

CORPORATE OFFICE PROPERTIES TRUST  
Form 10-Q  
October 28, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q  
(Mark one)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

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

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

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

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

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

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

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

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

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



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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

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

Corporate Office Properties Trust  Yes  No

Corporate Office Properties, L.P.  Yes  No

As of October 16, 2014, 87,711,731 of Corporate Office Properties Trust’s Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

#### EXPLANATORY NOTE

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

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of September 30, 2014, COPT owned approximately 95.8% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP. The remaining common and preferred units are owned by certain trustees of COPT and certain non-affiliated investors. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

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

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

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

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

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

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

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

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

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## PART I: FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## Corporate Office Properties Trust and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Properties, net:   |                       |                      |
| Operating properties, net  | \$ 2,757,207          | \$ 2,702,693         |
| Projects in development or held for future development   | 513,949               | 511,608              |
| Total properties, net  | 3,271,156             | 3,214,301            |
| Cash and cash equivalents  | 40,018                | 54,373               |
| Restricted cash and marketable securities  | 14,371                | 11,448               |
| Accounts receivable (net of allowance for doubtful accounts of \$750 and \$2,976, respectively)  | 20,180                | 27,000               |
| Deferred rent receivable (net of allowance of \$1,426 and \$2,126, respectively)   | 95,405                | 89,456               |
| Intangible assets on real estate acquisitions, net   | 48,300                | 59,258               |
| Deferred leasing and financing costs, net  | 65,009                | 66,267               |
| Mortgage and other investing receivables   | 50,886                | 53,663               |
| Prepaid expenses and other assets  | 74,863                | 54,186               |
| Total assets   | \$ 3,680,188          | \$ 3,629,952         |
| Liabilities and equity   |                       |                      |
| Liabilities:   |                       |                      |
| Debt, net  | \$ 2,049,992          | \$ 1,927,703         |
| Accounts payable and accrued expenses  | 123,893               | 98,785               |
| Rents received in advance and security deposits  | 33,075                | 31,492               |
| Dividends and distributions payable  | 28,344                | 29,080               |
| Deferred revenue associated with operating leases  | 13,420                | 10,369               |
| Interest rate derivatives  | 2,236                 | 3,309                |
| Other liabilities  | 13,288                | 14,207               |
| Total liabilities  | 2,264,248             | 2,114,945            |
| Commitments and contingencies (Note 17)  |                       |                      |
| Redeemable noncontrolling interest   | 18,436                | 17,758               |
| Equity:  |                       |                      |
| Corporate Office Properties Trust's shareholders' equity:  |                       |                      |
| Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized; issued and outstanding of 7,431,667 at September 30, 2014 and 9,431,667 at December 31, 2013) | 199,083               | 249,083              |
| Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 87,711,731 at September 30, 2014 and 87,394,512 at December 31, 2013)                    | 877                   | 874                  |
| Additional paid-in capital   | 1,822,283             | 1,814,015            |
| Cumulative distributions in excess of net income   | (692,978 )            | (641,868 )           |
| Accumulated other comprehensive income   | 871                   | 3,480                |
| Total Corporate Office Properties Trust's shareholders' equity   | 1,330,136             | 1,425,584            |

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|  |              |              |
|--|--------------|--------------|
| Noncontrolling interests in subsidiaries:                        |              |              |
| Common units in COPLP  | 49,781       | 53,468       |
| Preferred units in COPLP   | 8,800        | 8,800        |
| Other consolidated entities                                      | 8,787        | 9,397        |
| Noncontrolling interests in subsidiaries                         | 67,368       | 71,665       |
| Total equity   | 1,397,504    | 1,497,249    |
| Total liabilities, redeemable noncontrolling interest and equity | \$ 3,680,188 | \$ 3,629,952 |

See accompanying notes to consolidated financial statements.

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

|   | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |             |
|---|---|------------|--|-------------|
|   | 2014  | 2013       | 2014                                       | 2013        |
| Revenues  |   |            |  |             |
| Rental revenue  | \$96,207                                    | \$94,641   | \$288,574                                  | \$280,911   |
| Tenant recoveries and other real estate operations revenue  | 22,069                                      | 20,180     | 70,538                                     | 61,599      |
| Construction contract and other service revenues  | 34,739                                      | 16,991     | 80,390                                     | 52,048      |
| Total revenues  | 153,015                                     | 131,812    | 439,502                                    | 394,558     |
| Expenses  |   |            |  |             |
| Property operating expenses   | 43,056                                      | 41,361     | 136,600                                    | 123,082     |
| Depreciation and amortization associated with real estate operations                                  | 30,237                                      | 28,205     | 104,728                                    | 82,888      |
| Construction contract and other service expenses  | 33,593                                      | 16,306     | 75,353                                     | 49,165      |
| Impairment losses   | 66  | 5,857      | 1,368                                      | 5,857       |
| General, administrative and leasing expenses  | 7,211                                       | 8,027      | 22,882                                     | 22,430      |
| Business development expenses and land carry costs  | 1,430                                       | 1,383      | 4,107                                      | 4,069       |
| Total operating expenses  | 115,593                                     | 101,139    | 345,038                                    | 287,491     |
| Operating income  | 37,422                                      | 30,673     | 94,464                                     | 107,067     |
| Interest expense  | (24,802 )                                   | (19,342 )  | (69,107 )                                  | (60,734 )   |
| Interest and other income (loss)  | 1,191                                       | (3 )       | 3,775                                      | 2,949       |
| Loss on early extinguishment of debt  | (176 )                                      | (374 )     | (446 )                                     | (27,028 )   |
| Income from continuing operations before equity in income of unconsolidated entities and income taxes | 13,635                                      | 10,954     | 28,686                                     | 22,254      |
| Equity in income of unconsolidated entities   | 193   | 44         | 206  | 211         |
| Income tax expense  | (101 )                                      | (24 )      | (257 )                                     | (61 )       |
| Income from continuing operations   | 13,727                                      | 10,974     | 28,635                                     | 22,404      |
| Discontinued operations   | 191   | (12,974 )  | 4  | (16,215 )   |
| Income (loss) before gain on sales of real estate   | 13,918                                      | (2,000 )   | 28,639                                     | 6,189       |
| Gain on sales of real estate  | 10,630                                      | —          | 10,630                                     | 2,683       |
| Net income (loss)   | 24,548                                      | (2,000 )   | 39,269                                     | 8,872       |
| Net (income) loss attributable to noncontrolling interests:   |   |            |  |             |
| Common units in COPLP   | (768 )                                      | 232        | (942 )                                     | 474         |
| Preferred units in COPLP  | (165 )                                      | (165 )     | (495 )                                     | (495 )      |
| Other consolidated entities   | (895 )                                      | (1,031 )   | (2,481 )                                   | (2,160 )    |
| Net income (loss) attributable to COPT  | 22,720                                      | (2,964 )   | 35,351                                     | 6,691       |
| Preferred share dividends   | (3,553 )                                    | (4,490 )   | (12,387 )                                  | (15,481 )   |
| Issuance costs associated with redeemed preferred shares  | —   | —          | (1,769 )                                   | (2,904 )    |
| Net income (loss) attributable to COPT common shareholders  | \$19,167                                    | \$(7,454 ) | \$21,195                                   | \$(11,694 ) |
| Net income (loss) attributable to COPT:   |   |            |  |             |
| Income from continuing operations   | \$22,537                                    | \$9,518    | \$35,342                                   | \$22,377    |
| Discontinued operations, net  | 183   | (12,482 )  | 9  | (15,686 )   |
| Net income (loss) attributable to COPT  | \$22,720                                    | \$(2,964 ) | \$35,351                                   | \$6,691     |
| Basic earnings per common share (1)   |   |            |  |             |
| Income from continuing operations   | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |

