and the results achieved to date. If employment is terminated by the employee or the Company for cause, all PSUs are forfeited.

On May 30, 2016 and July 12, 2016, Mr. Lingafelter and Mr. Waesche, respectively, were issued fully-vested common shares in settlement of their awards under the 2014 and 2015 PSU Plans. Likewise, on October 30, 2016, Ms. Singer was issued fully-vested common shares in settlement of her awards under the 2014, 2015 and 2016 PSU Plans. Under the terms of those agreements, due to the qualified termination of each executive, the performance period for each Plan terminated and the executive received a prorated payout based on actual performance for the time worked from the grant date of the award to the executive's termination date.

RS Awards Made in 2016

In 2016, the Board approved grants of RSs to Mr. Budorick and Mr. Mifsud valued at 40% of the executives' target equity award percentages, and at 80% for Ms. Singer based on her role as set forth below:

Name of Executive	**Base Salary Used for Equity Award**	**Total Target Equity Award as a % of Base Salary**	**Value of RSs Awarded**	**Number of RSs Awarded**
Stephen E. Budorick(1)	$ 540,000	225%	$ 486,007	20,335
Anthony Mifsud	$ 367,500	100%	$ 147,009	6,151
Karen M. Singer	$ 346,080	80%	$ 221,481	9,267

(1) Based on a review of peer compensation data related to long-term equity incentives and taking into account his impending promotion to CEO in May 2016, the Board approved increasing Mr. Budorick's target long-term equity award percentage from 140% of base salary to 225% of his base salary for his new role for awards made in March 2016.

RSs vest in equal one-third increments annually over a three-year period provided that the individuals remain employed by the Company. Per the terms of our Amended and Restated 2008 Omnibus Equity and Incentive Plan, the minimum vesting period for performance-based awards, including RSs, stock options PSUs and Share Appreciation Rights ("SARs"), is not less than one year from the date of grant and, for all awards not based on the attainment of performance goals, is not less than three years. The minimum vesting period does not apply to awards made to non-employee Trustees. The Company has not issued stock options since 2009 and has never issued SARs.

On December 1, 2016, Mr. Adkins was granted a hire-on award of 14,650 RSs pursuant to his offer of employment. These shares will vest ratably over a five-year period beginning on December 1, 2017. We believe this award provides an element of retention for Mr. Adkins.

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Pay for Performance and Compensation Program Highlights for 2017:

Based on the Company's commitment to align pay and performance, the following actions will occur or have already occurred for 2017:

- The 2017 annual cash incentive award plan will use the balanced scorecard measurement process with a greater emphasis on business growth drivers and a continued focus on the achievement of financial and operational goals.

- Based on a review of peer compensation data related to long-term equity incentive awards, the Board approved increasing Mr. Budorick and Mr. Mifsud's long-term equity award percentages from 225% to 250% of base salary and from 100% to 115% of base salary, respectively, for awards made in 2017.

- The majority of our long-term equity awards for our NEOs will continue to be provided in the form of PSUs, and the balance will be in the form of RSs. Mr. Budorick, Mr. Mifsud and Mr. Adkins have been awarded long-term equity incentive grants in the form of 60% PSUs (awarded on January 1, 2017) and 40% RSs (awarded on March 1, 2017). We believe this form of compensation aligns with industry practice and strengthens the retention aspect of our program while continuing to deliver the majority of annual long-term incentive awards in the form of performance-based equity.

- Following the completion of our annual peer group review, it was determined that Parkway Properties, Inc. was no longer an appropriate peer for the Company based on our defined criteria. In addition to the remaining 13 companies, Franklin Street Properties Corp, and TIER REIT, Inc. were deemed by the Committee to be suitable peers constituting an appropriately sized peer group for purposes of assessing the compensation of our NEOs. In November 2016, the Committee approved this peer group to be used for 2017. Management and the Committee believe that this peer group reflects our office, diversified and specialty REIT emphasis and provides more comparability to companies with which we compete for talent, capital and market share.

Retirement Benefits

Our retirement benefits are designed to assist our executives in accumulating sufficient wealth to provide income during their retirement years. The retirement benefits are designed to attract and retain executives and to encourage such executives to save money for their retirement, while allowing us to maintain a competitive cost structure. Information pertaining to our retirement benefits is set forth below.

401(k) Plan

Our executives participate in a 401(k) defined contribution plan covering substantially all of our employees. The plan provides for Company matching contributions in an amount equal to an aggregate of 3.5% on the first 6% of participant pre-tax and/or after tax contributions to the plan.

Nonqualified Deferred Compensation Plan

We offer our senior management team (director level and above), as well as our Trustees, a nonqualified deferred compensation plan. This plan allows for the deferral of up to 100% of a participant's cash compensation on a pre-tax basis and enables such participants to receive a tax-deferred return on such deferrals. Participants may diversify their investments among a wide array of investment alternatives, including mutual funds and brokerage accounts. The plan does not guarantee a return or provide for above-market preferential earnings. The plan is not qualified under the Employee Retirement and Income Security Act of 1974. The deferral account balances increase or decrease in value based on the performance of the investments selected by the participants. Participants in this plan defer their contributions for three years from the beginning of the calendar year following the year in which the deferral election is made. Participants may choose to receive account balances in a lump sum or in five, ten or fifteen annual installments. Upon termination of employment, a participant's account balance will be distributed within 60 days of separation unless the participant is a "specified employee," as defined in the plan, in which case such distribution shall not be made for six months. Payments are due to parties designated by the participant in lump sum upon the death of a participant. Participant account balances are fully vested and participation in the deferred compensation plan is voluntary. Information about the NEOs' participation in our deferred compensation plans is set forth below in the tables entitled "All Other Compensation" and "Nonqualified Deferred Compensation Table."

Severance and Change in Control Benefits

In accordance with what we believe to be best practice, the Company has shifted away from executive employment agreements for our NEOs. In connection with implementing this shift in approach, the Company utilizes an Executive Severance and Change-in-Control Plan (the "CIC Plan"). The CIC Plan provides for a severance package in the event of the termination of the executive's employment (1) within 12 months of a change in control of the Company, as defined in the CIC Plan or (2) by us without cause or by the employee based upon constructive discharge. The CIC Plan participants must agree to certain non-competition, non-solicitation and confidentiality covenants, and must deliver a release of claims in order to receive payments and benefits under the CIC Plan. We believe that the CIC Plan affords our executives with financial security in the event of a change in control, while ensuring that the Company is able to retain the appropriate knowledge and expertise needed during this situation. We also believe that having this CIC Plan in place helps to encourage the continued dedication of the executives evaluating potential transactions involving the Company which might result in a change in control. On November 28, 2016, the Company entered into an agreement with Mr. Adkins whereby he became a participant in the CIC Plan effective as of that date.

In 2016, we announced that Mr. Lingafelter, Mr. Waesche and Ms. Singer would depart the Company on March 31, 2016, May 12, 2016 and August 31, 2016, respectively. In connection with their departures, these executives were entitled to receive certain payments and benefits pursuant to the terms of the CIC Plan. Accordingly, each executive is receiving a cash severance payment payable over twelve months following their separation date, vesting of their unvested RSs and vesting of a pro rata portion of their outstanding PSUs based on performance through the date of their departure.

Due to the authority vested with the executives and the knowledge of Company proprietary information held by such individuals, the Company must protect its real estate interests in each of its major markets. For this reason, the CIC Plan includes a non-compete provision for a 12-month period following termination of employment. The CIC Plan also requires delivery of a release of claims against the Company and related parties in order to be eligible to receive severance payments under such agreement.

Other Benefits and Perquisites

As employees, our executives are eligible to participate in employee benefit programs generally available to our other employees, including medical, dental, life and disability insurance, as well as participation in an Executive Wellness Program. As with all other employees of the Company, our executives also receive a monetary award for achieving service anniversary milestones. The value of these benefits that is received is essentially equivalent to that offered to the broader management and/or employee group and is included in the tables entitled "Summary Compensation Table" and "All Other Compensation." As demonstrated by the provisions of our CIC Plan, we no longer enter into agreements that contain perquisites that may be considered poor pay practices.

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Tax Compliance Policy

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), limits the deductibility on certain corporations' income tax return to compensation of $1 million to the chief executive officer and the three most highly-compensated executive officers employed by the Company at the end of the year (other than the Company's chief financial officer). Certain performance-based compensation plans are excluded from this limitation provided that the shareholders approve the plan and certain other requirements are met. The Compensation Committee's policy with respect to Section 162(m) is to make reasonable efforts to ensure that compensation is deductible to the extent permitted, while simultaneously providing the Company's NEOs with appropriate rewards for their performance. We did not pay any compensation in 2016 that was not deductible under Section 162(m) of the Internal Revenue Code, and we do not believe that any future nondeductible compensation that is paid will have a material impact on the Company.

Section 409A of the Code relates to the tax treatment of earnings when a payment the Company is obligated to make to an NEO is deferred to a future tax year. The Company, with the assistance of external counsel, continuously reviews all its various executive compensation and benefits plans, as well as employment and other agreements, to ensure compliance with Section 409A.

Sections 280G and 4999 of the Code relate to a 20% excise tax that may be levied on a payment made to an NEO as a result of a change in control if the payment exceeds three times the individual's base earnings (as defined by the Code section). None of our NEOs is entitled to any tax equalization payment under the Company's CIC Plan. Further, the Company has not entered into any new, or materially amended, employment agreements that provide for such tax equalization payments, consistent with our commitment to executive compensation best practices.

Executive Ownership and Capital Accumulation

We believe that the ownership of shares in the Company by NEOs assists in aligning their interests with those of our shareholders. Therefore, we have the following share ownership guidelines for our Trustees and NEOs:

Role	Value of Common Shares to be Owned
Trustees	3 times annual retainer and fees for four quarterly meetings
Chief Executive Officer	6 times base salary
President	3 times base salary
Chief Financial Officer	3 times base salary
Chief Operating Officer	3 times base salary

The ownership guidelines generally include common shares beneficially owned by the respective individuals, including unvested RSs, certain share equivalents under Company sponsored plans and units in the Company's Operating Partnership owned by such individuals, although the guidelines exclude outstanding stock options, PSUs, and any shares or securities which are pledged as collateral for a loan.

For Trustees and executives in office as of March 1, 2009, the effective date of these ownership guidelines was March 1, 2009. For those individuals, the share ownership goal was determined using their retainers or base salaries in effect, and the common share price, as of that date. The share ownership goal under the ownership guidelines for persons assuming a Trustee or executive level position after March 1, 2009 is determined using their retainers or base salaries as of the date they become subject to the ownership guidelines and the average closing price of our common shares on the NYSE for the 60 trading days prior to such date. Once established, a person's share ownership goal will not change because of changes in his retainer or base salary or fluctuations in our common share price. An individual's share ownership goal will only be re-established upon a change to a different executive position. Generally, individuals will have a five-year period to attain their share ownership goals. If an individual's share ownership goal increases because of a change in position, a five-year period to achieve the incremental amount of shares will begin on the effective date of the change in position.

Trading Controls

Executives and Trustees are required to receive the permission of our General Counsel and Secretary prior to entering into transactions in Company shares or share equivalents. Executives and Trustees are subject to black-out periods on the trading of Company shares for a period of time before the completion of each quarter-end and a period of time following the release of earnings for each quarter-end.

Executives and Trustees bear full responsibility if they violate the Company Policy Statement on Securities Trading by permitting shares to be bought or sold without pre-approval by our General Counsel or when trading is restricted. The Policy Statement on Securities Trading also specifically prohibits NEOs and Trustees from participating in any hedging activities in Company shares. The Company also has an anti-pledging policy. Subject to the terms of the policy, executives may not (i) hold securities of the Company in a margin account or pledge securities of the Company as collateral for a loan, or (ii) enter into hedging or monetization transactions or similar arrangements with respect to securities of the Company.

Compensation and Risk

We reviewed the elements of executive and non-executive compensation to determine whether they encourage excessive or unintended risk-taking and concluded that:

- significant weighting toward long-term equity compensation discourages short-term risk taking;
- vesting schedules for restricted shares and PSUs cause management to have a significant amount of unvested awards at any given time, which creates longer term perspectives and focus;
- performance goals are set based on a business plan approved by the Board and their achievement does not automatically entitle management to annual cash incentive awards or equity awards, which are at the discretion of the Board;
- the Board exercises approval rights over significant investment decisions that could expose the Company to long-term risks;
- share ownership guidelines require management to hold a certain amount of our stock such that the NEOs' interests are aligned with shareholders; and
- our clawback policy allows the Company to recoup incentive awards paid to executives and certain other key employees in the event such recoupment is warranted.

Accordingly, our executives and Board concluded that risks arising from our policies and practices for compensating employees are not reasonably likely to have a material adverse effect on the Company.

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Summary Compensation Table

The following table summarizes the compensation earned by our NEOs for 2016, 2015 and 2014.

Name and Principal Position	Year	Salary	Bonus(1)	Share-Based Compensation Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation(4)	Total
Stephen E. Budorick	2016	$ 506,415	$ 73,635	$ 1,215,016	$ 607,066	$ 9,549	$ 2,411,681
President and	2015	438,700		615,976	506,000	9,275	1,569,951
Chief Executive Officer(5)	2014	413,354		517,500	476,100	9,254	1,416,208
Roger A. Waesche, Jr.	2016	327,692				1,580,318	1,908,010
President and	2015	597,500		1,199,968	550,000	9,275	2,356,743
Chief Executive Officer(6)	2014	548,846		1,100,001	687,500	14,187	2,350,534
Paul R. Adkins	2016	15,385	300,000	417,965			733,350
Executive Vice President and							
Chief Operating Officer(7)							
Anthony Mifsud	2016	366,558	35,280	367,519	359,783	9,275	1,138,415
Executive Vice President and	2015	335,408		954,198	350,000	10,727	1,650,333
Chief Financial Officer							
Wayne H. Lingafelter	2016	174,169				687,080	861,249
Executive Vice President of	2015	432,023		541,667	492,112	11,950	1,477,752
Development &							
Construction(8)	2014	406,446		508,736	468,050	22,300	1,405,532
Karen M. Singer	2016	276,488		276,847		232,964	786,299
Senior Vice President, General	2015	335,500		268,775	336,000	19,475	959,750
Counsel and Secretary(9)	2014	325,492		260,777	326,000	19,364	931,633

(1) The amounts included in this column for Messrs. Budorick and Mifsud represent additional discretionary cash amounts awarded in 2017 above the awards determined by actual performance against the pre-established performance objectives for 2016. The amount included in this column for Mr. Adkins represents a signing bonus agreed to by the Company at the commencement of his employment; this payment is subject to recoupment by the Company ratably over a three-year period should Mr. Adkins terminate his employment.

(2) Represents the grant date fair value of PSUs and RSs awarded during the calendar year. The settlement value of the PSU award, if any, will be realized by the executive at the end of the defined performance period based on relative total shareholder return over such period of performance. See Notes 2 and 15 to the Company's consolidated financial statements included in the Company's Annual Report for the year ended December 31, 2016 for additional information regarding PSUs and RSs.

(3) Represents annual cash incentive awards paid in 2017, 2016 and 2015 determined by actual performance against the pre-established Company and individual performance objectives as compensation for services performed during 2016, 2015 and 2014, respectively.

(4) Refer to the table below entitled "All Other Compensation" for details on these amounts, which include perquisites, auto allowances and personal financial and tax preparation fees paid by the Company on behalf of the officers, Company match on employee

contributions to the Company's 401(k) and nonqualified deferred compensation plans, employment separation payments and milestone service awards received for attaining a certain length of employment with the Company under a program available to the Company's other employees.

(5) On May 12, 2016, Mr. Budorick, who was serving as Executive Vice President and COO, was promoted to President and CEO.

(6) Mr. Waesche, who was serving as our CEO, separated from the Company effective May 12, 2016.

(7) Mr. Adkins was appointed as Executive Vice President and Chief Operating Officer effective November 28, 2016.

(8) Mr. Lingafelter, who was serving as Executive Vice President of Development and Construction, separated from the Company effective March 31, 2016.

(9) Ms. Singer, who was serving as Senior Vice President, General Counsel and Secretary, separated from the Company effective August 31, 2016.

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All Other Compensation

Name	Year	Auto Allowance and Lease Costs	Johns Hopkins Wellness Program Participation	Matching of Contributions to 401(k) and Deferred Compensation Plans	Employment Separation Payment	Other	Total
Stephen E. Budorick	2016	$	$	$ 9,275	$	$ 274	$ 9,549
	2015			9,275			9,275
	2014			9,100		154	9,254
Roger A. Waesche, Jr.	2016			9,275	1,555,769	15,274	1,580,318
	2015			9,275			9,275
	2014			9,100		5,087	14,187
Anthony Mifsud	2016			9,275			9,275
	2015	1,452		9,275			10,727
Wayne H. Lingafelter	2016			9,275	677,805		687,080
	2015	660	2,015	9,275			11,950
	2014	13,200		9,100			22,300
Karen M. Singer	2016	7,375	1,995	9,275	211,538	2,781	232,964
	2015	10,200		9,275			19,475
	2014	10,200		9,100		64	19,364

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2016 Grants of Plan-Based Awards

The following table sets forth information about equity and non-equity awards granted to the NEOs for 2016.

Name	Grant Type	Grant Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ($)(2)			Estimated Possible Payouts Under Equity Incentive Plan Awards (#)(3)			All Other Stock Awards: Number of Shares of Stock (#)(4)	Grant Date Fair Value of Stock Awards ($)(3)(4)(5)
			Threshold	Target	Maximum	Threshold	Target	Maximum		
Stephen E. Budorick	Annual	3/1/2016	314,146	623,174	937,320					
	PSU	3/1/2016				9,540	19,079	38,158		729,009
	Restricted	3/1/2016							20,335	486,007
Paul R. Adkins	Restricted	12/1/2016							14,650	417,965
Anthony Mifsud	Annual	3/1/2016	183,750	367,500	551,250					
	PSU	3/1/2016				2,886	5,771	11,542		220,510
	Restricted	3/1/2016							6,151	147,009
Karen M. Singer	PSU	3/1/2016				725	1,449	2,898		55,366
	Restricted	3/1/2016							9,267	221,481

(1) March 1, 2016 is the date on which the Board established the range of potential cash annual incentive awards for 2016 performance by NEOs employed as of that date. March 1, 2016 is also the effective date on which the Board made grants of PSUs and RSs under the long-term equity incentive program for certain NEOs employed as of that date. In addition, Mr. Adkins received a grant of RSs on December 1, 2016 following has appointment on November 28, 2016.

(2) As described in the section entitled "Compensation Discussion and Analysis," the Board approved annual cash incentive awards for the NEOs, as a percentage of base salary, for three levels of performance. These columns show the estimated future payouts of annual incentive awards for the three levels of performance approved by the Board for 2016, as converted from the percentages of 2016 base salary.

(3) The Target column reflects the PSU awards made under the long-term incentive plan granted by the Board effective March 1, 2016. The Threshold and Maximum columns reflect the estimated payout at those levels as indicated by the terms of the PSU award agreement described in the section of this proxy statement entitled "Compensation Discussion and Analysis." The actual awards distributed in 2019 will be a function entirely of the Company's TSR performance over the defined performance period in comparison to peers. At the end of the performance period, the Company, in settlement of the award, will issue a number of fully-vested common shares equal to the sum of: (1) the number of earned PSUs in settlement of the award plan; and (2) 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 average closing price of our common shares for the 15 days trailing up to the issuance date, as defined under the terms of the agreement. In the case of the grant to Ms. Singer, she was issued fully vested common shares in settlement of her awards, which were prorated for her time worked from her grant date to her termination date.