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|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Discontinued operations                                    | 0.00    | (0.15 )   | 0.00    | (0.18 )   |
| Net income (loss) attributable to COPT common shareholders | \$0.22  | \$(0.09 ) | \$0.24  | \$(0.14 ) |
| Diluted earnings per common share (1)                      |         |           |         |           |
| Income from continuing operations                          | \$0.22  | \$0.06    | \$0.24  | \$0.04    |
| Discontinued operations                                    | 0.00    | (0.15 )   | 0.00    | (0.18 )   |
| Net income (loss) attributable to COPT common shareholders | \$0.22  | \$(0.09 ) | \$0.24  | \$(0.14 ) |
| Dividends declared per common share                        | \$0.275 | \$0.275   | \$0.825 | \$0.825   |

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

See accompanying notes to consolidated financial statements.

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

|  | For the Three Months |           | For the Nine Months |          |
|--|----------------------|-----------|---------------------|----------|
|  | Ended September 30,  |           | Ended September 30, |          |
|  | 2014                 | 2013      | 2014                | 2013     |
| Net income (loss)  | \$24,548             | \$(2,000) | \$39,269            | \$8,872  |
| Other comprehensive income (loss)                                |                      |           |                     |          |
| Unrealized gains (losses) on interest rate derivatives           | 1,015                | (2,482)   | (4,738)             | 5,810    |
| Losses on interest rate derivatives included in interest expense | 756                  | 689       | 2,170               | 2,021    |
| Equity in other comprehensive income of equity method investee   | —                    | 1,070     | —                   | 1,070    |
| Other comprehensive income (loss)                                | 1,771                | (723)     | (2,568)             | 8,901    |
| Comprehensive income (loss)                                      | 26,319               | (2,723)   | 36,701              | 17,773   |
| Comprehensive income attributable to noncontrolling interests    | (1,968)              | (948)     | (3,960)             | (2,722)  |
| Comprehensive income (loss) attributable to COPT                 | \$24,351             | \$(3,671) | \$32,741            | \$15,051 |

See accompanying notes to consolidated financial statements.

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

|  | Preferred<br>Shares | Common<br>Shares | Additional<br>Paid-in<br>Capital | Cumulative<br>Distributions in<br>Excess of Net<br>Income | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interests | Total        |
|--|---------------------|------------------|----------------------------------|---|---|-----------------------------|--------------|
| Balance at December 31,<br>2012 (80,952,986 common<br>shares outstanding)  | \$ 333,833          | \$ 809           | \$ 1,653,672                     | \$ (617,455 )   | \$ (5,435 )   | \$ 71,075                   | \$ 1,436,499 |
| Redemption of preferred<br>shares (3,390,000 shares)   | (84,750 )           | —                | 2,904                            | (2,904 )  | —   | —                           | (84,750 )    |
| Conversion of common units<br>to common shares (310,889<br>shares)   | —                   | 3                | 3,988                            | —   | —   | (3,991 )                    | —            |
| Common shares issued to the<br>public (4,485,000 shares)   | —                   | 45               | 117,916                          | —   | —   | —                           | 117,961      |
| Common shares issued under<br>at-the-market program<br>(1,500,000 shares)  | —                   | 15               | 38,432                           | —   | —   | —                           | 38,447       |
| Acquisition of property and<br>noncontrolling interest in<br>other consolidated entity for<br>COPLP common units | —                   | —                | (1,296 )                         | —   | —   | 2,665                       | 1,369        |
| Exercise of share options<br>(32,756 shares)   | —                   | —                | 642                              | —   | —   | —                           | 642          |
| Share-based compensation   | —                   | 2                | 5,700                            | —   | —   | —                           | 5,702        |
| Restricted common share<br>redemptions (71,523 shares)   | —                   | —                | (1,848 )                         | —   | —   | —                           | (1,848 )     |
| Adjustments to noncontrolling<br>interests resulting from<br>changes in ownership of<br>COPLP                    | —                   | —                | (773 )                           | —   | —   | 773                         | —            |
| Comprehensive income   | —                   | —                | —                                | 6,691   | 8,360   | 1,834                       | 16,885       |
| Dividends  | —                   | —                | —                                | (86,700 )   | —   | —                           | (86,700 )    |
| Distributions to owners of<br>common and preferred units<br>in COPLP   | —                   | —                | —                                | —   | —   | (3,681 )                    | (3,681 )     |
| Contributions from<br>noncontrolling interests in<br>other consolidated entities                                 | —                   | —                | —                                | —   | —   | 85                          | 85           |
| Distributions to<br>noncontrolling interest in<br>other consolidated entities                                    | —                   | —                | —                                | —   | —   | (8 )                        | (8 )         |
| Adjustment to arrive at fair<br>value of redeemable<br>noncontrolling interest                                   | —                   | —                | (6,414 )                         | —   | —   | —                           | (6,414 )     |