(4) This column reflects the RSs granted under the long-term incentive plan. The shares granted to Messrs. Budorick and Mifsud vest as the individual remains with the Company in equal one-third increments annually over a three-year period. The shares granted to Mr. Adkins vest in equal one-fifth increments annually over a five-year period. The vesting of the shares granted to Ms. Singer was accelerated in connection with her separation from the Company.

(5) The grant date fair value of PSUs was $38.21 per PSU as calculated using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of $23.90; expected volatility for our common shares of 20.4%; and risk-free interest rate of 0.96%. The grant date fair value of RSs was calculated using the closing common share price on the NYSE of $23.90 for the grants on March 1, 2016 and $28.53 for the grants on December 1, 2016.

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Outstanding Equity Awards at December 31, 2016

The table below provides information about unvested RSs and unsettled PSUs as of December 31, 2016 for the NEOs. None of our NEOs held any options to purchase common shares as of that date.

		Stock Awards			
Name	**Grant Date**	**Number of Shares That Have Not Vested(1)**	**Market Value of Shares That Have Not Vested ($)(2)**	**Equity Incentive Plan Awards: Number of Unearned Units(3)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Units ($)(4)**
Stephen E. Budorick	3/6/2014	2,603	$ 81,266	9,784	$ 305,456
	3/5/2015	5,610	175,144	5,381	167,995
	3/1/2016	20,335	634,859	9,876	308,313
Paul R. Adkins	12/1/2016	14,650	457,373		
Anthony Mifsud	3/1/2014	1,952	60,941		
	2/4/2015	20,000	624,400		
	3/5/2015	3,188	99,529	3,058	95,455
	3/1/2016	6,151	192,034	2,988	93,270

(1) This column represents the number of RSs awarded. The forfeiture restrictions on these awards that were unvested at December 31, 2016 lapsed or will lapse on the following dates:

Grant Date	**Vesting Schedule**
3/1/2014	100% of the award vested on 3/1/2017.
3/6/2014	100% of the award vested on 3/6/2017.
2/4/2015	60% vests on 4/1/2018 and 20% vests on each of the following days: 4/1/2019 and 4/1/2020.
3/5/2015	50% of the award vested on 3/5/2017 and 50% vests on 3/5/2018.
3/1/2016	One-third vested on 3/1/2017, and one-third vests on each of the following days: 3/1/2018 and 3/1/2019.
12/1/2016	20% vests on each of the following days: 12/1/2017, 12/1/2018, 12/1/2019, 12/1/2020 and 12/1/2021.

(2) This column represents the value of the RSs awarded. The value is calculated by multiplying the number of shares subject to vesting or issuable by $31.22, the closing price of our common shares on the NYSE on December 30, 2016.

(3) The amount reported in this column represents the number of common shares that would be issuable in settlement of the PSUs at the threshold level of performance (except for the PSUs with a March 6, 2014 grant date, which was based on an actual payout of 100% of the award target, as such amount was determinable as of December 31, 2016), including the effect of aggregate dividends declared through December 31, 2016. The PSUs have a performance period beginning on January 1, 2014, January 1, 2015 and January 1, 2016, respectively, and concluding on the earlier of: (1) December 31, 2016, December 31, 2017 and December 31, 2018, respectively; (2) the date of termination by the Company without cause, the death or disability of the executive or the constructive discharge of the executive (collectively, "qualified termination"); or (3) the date of a sale event. At the end of the performance period, the Company, in settlement of the award, will issue a number of fully-vested common shares equal to the sum of: (1) the number of earned PSUs in settlement of the award plan; and (2) 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 average of the closing price of our common shares for the 15 days trailing up to the issuance date, as defined under the terms of the agreement.

(4) This column represents the market value of the PSU awards. The value is calculated by multiplying the number of common shares that would be issuable in settlement of the PSUs at the threshold level of performance (except for the PSUs with a March 6, 2014 grant date, which was based on an actual payout of 100% of the award target, as such amount was determinable as of December 31, 2016), as reported in the previous column, by $31.22, the closing price of our common shares on the NYSE on December 30, 2016.

Stock Vested in 2016

The table below provides information about the value realized on RSs vesting during 2016 for the NEOs.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting(1)
Stephen E. Budorick	11,696	$ 307,841
Roger A. Waesche, Jr.	30,839	835,621
Anthony Mifsud	4,738	113,243
Wayne H. Lingafelter	13,790	356,770
Karen M. Singer	23,430	604,999

(1) Value realized on vesting of RSs is calculated by multiplying the closing price of our common shares as reported by the NYSE on the day before the vesting date by the number of shares vesting.

Nonqualified Deferred Compensation

The following table shows the contributions, earnings and account balances for the NEOs in the Company's nonqualified deferred compensation plan:

Named Executive	Executive Contributions in 2016	Aggregate Earnings in 2016(1)	Aggregate Distributions in 2016	Aggregate Balance at 12/31/16(2)
Roger A. Waesche, Jr.	$	$ (18,843)	$ (601,659)	$ 687,219
Karen M. Singer		68,627	(28,456)	736,015

(1) The amounts in this column reflect aggregate earnings on participant-directed investments. The nonqualified deferred compensation plan does not pay above-market interest rates.

(2) The table below sets forth the portions of the amounts included in this column that were reported in the Summary Compensation Table appearing in the Company's proxy statements in this year or in prior years:

Named Executive	Amounts Reported as Compensation		
	Current Year	Prior Years	Total
Roger A. Waesche, Jr.	$	$ 538,901	$ 538,901
Karen M. Singer		450,105	450,105

Potential Payments on Termination, Change in Control, Death or Disability

The CIC Plan provides for the following severance package in the event of termination of the covered executive's employment (1) within 12 months of a change in control of the Company or (2) by us without cause or by the executive based upon constructive discharge:

- severance payment equal to the sum of (A) current annualized base salary plus (B) the average of the three most recent annual incentive awards, multiplied by 2.99 if due to change in control or 1.0 (or in the case of our CEO, 2.0) if due to termination without cause or constructive discharge;

- a pro-rated annual incentive cash bonus for the year of termination;

- continued medical, dental and vision benefits for 12 months following termination unless such benefits are available through other employment after termination;

- full vesting of previously unvested options, restricted shares and other equity awards subject to time-based vesting with the right to exercise options for up to 18 months following termination; and

- vesting of performance-based equity awards in accordance with the terms of the applicable award agreements. We believe that the termination of the PSU program upon a change in control resulting in a pro-rata payout based on the portion of the performance period completed essentially compensates our executives only for the time worked and the results achieved to the date of the change in control.

The severance payments will be paid in substantially equal monthly installments over 12 months, or if as a result of a change in control, severance will be paid in a lump sum. Such payments will be made in accordance with the provisions of Section 409A of the Internal Revenue Code, and do not provide for any gross-up on excise taxes.

Under the CIC Plan, a termination by us without cause is termination of employment for any reason other than (1) expiration of the term of the employment agreement or any renewal term; (2) termination upon disability; or (3) a "for-cause" termination. A "for-cause" termination is the termination of employment by us on the basis or as a result of (i) an executive's conviction or disposition other than "not guilty" of a felony, a crime of moral turpitude or any crime in connection with any financial, business or commercial enterprise or transaction; (ii) a final judgment or other finding by a federal or state court or federal or self-regulatory agency that an executive has committed an intentional or reckless violation of security laws; (iii) any actions engaged in by an executive constituting a violation of law, dishonesty, bad faith or willful disregard of duties in connection with his services with respect to the Employer; (iv) any act of willful misconduct committed by an executive directly or indirectly related to the executive's employment or services with respect to the Company, including but not limited to, misappropriation of funds, dishonesty, fraud, unlawful securities transactions or a material violation of the Company's Code of Business Conduct and Ethics or the Code of Ethics for Financial Officers; or (v) the willful or negligent failure of an executive to perform his duties hereunder, which failure continues for a period of thirty (30) days after written notice thereof is given to the executive.

Under the CIC Plan, constructive termination is termination initiated by the individual upon being "constructively discharged" by us, which means the occurrence of any of the following events (not in connection with a "for-cause" termination): (1) an executive is not re-elected to, or is removed from his position with the Company, other than as a result of the executive's election or appointment to positions of equal or superior scope and responsibility; or (2) a material diminution in an executive's responsibilities, authority or duties; or (3) the Company changes the primary employment location of the executive to a place that is more than fifty (50) miles from 6711 Columbia Gateway Drive,

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Columbia, Maryland; or (4) the Company otherwise commits a material breach of its obligations under these agreements.

Under the CIC Plan, a change in control means the occurrence of any of the following during the term of the employment agreement: (1) the consummation of the acquisition by any person, (as such term is defined in Section 13(d) or 14(d) of the Exchange Act of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power embodied in the then outstanding voting securities of the Company or the employee's employer; (2) the consummation of: (a) a merger or consolidation of the Company or the employee's employer, if the shareholders of the Company or the employer of the employee immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as was represented by their ownership of the combined voting power of the voting securities of the Company or the employee's employer outstanding immediately before such merger or consolidation; or (b) the sale or other disposition of all or substantially all of the assets of the Company or the employer of the employee; or (3) approval by the shareholders of the Company or the employer of the employee of a complete or substantial liquidation or dissolution of the Company or the employer of the employee.

The table below reflects the payments that would be made to the NEOs pursuant to the provisions discussed above, assuming that the applicable termination event described occurred on December 31, 2016.