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|  |           |        |             |               |          |           |             |
|--|-----------|--------|-------------|---------------|----------|-----------|-------------|
| Tax loss from share-based compensation   | —         | —      | (122 )      | —             | —        | —         | (122 )      |
| Balance at September 30, 2013 (87,381,395 common shares outstanding)                 | \$249,083 | \$ 874 | \$1,812,801 | \$ (700,368 ) | \$ 2,925 | \$ 68,752 | \$1,434,067 |
| Balance at December 31, 2013 (87,394,512 common shares outstanding)                  | \$249,083 | \$ 874 | \$1,814,015 | \$ (641,868 ) | \$ 3,480 | \$ 71,665 | \$1,497,249 |
| Redemption of preferred shares (2,000,000 shares)                                    | (50,000 ) | —      | 1,769       | (1,769 )      | —        | —         | (50,000 )   |
| Conversion of common units to common shares (117,149 shares)                         | —         | 1      | 1,544       | —             | —        | (1,545 )  | —           |
| Costs associated with common shares issued to the public                             | —         | —      | (7 )        | —             | —        | —         | (7 )        |
| Exercise of share options (57,888 shares)  | —         | —      | 1,359       | —             | —        | —         | 1,359       |
| Share-based compensation   | —         | 2      | 5,247       | —             | —        | —         | 5,249       |
| Restricted common share redemptions (51,681 shares)                                  | —         | —      | (1,389 )    | —             | —        | —         | (1,389 )    |
| Adjustments to noncontrolling interests resulting from changes in ownership of COPLP | —         | —      | (248 )      | —             | —        | 248       | —           |
| Comprehensive income   | —         | —      | —           | 35,351        | (2,609 ) | 2,313     | 35,055      |
| Dividends  | —         | —      | —           | (84,692 )     | —        | —         | (84,692 )   |
| Distributions to owners of common and preferred units in COPLP                       | —         | —      | —           | —             | —        | (3,710 )  | (3,710 )    |
| Contributions from noncontrolling interests in other consolidated entities           | —         | —      | —           | —             | —        | 3         | 3           |
| Distributions to noncontrolling interests in other consolidated entities             | —         | —      | —           | —             | —        | (1,606 )  | (1,606 )    |
| Adjustment to arrive at fair value of redeemable noncontrolling interest             | —         | —      | (7 )        | —             | —        | —         | (7 )        |
| Balance at September 30, 2014 (87,711,731 common shares outstanding)                 | \$199,083 | \$ 877 | \$1,822,283 | \$ (692,978 ) | \$ 871   | \$ 67,368 | \$1,397,504 |

See accompanying notes to consolidated financial statements.

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

|  | For the Nine Months Ended<br>September 30, |           |
|--|--|-----------|
|  | 2014                                       | 2013      |
| Cash flows from operating activities   |  |           |
| Revenues from real estate operations received                                    | \$358,212                                  | \$359,431 |
| Construction contract and other service revenues received                        | 62,170                                     | 48,877    |
| Property operating expenses paid   | (141,489)                                  | (133,799) |
| Construction contract and other service expenses paid                            | (58,218)                                   | (53,191)  |
| General, administrative, leasing, business development and land carry costs paid | (22,288)                                   | (20,681)  |
| Interest expense paid  | (54,683)                                   | (59,052)  |
| Previously accreted interest expense paid  | —  | (11,116)  |
| Proceeds from sale of trading marketable securities                              | —  | 298       |
| Exit costs on property dispositions  | —  | (186)     |
| Payments in connection with early extinguishment of debt                         | (104)                                      | (23,969)  |
| Interest and other income received   | 448  | 391       |
| Income taxes refunded  | 200  | 6         |
| Net cash provided by operating activities  | 144,248                                    | 107,009   |
| Cash flows from investing activities   |  |           |
| Construction, development and redevelopment                                      | (150,862)                                  | (156,820) |
| Tenant improvements on operating properties                                      | (17,754)                                   | (15,868)  |
| Other capital improvements on operating properties                               | (21,179)                                   | (17,528)  |
| Proceeds from dispositions of properties   | 57,973                                     | 12,447    |
| Mortgage and other loan receivables funded                                       | (3,610)                                    | (4,111)   |
| Mortgage and other loan receivables payments received                            | 10,278                                     | 144       |
| Leasing costs paid   | (10,549)                                   | (9,366)   |
| Other  | (1,343)                                    | 4,257     |
| Net cash used in investing activities  | (137,046)                                  | (186,845) |
| Cash flows from financing activities   |  |           |
| Proceeds from debt   |  |           |
| Revolving Credit Facility  | 115,000                                    | 457,000   |
| Unsecured senior notes   | 297,342                                    | 592,413   |
| Other debt proceeds  | 11,569                                     | 82,886    |
| Repayments of debt   |  |           |
| Revolving Credit Facility  | (115,000)                                  | (457,000) |
| Scheduled principal amortization   | (4,914)                                    | (7,229)   |
| Other debt repayments  | (183,059)                                  | (542,532) |
| Deferred financing costs paid  | (694)                                      | (9,001)   |
| Net proceeds from issuance of common shares                                      | 1,352                                      | 157,307   |
| Redemption of preferred shares   | (50,000)                                   | (84,750)  |
| Common share dividends paid  | (72,217)                                   | (69,451)  |
| Preferred share dividends paid   | (13,179)                                   | (16,845)  |
| Distributions paid to noncontrolling interests in COPLP                          | (3,786)                                    | (3,705)   |
| Restricted share redemptions   | (1,389)                                    | (1,848)   |
| Other  | (2,582)                                    | (685)     |
| Net cash (used in) provided by financing activities                              | (21,557)                                   | 96,560    |