Name	Cash Severance Payments	Continuation of Medical/ Welfare Benefits(1)	Value of RS Vestings(2)	Value of PSU Vestings(3)	Total Termination Benefits
Stephen E. Budorick					
Premature/Constructive Termination	$ 1,043,700	$ 15,397	$ 891,269	$ 542,325	$ 2,492,691
Change in Control	3,120,663	15,397	891,269	542,325	4,569,654
Death or Disability			891,269	542,325	1,433,594
Paul R. Adkins					
Premature/Constructive Termination	860,000	15,397	457,373		1,332,770
Change in Control	2,571,400	15,397	457,373		3,044,170
Death or Disability			457,373		457,373
Anthony Mifsud					
Premature/Constructive Termination	594,167	15,397	976,904	213,529	1,799,997
Change in Control	1,336,873	15,397	976,904	213,529	2,542,703
Death or Disability			976,904	213,529	1,190,433

(1) These benefits were computed based on the monthly medical and welfare benefits for the named executive officers as of December 31, 2016 multiplied by the number of months over which such benefits are to continue beyond such executives' employment termination.

(2) Value of a RS vesting is calculated by multiplying the number of shares subject to vesting as of December 31, 2016 by $31.22, the closing price of our common shares on the NYSE on December 30, 2016.

(3) Value of PSU vestings is calculated by multiplying the number of common shares that would be issuable in settlement of unvested PSUs (including the effect of aggregate dividends declared through December 31, 2016) by $31.22, the closing price of our common shares on the NYSE on December 30, 2016. The number of shares issuable in settlement would be prorated based on the portion of the three-year performance period that has elapsed in the event of a change in control.

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Proposal 6 Approval of the 2017 Omnibus Equity and Incentive Plan

On March 8, 2017, the Board adopted the 2017 Omnibus Equity and Incentive Plan (the "2017 Plan"), subject to the approval of our shareholders. The 2017 Plan will become effective if and when it is approved by our shareholders and will replace our Amended and Restated 2008 Omnibus Equity and Incentive Plan (the "2008 Plan"), effective as of such date, whereupon no further awards will be made under the 2008 Plan.

By adopting the 2017 Plan we may continue to use equity awards to attract, retain and motivate employees. We believe that having a plan in place with a sufficient number of shares is critical to our ability to attract, retain and motivate employees in a highly competitive marketplace and ensure that the Company's executive compensation is structured in a manner that aligns the executives' interests with the success of the Company. The following highlights key reasons why we believe shareholders should approve the 2017 Plan:

Reasonable Plan Cost

Permits continued alignment of interests through use of equity compensation

Reasonable number of shares requested 3,400,000 shares

Awards would not have a substantially dilutive effect (issuance of all shares is less than 3.4% of outstanding shares and common units)

No additional awards will be issued under the 2008 Plan 655,503 shares remaining available under the 2008 Plan (equating to full-value awards for 362,156 shares) will not be utilized

Responsible Grant Practices

0.83% three-year average burn rate well below ISS industry standard of 2.55%

All equity awards granted to NEOs vest ratably over at least three years

60% of the equity awards granted to each NEO are PSUs subject to vesting based on relative TSR over a three-year period

PSU payout prorated upon termination and change in control

Clawback policy applies to equity awards

Robust share ownership guidelines

Shareholder-Friendly Plan Features

No single trigger change in control vesting acceleration of time-based awards

No liberal share recycling shares withheld for tax withholding, net exercise or exercise payment not added back

No repricing permitted without shareholder approval

Shareholder approval required to increase the share reserve (i.e., no "evergreen" feature)

No dividends or distributions permitted to be paid on unearned performance-based awards

The Board recommends a vote "FOR" approval of the 2017 Plan.

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Shares Available for Issuance

The number of common shares available for issuance under the 2017 Plan is 3,400,000 and will not be increased by the number of unused shares under the 2008 Plan.

As of March 2, 2017, there were 655,503 shares available under the 2008 Plan (equating to full-value awards for 362,156 shares). We will not grant any awards under the 2008 Plan prior to the Annual Meeting and, as a result, if the 2017 Plan is approved, these shares will not be utilized. As of March 2, 2017, the number of shares to be issued upon the exercise of outstanding options, warrants and rights for which we have reserved shares under the 2008 Plan is equal to 328,434, which includes: (i) 157,946 shares issuable pursuant to performance share awards if maximum performance is achieved (none of which were vested), (ii) 46,263 shares issuable pursuant to outstanding deferred share awards (24,944 of which were unvested) and (iii) 124,225 common shares subject to outstanding options (all of which were vested and exercisable). The weighted average exercise price and term to maturity of these outstanding options was $39.37 per share and 1.0 year, respectively. In addition, an aggregate of 443,556 unvested restricted shares granted under the 2008 Plan were outstanding as of March 2, 2017.

Shares underlying awards that are forfeited, canceled or otherwise terminated (other than by exercise) under the 2017 Plan and the 2008 Plan will be added back to the shares available for issuance under the 2017 Plan. Shares tendered or held back for taxes or to cover the exercise price of an option will not be added back to the reserved pool under the 2017 Plan.

As of March 2, 2017, the Company had 98,849,553 common shares outstanding. As of March 2, 2017, the Company's Operating Partnership had 3,405,391 common units outstanding that were not owned by the Company and are exchangeable into common shares on a one-for-one basis, subject to certain conditions.

Burn Rate

The following table sets forth information regarding historical awards granted (or, for awards subject to performance-based vesting, vested) for each of the last three fiscal years and our corresponding annual burn rate calculated in the manner described below:

	2016	**2015**	**2014**
Share Options Granted (A)			
Time-Based Full-Value Shares Granted(1)	256,881	225,080	216,607
Performance-Based Full-Value Shares Vested(2)	42,906	15,289	40,309
Total Full Value Shares (B)	299,787	240,369	256,916
Weighted average common shares/units outstanding during the fiscal year (C)(3)	98,135,000	97,606,000	91,989,000
Annual Burn Rate ((A+(B*3))/C)(4)	0.92%	0.74%	0.84%
Three Year Average Burn Rate(5)			0.83%

(1) Reflects the sum of restricted share and deferred share award grants during the year.

(2) Represents common shares issued in settlement of vested PSUs.

(3) For each year, represents the weighted average number of common shares of the Company and common units of the Company's Operating Partnership outstanding during the year. Because the Company is a real estate investment trust that conducts substantially all of its operations through an operating partnership, both common shares of the Company and common units of the Company's Operating Partnership not owned by the Company are included for purposes of

calculating our burn rate. Each common unit of the Company's Operating Partnership is exchangeable into common shares on a one-for-one basis, subject to certain conditions.

(4) Burn rate represents: (a) the sum of (i) share options granted plus (ii) (A) the sum of the number of shares subject to time-based full-value awards granted during the year and the number of shares subject to performance-based full-value awards that vested during the year multiplied by (B) 3.0, which is a multiplier that is intended to reflect the greater value delivered by full-value awards as compared to share options for purposes of comparing burn rates among companies that may utilize different forms of equity awards, divided by (b) the weighted average number of common shares of the Company and common units of the Company's Operating Partnership outstanding during the year.

(5) As illustrated in the table above, our three-year average burn rate for the last three fiscal years was 0.83%, which is well below the ISS industry category burn rate threshold of 2.55%.

Summary of the 2017 Plan

The following description of certain material features of the 2017 Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2017 Plan that is attached hereto as ***Annex B***.

Shares Available. The maximum number of common shares to be issued under the 2017 Plan is 3,400,000. Based solely on the closing price of our common shares as reported on the NYSE on March 2, 2017, the maximum aggregate market value of the 3,400,000 shares that could potentially be issued under the 2017 Plan is $115.1 million. Shares underlying awards that are forfeited, canceled or otherwise terminated (other than by exercise) under the 2017 Plan and the 2008 Plan will be added back to the shares available for issuance under the 2017 Plan.

No Liberal Share Recycling. Shares tendered or held back for taxes or to cover the exercise price of an option will not be added back to the reserved pool under the 2017 Plan. Upon the exercise of a share appreciation right that is settled in common shares, the full number of shares underlying the award will be charged to the reserved pool. Additionally, shares we reacquire on the open market will not be added to the reserved pool. In the event we repurchase shares on the open market, such shares shall not be added to the shares available for issuance under the 2017 Plan.

Types of Awards. The types of awards permitted under the 2017 Plan will include share options, share appreciation rights, restricted share unit awards, restricted share awards, unrestricted share awards, cash-based awards, dividend equivalent rights and other equity-based awards.

Eligibility. All officers, employees, non-employee trustees and consultants of the Company and its subsidiaries will be eligible to receive awards under the 2017 Plan. Persons eligible to participate in the 2017 Plan will be those officers, employees, non-employee trustees and consultants of the Company and its subsidiaries as selected from time to time by the Administrator (as defined below). Approximately 387 individuals are currently eligible to participate in the 2017 Plan.

Plan Administration. The 2017 Plan will be administered by either the Compensation Committee of the Board, the Board or by such other committee of the Board performing the functions of the Compensation Committee (in either case, the "Administrator"). The Administrator has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, including the right to accelerate vesting of awards, subject to the provisions of the 2017 Plan. Subject to applicable law, unless the Administrator determines others, in its sole discretion, the Chief Executive Officer of the Company is authorized to exercise any and all of the Administrator's power and authority with respect to awards held by individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act.

Change in Control. The 2017 plan does not provide for any automatic vesting in the event of a "change in control" (as defined in the 2017 Plan). The Administrator may terminate all outstanding share options and share appreciation rights granted under the 2017 Plan in the event of a change in control, in which case the share options and share appreciation rights will become fully vested and exercisable as of the effective time of such transaction and the Administrator may (i) make or provide for a payment, in cash or in kind, for each share subject to such a share option or share appreciation right, in exchange for the cancellation thereof, in an amount equal to the difference between the per share consideration received in the transaction and the exercise price of such award or (ii) permit holders of share options and share appreciation rights to exercise such awards (to the extent exercisable as of the consummation of the transaction) within a specified period of time prior to the transaction.

Clawback Policy. All awards granted under the 2017 Plan will be subject to our clawback policy in effect from time to time.