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|  |          |          |
|--|----------|----------|
| Net (decrease) increase in cash and cash equivalents         | (14,355  | ) 16,724 |
| Cash and cash equivalents                                    |          |          |
| Beginning of period  | 54,373   | 10,594   |
| End of period  | \$40,018 | \$27,318 |
| See accompanying notes to consolidated financial statements. |          |          |

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

|  | For the Nine Months Ended<br>September 30, |             |
|--|--|-------------|
|  | 2014                                       | 2013        |
| Reconciliation of net income to net cash provided by operating activities:   |  |             |
| Net income   | \$39,269                                   | \$8,872     |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |             |
| Depreciation and other amortization  | 106,619                                    | 87,956      |
| Impairment losses  | 1,371                                      | 30,940      |
| Settlement of previously accreted interest expense   | —  | (11,116 )   |
| Amortization of deferred financing costs   | 3,646                                      | 4,292       |
| Increase in deferred rent receivable   | (2,738 )                                   | (7,995 )    |
| Amortization of net debt discounts   | 659  | 1,207       |
| Gain on sales of real estate   | (10,654 )                                  | (2,683 )    |
| Share-based compensation   | 4,563                                      | 4,869       |
| Loss on early extinguishment of debt   | 458  | 3,059       |
| Other  | (2,446 )                                   | (2,284 )    |
| Changes in operating assets and liabilities:   |  |             |
| Decrease in accounts receivable  | 6,815                                      | 1,523       |
| (Increase) decrease in restricted cash and marketable securities   | (2,591 )                                   | 418         |
| Increase in prepaid expenses and other assets  | (26,553 )                                  | (12,974 )   |
| Increase in accounts payable, accrued expenses and other liabilities   | 24,247                                     | 18          |
| Increase in rents received in advance and security deposits  | 1,583                                      | 907         |
| Net cash provided by operating activities  | \$144,248                                  | \$107,009   |
| Supplemental schedule of non-cash investing and financing activities:  |  |             |
| Decrease in accrued capital improvements, leasing and other investing activity costs   | \$(174 )                                   | \$(13,094 ) |
| (Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests         | \$(2,613 )                                 | \$7,785     |
| Equity in other comprehensive income of an equity method investee  | \$—  | \$1,070     |
| Dividends/distribution payable   | \$28,344                                   | \$29,077    |
| COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity   | \$—  | \$5,194     |
| Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares | \$1,545                                    | \$3,991     |
| Adjustments to noncontrolling interests resulting from changes in COPLP ownership  | \$248                                      | \$773       |
| Increase in redeemable noncontrolling interest and decrease in shareholders' equity to carry redeemable noncontrolling interest at fair value  | \$7  | \$6,414     |

See accompanying notes to consolidated financial statements.



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

|  | September 30,<br>2014 | December<br>31,<br>2013 |
|--|-----------------------|-------------------------|
| Assets   |                       |                         |
| Properties, net:   |                       |                         |
| Operating properties, net  | \$ 2,757,207          | \$ 2,702,693            |
| Projects in development or held for future development   | 513,949               | 511,608                 |
| Total properties, net  | 3,271,156             | 3,214,301               |
| Cash and cash equivalents  | 40,018                | 54,373                  |
| Restricted cash and marketable securities  | 6,871                 | 3,981                   |
| Accounts receivable (net of allowance for doubtful accounts of \$750 and \$2,976, respectively)  | 20,180                | 27,000                  |
| Deferred rent receivable (net of allowance of \$1,426 and \$2,126, respectively)   | 95,405                | 89,456                  |
| Intangible assets on real estate acquisitions, net   | 48,300                | 59,258                  |
| Deferred leasing and financing costs, net  | 65,009                | 66,267                  |
| Mortgage and other investing receivables   | 50,886                | 53,663                  |
| Prepaid expenses and other assets  | 74,863                | 54,186                  |
| Total assets   | \$ 3,672,688          | \$ 3,622,485            |
| Liabilities and equity   |                       |                         |
| Liabilities:   |                       |                         |
| Debt, net  | \$ 2,049,992          | \$ 1,927,703            |
| Accounts payable and accrued expenses  | 123,893               | 98,785                  |
| Rents received in advance and security deposits  | 33,075                | 31,492                  |
| Distributions payable  | 28,344                | 29,080                  |
| Deferred revenue associated with operating leases  | 13,420                | 10,369                  |
| Interest rate derivatives  | 2,236                 | 3,309                   |
| Other liabilities  | 5,788                 | 6,740                   |
| Total liabilities  | 2,256,748             | 2,107,478               |
| Commitments and contingencies (Note 17)  |                       |                         |
| Redeemable noncontrolling interest   | 18,436                | 17,758                  |
| Equity:  |                       |                         |
| Corporate Office Properties, L.P.'s equity:  |                       |                         |
| Preferred units  |                       |                         |
| General partner, preferred units outstanding of 7,431,667 at September 30, 2014 and 9,431,667 at December 31, 2013   | 199,083               | 249,083                 |
| Limited partner, 352,000 preferred units outstanding at September 30, 2014 and December 31, 2013   | 8,800                 | 8,800                   |
| Common units, 87,711,731 and 87,394,512 held by the general partner and 3,860,551 and 3,977,700 held by limited partners at September 30, 2014 and December 31, 2013, respectively | 1,179,919             | 1,226,318               |
| Accumulated other comprehensive income   | 879                   | 3,605                   |
| Total Corporate Office Properties, L.P.'s equity   | 1,388,681             | 1,487,806               |
| Noncontrolling interests in subsidiaries   | 8,823                 | 9,443                   |

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|  |              |             |
|--|--------------|-------------|
| Total equity   | 1,397,504    | 1,497,249   |
| Total liabilities, redeemable noncontrolling interest and equity | \$ 3,672,688 | \$3,622,485 |
| See accompanying notes to consolidated financial statements.     |              |             |