Term. No awards may be granted under the 2017 Plan ten years or more after the date of shareholder approval.

Repricing. The Administrator may not reprice or reduce the exercise price of any outstanding options or share appreciation rights, other than as a result of a proportionate adjustment made in connection with a reorganization, recapitalization, reclassification, share dividend, share split, reverse share split, extraordinary dividend or other similar event.

Limitations on Individual Grants of Options or Share Appreciation Rights. The maximum award of options or share appreciation rights granted to any one individual will not exceed 1,360,000 shares (subject to adjustment for share splits and similar events) for any calendar year period.

Limitations on Awards to Non-Employee Trustees. The maximum value of awards under the 2017 Plan to any non-employee trustee in any calendar year, other than the chairman of the Board or lead trustee, if any, will not exceed $500,000.

Performance-Based Compensation. To ensure that certain awards granted under the 2017 Plan to a "Covered Employee" (as defined in the Code) qualify as "performance-based compensation" under Section 162(m) of the Code, the 2017 Plan provides that the Administrator may require that the vesting of such awards be conditioned on the satisfaction of performance criteria that may include any or all of the following: (1) earnings before interest, taxes, depreciation and/or amortization, (2) net income (loss) (either before or after interest, taxes, depreciation and/or amortization), (3) changes in the market price of our common shares, (4) economic value-added, (5) funds from operations, adjusted funds from operations or similar measure, (6) sales or revenue, (7) acquisitions, dispositions or strategic transactions, (8) operating income (loss), (9) cash flow (including, but not limited to, operating cash flow and free cash flow), (10) return on capital, assets, equity, or investment, (11) shareholder returns, (12) return on sales, (13) gross or net profit levels, (14) productivity, (15) expense, (16) margins, (17) operating efficiency, (18) customer satisfaction, (19) working capital, (20) earnings (loss) per share, (21) rent growth, (22) objectively determinable expense management, (23) capital deployment, (24) development milestones, (25) sales or market shares and (26) number of customers, any of which may be measured either in absolute terms, or on a per share basis, as compared to any incremental increase or as compared to results of a peer group. The Administrator may adjust any evaluation of performance under a performance criteria to exclude any of the following events that occurs during a performance cycle in order to prevent the dilution or enlargement of the rights of an individual: (i) asset write-downs or impairments, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reporting results,

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(iv) accruals for reorganizations and restructuring programs and (v) any item of an unusual nature or of a type that indicates infrequency of occurrence, or both, including those described in the Financial Accounting Standards Board's authoritative guidance and/or in management's discussion and analysis of financial condition of operations appearing in the Company's annual report to shareholders for the applicable year, provided, that the Administrator may not exercise such discretion in a manner that would increase the "performance based compensation" to an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code. The Administrator will select the particular performance criteria within 90 days following the commencement of a performance cycle. Subject to adjustments for share splits and similar events, the maximum award granted to any one individual that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code will not exceed 700,000 shares of common shares for any performance cycle. If a performance-based award is payable in cash to any executive, it cannot exceed $10,000,000 for any performance cycle.

Share Options. The 2017 Plan permits the granting of (1) options intended to qualify as incentive stock options under Section 422 of the Code and (2) options that do not so qualify. Options granted under the 2017 Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee trustees and consultants. The exercise price of each option will be determined by the Administrator but may not be less than 100% of the fair market value of our common shares on the date of grant.

The term of each option will be fixed by the Administrator and may not exceed ten years from the date of grant. The Administrator will determine at what time or times each option may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the Administrator. Options may be exercised in whole or in part by giving written or electronic notice to the Company or its designee.

Upon exercise of options, the option exercise price must be paid in full either in cash, by certified or bank check or other instrument acceptable to the Administrator, or by delivery (or attestation to the ownership following such procedures as we may prescribe) of shares that are not subject to restrictions under any Company plan. Subject to applicable law, the exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee. In addition, the Administrator may permit non-qualified options to be exercised using a net exercise feature which reduces the number of shares issued to the optionee by the number of shares with a fair market value equal to the exercise price.

To qualify as incentive options, options must meet additional federal tax requirements, including a $100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year.

Share Appreciation Rights. The Administrator may award share appreciation rights to participants subject to such conditions and restrictions as the Administrator may determine, provided that the exercise price may not be less than 100% of the fair market value of our common shares on the date of grant. Share appreciation rights are settled in common shares. In addition, no share appreciation right shall be exercisable more than ten years after the date the share appreciation right is granted.

Restricted Share Units. Restricted share unit awards are ultimately payable in the form of common shares and may be subject to such conditions and restrictions as the Administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified vesting period. In the Administrator's sole discretion, and subject to the participant's compliance with the procedures established by the Administrator and requirements of Section 409A of the Code, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a restricted share unit award.

Restricted Shares. The Administrator may award shares to participants subject to such conditions and restrictions as the Administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with us through a specified restriction period. Cash dividends on restricted shares that remain subject to the attainment of performance criteria must be retained by, or repaid by the grantee to, the Company; provided that, an amount equal to such cash dividends retained or repaid by the grantee may be paid to the grantee upon the lapsing of such performance-criteria.

Unrestricted Shares. The 2017 Plan gives the Administrator discretion to grant share awards free of any restrictions. Unrestricted shares may be granted to any participant in recognition of past services or other valid consideration and may be issued in lieu of cash compensation due to such participant.

Cash-Based Awards. Each cash-based award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a cash-based award may be made in cash or in common shares, as the Administrator determines.

Dividend Equivalent Rights. Dividend equivalent rights are awards entitling the grantee to current or deferred payments equal to dividends on a specified number of common shares. Dividend equivalent rights may be settled in cash or shares and are subject to other conditions as the Administrator shall determine. Dividend equivalents payable with respect to awards with vesting tied to the attainment of performance criteria shall not be paid unless and until such performance conditions are attained. Dividend equivalent rights shall not be granted to any grantee as a component of an option or a share appreciation right.

Other Equity-Based Awards. The Administrator may grant units or any other membership or ownership interests (which may be expressed as units or otherwise) in a subsidiary (or other affiliate of the Company), with any shares being issued in connection with the conversion of (or other distribution on account of) an interest granted under the provisions of the 2017 Plan.

Dividends on Unearned Performance-Based Awards. Cash dividends on other equity-based awards that remain subject to the attainment of performance criteria must be retained by, or repaid by the grantee to, the Company; provided that, an amount equal to such cash dividends retained or repaid by the grantee may be paid to the grantee upon the lapsing of such performance-criteria.

Adjustments for Stock Dividends, Stock Splits, Etc. The 2017 Plan requires the Administrator to make appropriate adjustments to the number of shares of common stock that are subject to 2017 Plan, to certain limits in the 2017 Plan, and to any outstanding awards to reflect stock dividends, stock splits, extraordinary cash dividends and similar events.

Tax Withholding. Participants in the 2017 Plan are responsible for the payment of any federal, state or local taxes that we are required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the Administrator, participants may elect to have the tax withholding obligations satisfied by authorizing the Company to withhold shares to be issued pursuant to an option exercise or other award. Additionally, the Administrator may provide for mandatory share withholding up to the required withholding amount.

Amendments and Termination. Generally, under current NYSE rules, all material amendments to the 2017 Plan, including those that materially increase the number of shares available, expand the types of awards available or the persons eligible to receive awards, extend the term of the 2017 Plan, change the method of determining the exercise price of options or delete or limit any provision prohibiting the repricing of options, must be approved by our common shareholders. The Board may determine to

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make amendments subject to the approval of the common shareholders for purposes of complying with the rules of the NYSE or to preserve the qualified status of incentive options or ensure that compensation earned under the 2017 Plan qualifies as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986 (the "Code"). Otherwise, our Board may amend or discontinue the 2017 Plan at any time.

Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the 2017 Plan. It does not describe all federal tax consequences under the 2017 Plan, nor does it describe state or local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (1) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (2) we will not be entitled to any deduction for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

An incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

If shares acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above, generally: (1) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares at exercise (or, if less, the amount realized on a sale of such shares) over the option price thereof; and (2) we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares.

Non-Qualified Options. No taxable income is generally realized by the optionee upon the grant of a non-qualified option. Generally: (1) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and we receive a tax deduction for the same amount; and (2) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

Other Awards. We will generally be entitled to a tax deduction in connection with an award under the 2017 Plan in an amount equal to the ordinary income realized by the participant at the time the participant recognizes such income. Participants typically are subject to income tax and recognize such tax at the time that an award is exercised, vests or becomes non-forfeitable, unless the award provides for a further deferral.

Parachute Payments. The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as "parachute payments," as defined in the Code. Any such parachute payments may be non-deductible to us, in whole or in part, and may subject the recipient to a

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non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on the Company's Deductions. As a result of Section 162(m) of the Code, our deduction for certain awards under the 2017 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of $1 million a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code). The 2017 Plan is structured to allow certain grants to qualify as performance-based compensation.

New Plan Benefits

Because the grant of awards under the 2017 Plan is within the discretion of the Administrator, we cannot determine the dollar value or number of shares of common stock that will in the future be received by or allocated to any participant in the 2017 Plan.

Vote Required

Because this proposal is required to be approved by shareholders under the rules of the New York Stock Exchange, the affirmative vote of a majority of the votes cast on this proposal (including votes for and against and abstentions as votes cast) will be required for approval. For these purposes, abstentions will be treated as votes cast and broker non-votes will not be treated as votes cast.

Recommendation

The Board recommends a vote "FOR" approval of the 2017 Plan.

Equity Compensation Plan Information

The table below provides information as of December 31, 2016 regarding our compensation plans under which equity securities are authorized for issuance to employees or non-employees in exchange for consideration in the form of goods and services.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities in Column (a)) (c)
Equity compensation plans approved by security holders	342,354(1)	$ 43.35(2)	1,157,284(3)
Equity compensation plans not approved by security holders		N/A	
Total	342,354	$ 43.35	1,157,284

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(1) Includes the following:

i. 94,991 shares issuable pursuant to 49,466 PSUs outstanding as of December 31, 2016. The 94,991 shares includes 85,207 shares that would be issuable in settlement of 40,617 unvested PSUs at the maximum level of performance and 9,784 shares issuable in settlement of 8,849 vested but unsettled PSUs based on an actual payout of 100% of the award target, as such amount was determinable as of December 31, 2016; these amounts include the effect of aggregate dividends declared through December 31, 2016.

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ii. 46,263 shares issuable pursuant to outstanding deferred share awards (24,944 of which were unvested as of December 31, 2016); and

iii. 201,100 common shares subject to outstanding options (all of which were vested and exercisable).

(2) Because there is no exercise price associated with PSUs or deferred share awards, these awards are not included in the weighted-average exercise price calculation.

(3) Represents shares available under the 2008 Plan after reserving for shares issuable pursuant to the outstanding PSU awards, deferred share awards and options included in column (a) of the table above. Because each share issued pursuant to full-value awards count against the number of shares remaining available as 1.81 shares, the number of shares remaining available equates to full-value awards for 639,383 shares.

The table above excludes 371,247 RSs that the Company had outstanding as of December 31, 2016.

As of March 2, 2017, the Company had 98,849,553 common shares outstanding. As of March 2, 2017, the Company's Operating Partnership had 3,405,391 common units outstanding that were not owned by the Company and are exchangeable into common shares on a one-for-one basis, subject to certain conditions.

As of March 2, 2017, there were 655,503 shares available under the 2008 Plan (equating to full-value awards for 362,156 shares). We will not grant any awards under the 2008 Plan prior to the Annual Meeting and, as a result, if the 2017 Plan is approved, these shares will not be utilized. As of March 2, 2017, the number of shares to be issued upon the exercise of outstanding options, warrants and rights for which we have reserved shares under the 2008 Plan is equal to 328,434, which includes: (i) 157,946 shares issuable pursuant to performance share awards if maximum performance is achieved (none of which were vested), (ii) 46,263 shares issuable pursuant to outstanding deferred share awards (24,944 of which were unvested) and (iii) 124,225 common shares subject to outstanding options (all of which were vested and exercisable). The weighted average exercise price and term to maturity of these outstanding options was $39.37 per share and 1.0 year, respectively. In addition, an aggregate of 443,556 unvested restricted shares granted under the 2008 Plan were outstanding as of March 2, 2017.

ANNEX A

CORPORATE OFFICE PROPERTIES TRUST

ARTICLES OF AMENDMENT

THIS IS TO CERTIFY THAT:

FIRST: The Amended and Restated Declaration of Trust of Corporate Office Properties Trust, a Maryland real estate investment trust (the "Trust"), is hereby amended by deleting Section 6.9 of Article VI of the Amended and Restated Declaration of Trust in its entirety and replacing it with the following:

> "Section 6.9 *Declaration and Bylaws*. All shareholders are subject to the provisions of the Declaration of Trust and the Bylaws of the Trust. Except as otherwise specifically required by law, the Trustees and the Shareholders shall each have the power to adopt, amend and modify the Bylaws of the Trust in the manner set forth in the Bylaws as the same may be amended or modified from time to time."

SECOND: The amendment to the Amended and Restated Declaration of Trust as set forth above has been duly advised by the board of trustees of the Trust and approved by the shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on such amendment.

THIRD: The undersigned President and Chief Executive Officer acknowledges these Articles of Amendment to be the corporate act of the Trust and as to all matters or facts required to be verified under oath, the undersigned President and Chief Executive Officer acknowledges that to the best of the President and Chief Executive Officer's knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Trust has caused these Articles to be signed in its name and on its behalf by its President and Chief Executive Officer and attested to by its Secretary on this day of May, 2017.

ATTEST:	CORPORATE OFFICE PROPERTIES TRUST a Maryland real estate investment trust
	By: (SEAL)
David L. Finch, *Secretary*	Stephen E. Budorick, *President and Chief Executive Officer*

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SECOND AMENDMENT TO
AMENDED AND RESTATED
BYLAWS OF
CORPORATE OFFICE PROPERTIES TRUST
(THE "TRUST")

(effective on , 2017)

The following amendment is effective as of , 2017 as approved by the unanimous written consent of the Trust's Board of Trustees:

1. Article XIV Article XIV of the Amended and Restated Bylaws is hereby deleted in its entirety and replaced with the following provision:

"ARTICLE XIV
AMENDMENT OF BYLAWS

The Trustees shall have the power to adopt, alter or repeal any provision of these Bylaws and to make new Bylaws; provided, that no amendment or revisions shall be made to clauses (a) or (b) of Article II, Section 8 or to this Article XIV unless such amendment or revision is approved by a vote of the shareholders of the Trust taken in accordance with clause (c) of Article II, Section 8. The shareholders shall also have the power to adopt, alter or repeal any provision of these Bylaws and to make new Bylaws by the affirmative vote of a majority of all the votes entitled to be cast on the matter; provided, that the shareholders shall not have the power to amend, alter, revise or supplement this Article XIV in any manner that alters the Trustees' power to adopt, alter or repeal any provision of these Bylaws or to make new Bylaws."

2. In the event of any conflict between this amendment and the Amended and Restated Bylaws, this amendment shall prevail.

3. All other terms and provisions of the Amended and Restated Bylaws shall remain in full force and effect.

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Annex B

CORPORATE OFFICE PROPERTIES TRUST

2017 OMNIBUS EQUITY AND INCENTIVE PLAN

SECTION 1. *GENERAL PURPOSE OF THE PLAN; DEFINITIONS*

The name of the plan is the Corporate Office Properties Trust 2017 Omnibus Equity and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Trustees and Consultants of Corporate Office Properties Trust (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Administrator" means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Trustees who are independent.

"Award" or *"Awards,"* means an award under the Plan and, except where referring to a particular category of grant under the Plan, shall include Incentive Options, Non-Qualified Options, Share Appreciation Rights, Restricted Share Unit Awards, Restricted Share Awards, Unrestricted Share Awards, Cash-Based Awards, Dividend Equivalent Rights, Units and other equity-based Awards as contemplated herein.

"Award Certificate" means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

"Board" means the Board of Trustees of the Company.

"Cash-Based Award" means an Award entitling the recipient to receive a cash-denominated payment.

"Change in Control" means (i) the consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50 percent or more of the combined voting power embodied in the then outstanding voting securities of the Company; (ii) the consummation of: (a) a merger or consolidation of the Company, if the shareholders of the Company immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 50 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as was represented by their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation; or (b) a sale or other disposition of all or substantially all of the assets of the Company; (iii) the approval by the shareholders of the Company of a dissolution or liquidation of all or substantially all of the Company's assets or (iv) the members of the Board at the beginning of any consecutive 24-calendar-month period (the "Incumbent Trustees") cease for any reason to constitute at least a majority of the members of the Board; provided that any member of the Board whose election, or nomination for election by the Company's shareholders, was approved by

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a vote of at least a majority of the Incumbent Trustees, shall be deemed to be an Incumbent Trustee; provided further, however, that no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to the members of the Board or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Trustee.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Consultant" means any natural person that provides bona fide services to the Company, and such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

"Covered Employee" means an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code.

"Dividend Equivalent Right" means an Award entitling the grantee to receive credits based on dividends that would have been paid on the Shares specified in the Dividend Equivalent Right (or other award to which it relates) if such Shares had been issued to and held by the grantee.

"Effective Date" means the date on which the Plan becomes effective as set forth in Section 21.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Fair Market Value" of the Shares on any given date means the fair market value of the Shares determined in good faith by the Administrator; provided, however, that if the Shares are listed on the New York Share Exchange ("NYSE") or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

"Family-Member" of a grantee means a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

"Incentive Option" means any Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Non-Employee Trustee" means a member of the Board who is not an employee of the Company or any Subsidiary; provided, however, "Non-Employee Trustees" may serve as consultants to the Company or a Subsidiary.

"Non-Qualified Option" means any Option that is not an Incentive Option.

"Operating Partnership" means Corporate Office Properties, L.P., a Delaware limited partnership.

"Option" means any option to purchase Shares granted pursuant to Section 5.

"Performance-Based Award" means any Restricted Share Award, Restricted Share Unit Award, Units or Cash-Based Award granted to a Covered Employee that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code and the regulations promulgated thereunder.

"Performance Criteria" means the criteria that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for an individual for a Performance Cycle. The Performance Criteria (which shall be applicable to the organizational level specified by the Administrator, including, but not limited to, the Company or a unit, division, group, or Subsidiary of the Company) that will be used to establish Performance Goals are limited to one or more of the following: earnings before interest, taxes, depreciation and amortization, net income (loss) (either before or after interest, taxes, depreciation and/or amortization), changes in the market price of the Shares, economic value-added, funds from operations, adjusted funds from operations or similar measure, sales or revenue, acquisitions, dispositions or strategic transactions, operating income (loss), cash flow (including, but not limited to, operating cash flow and free cash flow), return on capital, assets, equity, or investment, shareholder returns, return on sales, gross or net profit levels, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings (loss) per share, rent growth, objectively determinable expense management, capital deployment, development milestones, sales or market shares and number of customers, any of which may be measured either in absolute terms, or on a per share basis as compared to any incremental increase or as compared to results of a peer group. The Administrator may adjust any evaluation of performance under a Performance Criterion to exclude any of the following events that occurs during a Performance Cycle in order to prevent the dilution or enlargement of the rights of an individual: (i) asset write-downs or impairments, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reporting results, (iv) accruals for reorganizations and restructuring programs, and (v) any item of an unusual nature or of a type that indicates infrequency of occurrence, or both, including those described in the Financial Accounting Standards Board's authoritative guidance and/or in management's discussion and analysis of financial condition of operations appearing in the Company's annual report to shareholders for the applicable year; provided, however, that the Administrator may not exercise such discretion in a manner that would increase the Performance-Based Award granted to a Covered Employee.