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

|   | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |             |
|---|---|------------|--|-------------|
|   | 2014  | 2013       | 2014                                       | 2013        |
| Revenues  |   |            |  |             |
| Rental revenue  | \$96,207                                    | \$94,641   | \$288,574                                  | \$280,911   |
| Tenant recoveries and other real estate operations revenue  | 22,069                                      | 20,180     | 70,538                                     | 61,599      |
| Construction contract and other service revenues  | 34,739                                      | 16,991     | 80,390                                     | 52,048      |
| Total revenues  | 153,015                                     | 131,812    | 439,502                                    | 394,558     |
| Expenses  |   |            |  |             |
| Property operating expenses   | 43,056                                      | 41,361     | 136,600                                    | 123,082     |
| Depreciation and amortization associated with real estate operations                                  | 30,237                                      | 28,205     | 104,728                                    | 82,888      |
| Construction contract and other service expenses  | 33,593                                      | 16,306     | 75,353                                     | 49,165      |
| Impairment losses   | 66  | 5,857      | 1,368                                      | 5,857       |
| General, administrative and leasing expenses  | 7,211                                       | 8,027      | 22,882                                     | 22,430      |
| Business development expenses and land carry costs  | 1,430                                       | 1,383      | 4,107                                      | 4,069       |
| Total operating expenses  | 115,593                                     | 101,139    | 345,038                                    | 287,491     |
| Operating income  | 37,422                                      | 30,673     | 94,464                                     | 107,067     |
| Interest expense  | (24,802 )                                   | (19,342 )  | (69,107 )                                  | (60,734 )   |
| Interest and other income (loss)  | 1,191                                       | (3 )       | 3,775                                      | 2,949       |
| Loss on early extinguishment of debt  | (176 )                                      | (374 )     | (446 )                                     | (27,028 )   |
| Income from continuing operations before equity in income of unconsolidated entities and income taxes | 13,635                                      | 10,954     | 28,686                                     | 22,254      |
| Equity in income of unconsolidated entities   | 193   | 44         | 206  | 211         |
| Income tax expense  | (101 )                                      | (24 )      | (257 )                                     | (61 )       |
| Income from continuing operations   | 13,727                                      | 10,974     | 28,635                                     | 22,404      |
| Discontinued operations   | 191   | (12,974 )  | 4  | (16,215 )   |
| Income (loss) before gain on sales of real estate   | 13,918                                      | (2,000 )   | 28,639                                     | 6,189       |
| Gain on sales of real estate  | 10,630                                      | —          | 10,630                                     | 2,683       |
| Net income (loss)   | 24,548                                      | (2,000 )   | 39,269                                     | 8,872       |
| Net income attributable to noncontrolling interests in consolidated entities                          | (897 )                                      | (1,035 )   | (2,471 )                                   | (2,172 )    |
| Net income (loss) attributable to COPLP   | 23,651                                      | (3,035 )   | 36,798                                     | 6,700       |
| Preferred unit distributions  | (3,718 )                                    | (4,655 )   | (12,882 )                                  | (15,976 )   |
| Issuance costs associated with redeemed preferred units   | —   | —          | (1,769 )                                   | (2,904 )    |
| Net income (loss) attributable to COPLP common unitholders  | \$19,933                                    | \$(7,690 ) | \$22,147                                   | \$(12,180 ) |
| Net income (loss) attributable to COPLP:  |   |            |  |             |
| Income from continuing operations   | \$23,460                                    | \$9,988    | \$36,789                                   | \$23,062    |
| Discontinued operations, net  | 191   | (13,023 )  | 9  | (16,362 )   |
| Net income (loss) attributable to COPLP   | \$23,651                                    | \$(3,035 ) | \$36,798                                   | \$6,700     |
| Basic earnings per common unit (1)  |   |            |  |             |
| Income from continuing operations   | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |
| Discontinued operations   | 0.00  | (0.15 )    | 0.00                                       | (0.18 )     |
| Net income (loss) attributable to COPLP common unitholders  | \$0.22                                      | \$(0.09 )  | \$0.24                                     | \$(0.14 )   |
| Diluted earnings per common unit (1)  |   |            |  |             |

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|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Income from continuing operations                          | \$0.22  | \$0.06    | \$0.24  | \$0.04    |
| Discontinued operations                                    | 0.00    | (0.15 )   | 0.00    | (0.18 )   |
| Net income (loss) attributable to COPLP common unitholders | \$0.22  | \$(0.09 ) | \$0.24  | \$(0.14 ) |
| Distributions declared per common unit                     | \$0.275 | \$0.275   | \$0.825 | \$0.825   |

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

See accompanying notes to consolidated financial statements.

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

|  | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|--|---|-----------|--|-----------|
|  | 2014  | 2013      | 2014                                       | 2013      |
| Net income (loss)  | \$24,548                                    | \$(2,000) | ) \$39,269                                 | \$8,872   |
| Other comprehensive income (loss)                                |   |           |  |           |
| Unrealized gains (losses) on interest rate derivatives           | 1,015                                       | (2,482)   | ) (4,738)                                  | ) 5,810   |
| Losses on interest rate derivatives included in interest expense | 756   | 689       | 2,170                                      | 2,021     |
| Equity in other comprehensive income of equity method investee   | —   | 1,070     | —  | 1,070     |
| Other comprehensive income (loss)                                | 1,771                                       | (723)     | ) (2,568)                                  | ) 8,901   |
| Comprehensive income (loss)                                      | 26,319                                      | (2,723)   | ) 36,701                                   | 17,773    |
| Comprehensive income attributable to noncontrolling interests    | (964)                                       | ) (1,050) | ) (2,630)                                  | ) (2,339) |
| Comprehensive income (loss) attributable to COPLP                | \$25,355                                    | \$(3,773) | ) \$34,071                                 | \$15,434  |

See accompanying notes to consolidated financial statements.

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

|  | Limited Partner Preferred Units |         | General Partner Preferred Units |           | Common Units |             | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests in Subsidiaries | Total Equity |
|--|---------------------------------|---------|---------------------------------|-----------|--------------|-------------|---|--|--------------|
|  | Units                           | Amount  | Units                           | Amount    | Units        | Amount      |   |  |              |
| Balance at December 31, 2012   | 352,000                         | \$8,800 | 12,821,667                      | \$333,833 | 85,020,528   | \$1,089,391 | \$(5,708)                                     | \$10,183                                 | \$1,436,499  |
| Redemption of preferred units resulting from redemption of preferred shares              | —                               | —       | (3,390,000)                     | (84,750)  | —            | —           | —   | —  | (84,750)     |
| Issuance of common units resulting from public issuance of common shares                 | —                               | —       | —                               | —         | 4,485,000    | 117,961     | —   | —  | 117,961      |
| Issuance of common units resulting from common shares issued under at-the-market program | —                               | —       | —                               | —         | 1,500,000    | 38,447      | —   | —  | 38,447       |
| Acquisition of property and noncontrolling interest in subsidiary for COPLP              | —                               | —       | —                               | —         | 221,501      | 3,899       | —   | (2,530)                                  | 1,369        |
| Issuance of common units resulting from exercise of share options                        | —                               | —       | —                               | —         | 32,756       | 642         | —   | —  | 642          |
| Share-based compensation   | —                               | —       | —                               | —         | 171,287      | 5,702       | —   | —  | 5,702        |
| Restricted common unit   | —                               | —       | —                               | —         | (71,523)     | (1,848)     | —   | —  | (1,848)      |

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|   |         |         |            |           |            |             |         |         |             |   |
|---|---------|---------|------------|-----------|------------|-------------|---------|---------|-------------|---|
| redemptions   |         |         |            |           |            |             |         |         |             |   |
| Comprehensive loss  | —       | 495     | —          | 15,481    | —          | (9,276      | ) 8,734 | 1,451   | 16,885      |   |
| Distributions to owners of common and preferred units                       | —       | (495    | ) —        | (15,481   | ) —        | (74,405     | ) —     | —       | (90,381     | ) |
| Distributions to noncontrolling interests in subsidiaries                   | —       | —       | —          | —         | —          | —           | —       | (8      | ) (8        | ) |
| Contributions from noncontrolling interests in subsidiaries                 | —       | —       | —          | —         | —          | —           | —       | 85      | 85          |   |
| Adjustment to arrive at fair value of redeemable noncontrolling interest    | —       | —       | —          | —         | —          | (6,414      | ) —     | —       | (6,414      | ) |
| Tax loss from share-based compensation                                      | —       | —       | —          | —         | —          | (122        | ) —     | —       | (122        | ) |
| Balance at September 30, 2013   | 352,000 | \$8,800 | 9,431,667  | \$249,083 | 91,359,549 | \$1,163,977 | \$3,026 | \$9,181 | \$1,434,067 |   |
| Balance at December 31, 2013  | 352,000 | \$8,800 | 9,431,667  | \$249,083 | 91,372,212 | \$1,226,318 | \$3,605 | \$9,443 | \$1,497,249 |   |
| Redemption of preferred units resulting from redemption of preferred shares | —       | —       | (2,000,000 | ) (50,000 | ) —        | —           | —       | —       | (50,000     | ) |
| Costs associated with common shares issued to the public                    | —       | —       | —          | —         | —          | (7          | ) —     | —       | (7          | ) |
| Issuance of common units resulting from exercise of share options           | —       | —       | —          | —         | 57,888     | 1,359       | —       | —       | 1,359       |   |
| Share-based compensation  | —       | —       | —          | —         | 193,863    | 5,249       | —       | —       | 5,249       |   |
|   | —       | —       | —          | —         | (51,681    | ) (1,389    | ) —     | —       | (1,389      | ) |

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|  |         |         |           |           |            |             |          |          |             |
|--|---------|---------|-----------|-----------|------------|-------------|----------|----------|-------------|
| Restricted common unit redemptions                                       |         |         |           |           |            |             |          |          |             |
| Comprehensive income   | —       | 495     | —         | 12,387    | —          | 23,916      | (2,726 ) | 983      | 35,055      |
| Distributions to owners of common and preferred units                    | —       | (495 )  | —         | (12,387 ) | —          | (75,520 )   | —        | —        | (88,402 )   |
| Distributions to noncontrolling interests in subsidiaries                | —       | —       | —         | —         | —          | —           | —        | (1,606 ) | (1,606 )    |
| Contributions from noncontrolling interests in subsidiaries              | —       | —       | —         | —         | —          | —           | —        | 3        | 3           |
| Adjustment to arrive at fair value of redeemable noncontrolling interest | —       | —       | —         | —         | —          | (7 )        | —        | —        | (7 )        |
| Balance at September 30, 2014  | 352,000 | \$8,800 | 7,431,667 | \$199,083 | 91,572,282 | \$1,179,919 | \$879    | \$8,823  | \$1,397,504 |

See accompanying notes to consolidated financial statements.



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

|  | For the Nine Months Ended<br>September 30, |           |
|--|--|-----------|
|  | 2014                                       | 2013      |
| Cash flows from operating activities   |  |           |
| Revenues from real estate operations received                                    | \$358,212                                  | \$359,431 |
| Construction contract and other service revenues received                        | 62,170                                     | 48,877    |
| Property operating expenses paid   | (141,489)                                  | (133,799) |
| Construction contract and other service expenses paid                            | (58,218)                                   | (53,191)  |
| General, administrative, leasing, business development and land carry costs paid | (22,288)                                   | (20,681)  |
| Interest expense paid  | (54,683)                                   | (59,052)  |
| Previously accreted interest expense paid  | —  | (11,116)  |
| Proceeds from sale of trading marketable securities                              | —  | 298       |
| Exit costs on property dispositions  | —  | (186)     |
| Payments in connection with early extinguishment of debt                         | (104)                                      | (23,969)  |
| Interest and other income received   | 448  | 391       |
| Income taxes refunded  | 200  | 6         |
| Net cash provided by operating activities  | 144,248                                    | 107,009   |
| Cash flows from investing activities   |  |           |
| Construction, development and redevelopment                                      | (150,862)                                  | (156,820) |
| Tenant improvements on operating properties                                      | (17,754)                                   | (15,868)  |
| Other capital improvements on operating properties                               | (21,179)                                   | (17,528)  |
| Proceeds from dispositions of properties   | 57,973                                     | 12,447    |
| Mortgage and other loan receivables funded                                       | (3,610)                                    | (4,111)   |
| Mortgage and other loan receivables payments received                            | 10,278                                     | 144       |
| Leasing costs paid   | (10,549)                                   | (9,366)   |
| Other  | (1,343)                                    | 4,257     |
| Net cash used in investing activities  | (137,046)                                  | (186,845) |
| Cash flows from financing activities   |  |           |
| Proceeds from debt   |  |           |
| Revolving Credit Facility  | 115,000                                    | 457,000   |
| Unsecured senior notes   | 297,342                                    | 592,413   |
| Other debt proceeds  | 11,569                                     | 82,886    |
| Repayments of debt   |  |           |
| Revolving Credit Facility  | (115,000)                                  | (457,000) |
| Scheduled principal amortization   | (4,914)                                    | (7,229)   |
| Other debt repayments  | (183,059)                                  | (542,532) |
| Deferred financing costs paid  | (694)                                      | (9,001)   |
| Net proceeds from issuance of common units                                       | 1,352                                      | 157,307   |
| Redemption of preferred units  | (50,000)                                   | (84,750)  |
| Common unit distributions paid   | (75,508)                                   | (72,661)  |
| Preferred unit distributions paid  | (13,674)                                   | (17,340)  |
| Restricted unit redemptions  | (1,389)                                    | (1,848)   |
| Other  | (2,582)                                    | (685)     |
| Net cash (used in) provided by financing activities                              | (21,557)                                   | 96,560    |
| Net (decrease) increase in cash and cash equivalents                             | (14,355)                                   | 16,724    |