"Performance Cycle" means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee's right to and the payment of a Performance-Based Award. Each period shall not be less than 12 months.

"Performance Goals" means, for a Performance Cycle, the specific goals established in writing by the Administrator for a Performance Cycle based upon the Performance Criteria.

"Restricted Shares" means the Shares underlying a Restricted Share Award that remain subject to a risk of forfeiture or the Company's right of repurchase.

"Restricted Share Award" means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"Restricted Share Units" means the units underlying a Restricted Share Unit Award, each of which represents the right to receive one Share or a cash payment equal to the Fair Market Value of one Share at the time and upon the conditions applicable to the Restricted Share Unit Award.

"Restricted Share Unit Award" means an Award of Restricted Share Units subject to such restrictions and conditions as the Administrator may determine at the time of grant.

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"Section 409A" means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

"Shares" means the common shares of beneficial interest, $.01 par value per share of the Company, subject to adjustments pursuant to Section 3.

"Share Appreciation Right" means an Award entitling the recipient to receive Shares having a value equal to the excess of the Fair Market Value of the Shares on the date of exercise over the exercise price of the Share Appreciation Right multiplied by the number of Shares with respect to which the Share Appreciation Right shall have been exercised.

"Subsidiary" means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

"Ten Percent Owner" means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of shares of beneficial interest in the Company or any parent or subsidiary corporation.

"Units" means units of partnership interest, including one or more classes of profit interests, in the Operating Partnership.

"Unrestricted Share Award" means an Award of Shares free of any restrictions.

SECTION 2. *ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS*

(a) *Administration of Plan.* The Plan shall be administered by the Administrator; provided that any grants of Awards may be made subject to the approval of the Board to the extent deemed advisable for legal or regulatory reasons.

(b) *Powers of Administrator.* The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Awards granted to any one or more grantees;

(iii) to determine the number of Shares to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

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All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) *Delegation of Authority to CEO.* Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's power and authority with respect to the granting of Awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act. Any such delegation by the Administrator may include limitations as to the number of Shares underlying Awards that may be granted during the period of the delegation and/or on the terms of any such Awards. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate that were consistent with the terms of the Plan. In addition, subject to applicable law, unless the Administrator determines otherwise, in its discretion, the Chief Executive Officer of the Company is authorized to exercise any and all of the Administrator's power and authority with respect to Awards held by individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act.

(d) *Award Certificate.* Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award, which may include, without limitation, the term of an Award, the provisions applicable in the event employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

(e) *Indemnification.* Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's declaration of trust or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(f) *Foreign Award Recipients.* Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

SECTION 3. *SHARES ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION*

(a) *Shares Issuable.* The maximum number of Shares reserved and available for issuance under the Plan shall be **3,400,000** Shares, subject to adjustment as provided in Section 3(b). Subject to the overall limitations described below, Shares may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Options or Share Appreciation Rights with respect to

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no more than 1,360,000 Shares may be granted to any one individual grantee during any one calendar year period. Additionally, no more than 3,400,000 Shares shall be issued in the form of Incentive Options. For purposes of these limitations, the Shares underlying any awards that are forfeited, canceled or otherwise terminated (other than by exercise) on or after the Effective Date under this Plan and the Corporate Office Properties Trust Amended and Restated 2008 Omnibus Equity and Incentive Plan (the "2008 Plan") shall be added back to the Shares available for issuance under the Plan. Shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding shall not be available for future issuance under the Plan. In the event the Company repurchases Shares on the open market, such Shares shall not be added to the Shares available for issuance under the Plan. In addition, upon exercise of Share Appreciation Rights, the gross number of Shares exercised shall be deducted from the total number of Shares remaining available for issuance under the Plan. The Shares available for issuance under the Plan may be authorized but unissued Shares or Shares reacquired by the Company. In addition, following the Effective Date, no further awards will be granted pursuant to the 2008 Plan.

(b) *Changes in Shares.* Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, share dividend, share split, reverse share split or other similar change that affects the Shares, the outstanding Shares are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional Shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such Shares or other securities, or, if, as a result of any merger, consolidation, conversion, sale of all or substantially all of the assets of the Company or similar event involving the Company, the outstanding Shares are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of Shares reserved for issuance under the Plan, including the maximum number of Shares that may be issued in the form of Incentive Options, (ii) the number of Options or Share Appreciation Rights that can be granted to any one individual grantee and the maximum number of Shares that may be granted under a Performance-Based Award, (iii) the number and kind of Shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Share Award, and (v) the exercise price for each Share subject to any then outstanding Options and Share Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Options and Share Appreciation Rights) as to which such Options and Share Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of Shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional Shares shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(c) *Termination of Options and SARs in Connection with Mergers and Other Transactions.* In the event of a merger, consolidation, conversion, sale of all or substantially all of the assets of the Company or similar event involving the Company and one or more other entities, at least one of which is not a Subsidiary or other affiliate of the Company, unless otherwise provided in the Award Certificate for a particular Award, the Administrator shall have the right to terminate any or all outstanding Options or Share Appreciation Rights. In the event of such a termination, each Option and Share Appreciation Right that is terminated shall become vested and fully exercisable as of the effective time of such transaction and the Company will take one of the following actions with respect to each such Option and Share Appreciation Right (with the choice among the following options to be made by the Administrator in its sole discretion): (A) make or provide for a payment, in cash or in kind, to the grantee holding such Option or Share Appreciation Right, in exchange for the cancellation thereof, in an amount equal to the excess, if any, of (i) the value of the consideration received or to be

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received with respect to each Share in such transaction (as determined by the Administrator) multiplied by the number of Shares subject to such Option or Share Appreciation Right (to the extent then exercisable (after taking into account any acceleration hereunder) at prices not in excess of the per Share amount of such consideration) above (ii) the aggregate exercise price for such Shares pursuant to such Option or Share Appreciation Right; or (B) permit the grantee holding such Option or Share Appreciation Right, within a specified period of time prior to such termination, as determined by the Administrator, to exercise such Option or Share Appreciation Right as of, and subject to, the consummation of the transaction pursuant to which such Option or Share Appreciation Right is to be terminated (to the extent such Option or Share Appreciation Right would be exercisable as of the consummation of such transaction (after taking into account any acceleration hereunder)).

(d) *Maximum Awards to Non-Employee Trustees.* Notwithstanding anything to the contrary in this Plan, the value of all Awards awarded under this Plan to any Non-Employee Trustee (other than the Chairman or lead Trustee, if any) in any calendar year shall not exceed $500,000. For the purpose of this limitation, the value of any Award shall be its grant date fair value, as determined in accordance with ASC 718 or successor provision but excluding the impact of estimated forfeitures related to service-based vesting provisions.

SECTION 4. *ELIGIBILITY*

Grantees under the Plan will be such full or part-time officers or other employees, Non-Employee Trustees and Consultants of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion (the "Eligible Grantees").

SECTION 5. *OPTIONS*

Any Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Options granted under the Plan may be either Incentive Options or Non-Qualified Options. Incentive Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Option, it shall be deemed a Non-Qualified Option.

(a) *Options Granted to Eligible Grantees.* The Administrator in its discretion may grant Options to Eligible Grantees. Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. The Administrator, at the Administrator's discretion, shall have the right to provide the Eligible Grantees with the choice between receiving cash compensation or Options, subject to such terms and conditions as the Administrator may establish.

(i) *Exercise Price.* The exercise price per Share covered by an Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Option that is granted to a Ten Percent Owner, the option price of such Incentive Option shall not be less than 110 percent of the Fair Market Value on the grant date.

(ii) *Option Term.* The term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten years after the date the Option is granted. In the case of an Incentive Option that is granted to a Ten Percent Owner, the term of such Option shall be no more than five years from the date of grant.

(iii) *Exercisability; Rights of a Shareholder.* Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Option. An optionee shall have the rights of a shareholder only as to Shares acquired upon the exercise of an Option and not as to unexercised Options.

(iv) *Method of Exercise.* Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company or its designee, specifying the number of Shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award Certificate:

(A) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(B) Through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of Shares that are not then subject to restrictions under any Company plan. Such surrendered Shares shall be valued at Fair Market Value on the exercise date;

(C) With respect to Options that are not Incentive Options, by a "net exercise" arrangement pursuant to which the Company will reduce the number of Shares issuable upon exercise by the largest whole number of Shares with a Fair Market Value that does not exceed the aggregate exercise price; provided, however, the Company shall accept a cash or other payment from the optionee to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole Shares to be issued; provided further, however, that Shares will no longer be outstanding under an Option and will not be exercisable thereafter to the extent that Shares are used to pay the exercise price pursuant to the "net exercise; or

(D) By the optionee delivering to the Company or its designee a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the Shares to be purchased pursuant to the exercise of an Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Option) by the Company of the full purchase price for such Shares and the fulfillment of any other requirements contained in the Option Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned Shares through the attestation method, the number of Shares transferred to the optionee upon the exercise of the Option shall be net of the number of attested Shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Options may be permitted through the use of such an automated system.

(v) *Annual Limit on Incentive Options.* To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000. To the extent that any Option exceeds this limit, it shall constitute a Non-Qualified Option.

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SECTION 6. *SHARE APPRECIATION RIGHTS*

(a) *Exercise Price of Share Appreciation Rights.* The exercise price of a Share Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Shares on the date of grant.

(b) *Grant and Exercise of Share Appreciation Rights.* Share Appreciation Rights may be granted by the Administrator independently of any Option granted pursuant to Section 5 of the Plan.

(c) *Terms and Conditions of Share Appreciation Rights.* Share Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator.

(d) *Share Appreciation Rights Term.* The term of each Share Appreciation Right shall be fixed by the Administrator, but no Share Appreciation Rights shall be exercisable more than ten years after the date the Share Appreciation Right is granted.