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|  |          |          |
|--|----------|----------|
| Cash and cash equivalents                                    |          |          |
| Beginning of period  | 54,373   | 10,594   |
| End of period  | \$40,018 | \$27,318 |
| See accompanying notes to consolidated financial statements. |          |          |

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

|  | For the Nine Months Ended<br>September 30, |             |
|--|--|-------------|
|  | 2014                                       | 2013        |
| Reconciliation of net income to net cash provided by operating activities:   |  |             |
| Net income   | \$39,269                                   | \$8,872     |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |             |
| Depreciation and other amortization  | 106,619                                    | 87,956      |
| Impairment losses  | 1,371                                      | 30,940      |
| Settlement of previously accreted interest expense   | —  | (11,116 )   |
| Amortization of deferred financing costs   | 3,646                                      | 4,292       |
| Increase in deferred rent receivable   | (2,738 )                                   | (7,995 )    |
| Amortization of net debt discounts   | 659  | 1,207       |
| Gain on sales of real estate   | (10,654 )                                  | (2,683 )    |
| Share-based compensation   | 4,563                                      | 4,869       |
| Loss on early extinguishment of debt   | 458  | 3,059       |
| Other  | (2,446 )                                   | (2,284 )    |
| Changes in operating assets and liabilities:   |  |             |
| Decrease in accounts receivable  | 6,815                                      | 1,523       |
| (Increase) decrease in restricted cash and marketable securities   | (2,558 )                                   | 822         |
| Increase in prepaid expenses and other assets  | (26,553 )                                  | (12,974 )   |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities  | 24,214                                     | (386 )      |
| Increase in rents received in advance and security deposits  | 1,583                                      | 907         |
| Net cash provided by operating activities  | \$144,248                                  | \$107,009   |
| Supplemental schedule of non-cash investing and financing activities:  |  |             |
| Decrease in accrued capital improvements, leasing and other investing activity costs   | \$(174 )                                   | \$(13,094 ) |
| (Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests | \$(2,613 )                                 | \$7,785     |
| Equity in other comprehensive income of an equity method investee  | \$—  | \$1,070     |
| Distributions payable  | \$28,344                                   | \$29,077    |
| COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity                                 | \$—  | \$5,194     |
| Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value        | \$7  | \$6,414     |

See accompanying notes to consolidated financial statements.

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

1. Organization

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

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

10 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.1 million square feet upon completion;

1,480 acres of land we control that we believe are potentially developable into approximately 18.7 million square feet; and

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

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

Interests in COPLP are in the form of common and preferred units. As of September 30, 2014, COPT owned 95.8% of the outstanding COPLP common units (“common units”) and 95.5% of the outstanding COPLP preferred units (“preferred units”); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation are substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

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

2. Summary of Significant Accounting Policies

## Basis of Presentation

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

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

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

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

#### Reclassifications

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

#### Prior Out of Period Adjustment

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

#### Recent Accounting Pronouncements

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

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

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

### 3. Fair Value Measurements

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

#### Recurring Fair Value Measurements

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

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

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

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

#### COPT and Subsidiaries

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

| Description   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total           |
|---|--|---|---|-----------------|
| <b>Assets:</b>  |  |   |   |                 |
| Marketable securities in deferred compensation plan (1) |  |   |   |                 |
| Mutual funds  | \$ 7,187   | \$ —  | \$ —                                      | \$7,187         |
| Common stocks   | 110  | —   | —   | 110             |
| Other   | 203  | —   | —   | 203             |
| Interest rate derivatives (2)                           | —  | 2,907   | —   | 2,907           |
| Warrants to purchase common stock (2)                   | —  | 192   | —   | 192             |
| <b>Total Assets</b>                                     | <b>\$ 7,500</b>  | <b>\$ 3,099</b>                               | <b>\$ —</b>                               | <b>\$10,599</b> |
| <b>Liabilities:</b>                                     |  |   |   |                 |
| Deferred compensation plan liability (3)                | \$ —   | \$ 7,500                                      | \$ —                                      | \$7,500         |
| Interest rate derivatives                               | —  | 2,236   | —   | 2,236           |
| <b>Total Liabilities</b>                                | <b>\$ —</b>  | <b>\$ 9,736</b>                               | <b>\$ —</b>                               | <b>\$9,736</b>  |
| Redeemable noncontrolling interest                      | \$ —   | \$ —  | \$ 18,436                                 | \$18,436        |

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

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

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





## COPLP and Subsidiaries

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

| Description                           | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total    |
|---------------------------------------|--|---|---|----------|
| Assets:                               |  |   |   |          |
| Interest rate derivatives (1)         | \$ —   | \$ 2,907                                      | \$ —                                      | \$2,907  |
| Warrants to purchase common stock (1) | —  | 192   | —   | 192      |
| Total Assets                          | \$ —   | \$ 3,099                                      | \$ —                                      | \$3,099  |
| Liabilities:                          |  |   |   |          |
| Interest rate derivatives             | \$ —   | \$ 2,236                                      | \$ —                                      | \$2,236  |
| Redeemable noncontrolling interest    | \$ —   | \$ —  | \$ 18,436                                 | \$18,436 |

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

## Nonrecurring Fair Value Measurements

During the nine months ended September 30, 2014, we recognized impairment losses totaling \$1.4 million primarily in connection with certain of our operating properties disposed in the current period.