SECTION 7. *RESTRICTED SHARE AWARDS*

(a) *Nature of Restricted Share Awards.* The Administrator shall determine the restrictions and conditions applicable to each Restricted Share Award at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Share Award may be contingent on the grantee executing the Restricted Share Award Certificate. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) *Rights as a Shareholder.* Upon issuance of Restricted Shares, a grantee shall have the rights of a shareholder with respect to the voting of the Restricted Shares, subject to such conditions contained in the Restricted Share Award Certificate. Unless the Company shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Company until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Company may prescribe. Notwithstanding the foregoing, cash dividends on Restricted Shares that remain subject to potential forfeiture due to failure to meet performance-based conditions (i.e., conditions other than the continued service or employment of the grantee through a certain date) must be retained by, or repaid by the grantee to, the Company; provided that, to the extent provided for in the applicable Restricted Share Award Certificate or by the Administrator, an amount equal to such cash dividends retained or repaid by the grantee may be paid to the grantee upon the lapsing of such performance-based conditions with respect to such Restricted Shares.

(c) *Restrictions.* Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Share Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award Certificate is issued if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Share that has not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a shareholder. Following such deemed reacquisition of unvested Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) *Vesting of Restricted Shares.* The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the Shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

SECTION 8. *RESTRICTED SHARE UNIT AWARDS*

(a) *Nature of Restricted Share Unit Awards.* The Administrator shall determine the restrictions and conditions applicable to each Restricted Share Unit Award at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Share Unit Award may be contingent on the grantee executing the Restricted Share Unit Award Certificate. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Each Restricted Share Unit Award, to the extent vested, shall be settled in Shares or, to the extent provided in the relevant Award Certificate, in cash at the time and subject to the conditions applicable to such Award. Each Restricted Share Unit Award that is subject to Section 409A shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.

(b) *Election to Receive Restricted Share Unit Award in Lieu of Compensation.* The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of a Restricted Share Unit Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Unless otherwise provided by the Administrator, any such future cash compensation that the grantee elects to defer shall be converted to a Restricted Share Unit Award for a fixed number of Restricted Share Units based on the Fair Market Value of Shares on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate.

(c) *Rights as a Shareholder.* A grantee shall have the rights as a shareholder only as to Shares acquired by the grantee upon settlement of a Restricted Share Unit Award; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to a Restricted Share Unit Award, subject to such terms and conditions as the Administrator may determine.

(d) *Termination.* Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award Agreement is issued, a grantee's right in all Restricted Share Unit Awards that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. *UNRESTRICTED SHARE AWARDS*

The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Share Award under the Plan. Unrestricted Share Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

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SECTION 10. *CASH-BASED AWARDS*

The Administrator may, in its sole discretion, grant Cash-Based Awards to any grantee in such number or amount and upon such terms, and subject to such conditions, as the Administrator shall determine at the time of grant. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in cash and in accordance with the terms of the Award as the Administrator determines.

SECTION 11. *PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES*

(a) *Performance-Based Awards.* Any Eligible Grantee who is selected by the Administrator may be granted one or more Performance-Based Awards in the form of a Restricted Share Award, Restricted Share Unit Award, Cash-Based Award or other equity-based Award payable upon the attainment of Performance Goals that are established by the Administrator and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Administrator. The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. Each Performance-Based Award shall comply with the provisions set forth below.

(b) *Grant of Performance-Based Awards.* With respect to each Performance-Based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the Performance Criteria for such grant, and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-Based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-Based Awards to different Covered Employees.

(c) *Payment of Performance-Based Awards.* Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-Based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-Based Award, and, in doing so, to the extent permitted in the Award Certificate pursuant to which the Performance-Based Award was granted, may reduce or eliminate the amount of the Performance-Based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d) *Maximum Award Payable.* The maximum Performance-Based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 700,000 Shares (subject to adjustment as provided in Section 3(b) hereof) or $10,000,000 in the case of a Performance-Based Award that is a Cash-Based Award.

SECTION 12. *DIVIDEND EQUIVALENT RIGHTS*

(a) *Dividend Equivalent Rights.* A Dividend Equivalent Right may be granted hereunder to any grantee as a component of a Restricted Share Unit Award or Restricted Share Award or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the

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Award Certificate. A Dividend Equivalent Right shall not be granted hereunder to any grantee as a component of an Option or a Share Appreciation Right. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional Shares, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of a Restricted Share Unit Award or Restricted Share Award may provide that such Dividend Equivalent Right shall be settled upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. A Dividend Equivalent Right granted as a component of a Restricted Share Unit Award or Restricted Share Award may also contain terms and conditions different from such other Award. Furthermore, a Dividend Equivalent Right granted with respect to an Award subject to performance-based vesting, or forfeiture based on the failure to meet performance-based conditions (i.e., conditions other than the continued service or employment of the grantee through a certain date), may not be exercisable or payable unless and until the performance-based conditions have been met.

(b) *Interest Equivalents.* Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents at such rate as is determined by the Administrator, to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

(c) *Termination.* Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award Certificate is issued, a grantee's rights in all Dividend Equivalent Rights or interest equivalents granted as a component of a Restricted Share Unit Award or Restricted Share Award that has not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 13. *OTHER EQUITY-BASED AWARDS*

The Administrator shall have the right to grant Units or any other membership or ownership interests (which may be expressed as units or otherwise) in a Subsidiary (or other affiliate of the Company), with any Shares being issued in connection with the conversion of (or other distribution on account of) an interest granted under the authority of this Section 13 to be subject to Section 3 and the other provisions of the Plan. Notwithstanding the foregoing, any cash dividends or distributions otherwise payable pursuant to an Award granted pursuant to this Section 13 that remains subject to performance-based vesting, or forfeiture based on the failure to meet performance-based conditions (i.e., conditions other than the continued service or employment of the grantee through a certain date), must be retained by, or repaid by the grantee to, the Company or the applicable entity granting the Award; provided that, to the extent provided for in the applicable Award Certificate or by the Administrator, an amount equal to such cash dividends or distributions retained or repaid by the grantee may be paid to the grantee upon the satisfaction or lapsing of such performance-based conditions with respect to such Award.

SECTION 14. *TRANSFERABILITY OF AWARDS*

(a) *Transferability.* Except as provided in Section 14(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or

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pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) *Administrator Action.* Notwithstanding Section 14(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or trustee) may transfer his or her Awards (other than any Incentive Options) to his or her Family Members for no value or consideration; provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award.

(c) *Designation of Beneficiary.* To the extent permitted by the Company, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Company and shall not be effective until received by the Company in the manner provided in such form. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 15. *TAX WITHHOLDING*

(a) *Payment by Grantee.* Each grantee shall, no later than the date as of which the value of an Award or of any Shares or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver evidence of book entry (or Share certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) *Payment in Shares.* Subject to approval by the Administrator, a grantee may elect to have the Company's tax withholding obligation satisfied, in whole or in part, by authorizing the Company to withhold from Shares to be issued pursuant to any Award a number of Shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due; provided, however, that to the extent necessary to avoid adverse accounting treatment such share withholding may be limited to the minimum required tax withholding obligation. The Administrator may also require Awards to be subject to mandatory share withholding up to the required withholding amount. For purposes of share withholding, the Fair Market Value of withheld Shares shall be determined in the same manner as the value of Shares includible in income of the grantees.

SECTION 16. *SECTION 409A AWARDS.*

To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

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SECTION 17. *TRANSFER, LEAVE OF ABSENCE, ETC.*

For purposes of the Plan, the following events shall not be deemed a termination of employment (or service relationship):

(a) a transfer of employment from a Subsidiary to the Company or from the Company to a Subsidiary, or from one Subsidiary to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing; or

(c) any other change in the grantee's employment or service relationship as determined by the Administrator, in its sole discretion, including without limitation, a change from employee to Consultant.

SECTION 18. *AMENDMENTS AND TERMINATION*

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the grantee's consent. Except as provided in Section 3(b) or 3(c), in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Options or Share Appreciation Rights or cancel, exchange, substitute, buyout or surrender outstanding Options or Share Appreciation Rights in exchange for cash, other Awards or Options or Share Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Share Appreciation Rights without shareholder approval. The Board, in its discretion, may determine to make any Plan amendments subject to the approval of the Company's shareholders for purposes of complying with the rules of any securities exchange or market system on which the Shares are listed, ensuring that Incentive Options granted under the Plan are qualified under Section 422 of the Code, or ensuring that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code. Nothing in this Section 18 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(c).

SECTION 19. *STATUS OF PLAN*

With respect to the portion of any Award that has not been exercised and any payments in cash, Shares or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Shares or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 20. *GENERAL PROVISIONS*

(a) *No Distribution.* The Administrator may require each person acquiring Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) *Delivery of Share Certificates.* Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing Shares pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed, quoted or traded. All Share certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Shares are listed, quoted or traded. The Administrator may place legends on any Share certificate to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) *Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(d) *Trading Policy Restrictions.* Option exercises and other Awards under the Plan shall be subject to such Company's insider trading policy and procedures, as in effect from time to time.

(e) *Clawback Policy.* Awards under the Plan shall be subject to the Company's clawback policy, as in effect from time to time, which, as of the Effective Date, includes the Company's Incentive Award Recoupment Policy dated as of March 28, 2012.

SECTION 21. *EFFECTIVE DATE OF PLAN*

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of shareholders at which a quorum is present. No grants of Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date; provided, however, no grants of Incentive Options may be made hereunder after the tenth anniversary of the date this Plan is approved by the Board.

SECTION 22. *GOVERNING LAW*

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Maryland, applied without regard to conflict of law principles.

DATE PLAN APPROVED BY BOARD OF TRUSTEES: March 8, 2017

DATE PLAN APPROVED BY SHAREHOLDERS:

PRELIMINARY PROXY CARD