During the nine months ended September 30, 2013, we recognized the following impairment losses:

for certain of our operating properties that served as collateral for a nonrecourse loan, we expected that the cash flows to be generated by the properties would be insufficient to fund debt service requirements on the loan. On December 23, 2013, we conveyed the properties to the lender to extinguish the loan. We recognized non-cash impairment losses of \$10.4 million (all classified as discontinued operations) on these properties during the three months ended September 30, 2013 resulting primarily from the carrying amount of certain of these properties located in Colorado Springs, Colorado exceeding their fair value;

\$14.8 million (all classified as discontinued operations and including \$186,000 in exit costs) in connection with properties and land no longer aligned with our strategy that we sold, mostly in Colorado Springs; and \$5.9 million during the three months ended September 30, 2013 on two properties in the Greater Baltimore region that Management concluded no longer met our strategic investment criteria. After shortening our expected holding period for these properties during the period, we determined that the carrying amount of the properties would not likely be recovered from the cash flows from the operations and sales of the properties over the shortened period.

The table below sets forth the fair value hierarchy of the valuation technique used by us in determining the fair values of the properties (dollars in thousands):

| Description     | Fair Value of Properties Held as of September 30, 2013         |   |   |            | Impairment Losses Recognized (1)      |                                      |
|-----------------|--|---|---|------------|---------------------------------------|--------------------------------------|
|                 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total      | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
| Assets (2):     |  |   |   |            |                                       |                                      |
| Properties, net | \$—  | \$ —  | \$ 142,702                                | \$ 142,702 | \$ 21,888                             | \$ 30,940                            |

(1) Represents impairment losses, excluding exit costs incurred of \$186,000 for the three months and nine months ended September 30, 2013.

(2) Reflects balance sheet classifications of assets at time of fair value measurement, excluding the effect of held for sale classifications.

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The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above as of September 30, 2013 (dollars in thousands):

| Valuation Technique  | Fair Value on Measurement Date | Unobservable Input           | Range (Weighted Average) |
|----------------------|--------------------------------|------------------------------|--------------------------|
| Contract of sale     | \$ 110,499                     | Contract price (1)           | (1)                      |
| Discounted cash flow | \$ 32,203                      | Discount rate                | 10.0% to 11.0% (10.9%)   |
|                      |                                | Terminal capitalization rate | 9.5% to 10.0% (9.7%)     |
|                      |                                | Market rent growth rate      | 3.0% (2)                 |
|                      |                                | Expense growth rate          | 3.0% (2)                 |

(1) These fair value measurements were developed as a result of negotiations between us and potential, or actual, purchasers of the properties.

(2) Only one value applied for this unobservable input.

#### 4. Properties, net

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

|                                | September 30, 2014 | December 31, 2013 |
|--------------------------------|--------------------|-------------------|
| Land                           | \$439,355          | \$430,472         |
| Buildings and improvements     | 2,997,450          | 2,869,870         |
| Less: accumulated depreciation | (679,598)          | (597,649)         |
| Operating properties, net      | \$2,757,207        | \$2,702,693       |

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

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

|  | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Land   | \$229,286          | \$245,676         |
| Construction in progress, excluding land               | 284,663            | 265,932           |
| Projects in development or held for future development | \$513,949          | \$511,608         |

#### 2014 Dispositions

During the nine months ended September 30, 2014, we completed dispositions of the following operating properties (dollars in thousands):

| Project Name                  | Location        | Date of Sale | Number of Buildings | Total Rentable Square Feet | Transaction Value | Gain on Disposition |
|-------------------------------|-----------------|--------------|---------------------|----------------------------|-------------------|---------------------|
| 4969 and 4979 Mercantile Road | White Marsh, MD | 7/14/2014    | 2                   | 96,721                     | \$ 5,960          | \$ 2,126            |
| 9930 and 9940 Franklin Square | White Marsh, MD | 7/30/2014    | 2                   | 71,992                     | 10,475            | 2,303               |
|                               |                 | 8/4/2014     | 4                   | 134,245                    | 12,400            | 666                 |

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5020, 5022, 5024 and 5026 White Marsh,  
Campbell Boulevard MD

8 302,958 \$ 28,835 \$ 5,095

We also sold land in the third quarter of 2014 for \$28.3 million and recognized a \$5.5 million gain on the sales.

#### 2014 Construction Activities

During the nine months ended September 30, 2014, we placed into service an aggregate of 692,000 square feet in five newly constructed office properties located in the Baltimore/Washington Corridor, Northern Virginia and Huntsville, Alabama. As of September 30, 2014, we had six office properties under construction, or for which we were contractually committed to construct, that we estimate will total 861,000 square feet upon completion, including two in Northern Virginia, two in the Baltimore/Washington Corridor, one in San Antonio and one in Huntsville. We also had four office properties under

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redevelopment that we estimate will total 276,000 square feet upon completion, including two in the Baltimore/Washington Corridor, one in Greater Philadelphia and one in St. Mary's County, Maryland.

## 5. Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of September 30, 2014 (dollars in thousands):

|                          | Date Acquired | Nominal                     | Nature of Activity                                | September 30, 2014 |                   | (1)               |
|--------------------------|---------------|-----------------------------|---|--------------------|-------------------|-------------------|
|                          |               | Ownership % as of 9/30/2014 |   | Total Assets       | Encumbered Assets | Total Liabilities |
| LW Redstone Company, LLC | 3/23/2010     | 85%                         | Operates four buildings and developing others (2) | \$ 139,314         | \$ 67,100         | \$ 42,134         |
| M Square Associates, LLC | 6/26/2007     | 50%                         | Operates two buildings and developing others (3)  | 60,115             | 47,815            | 39,810            |
|                          |               |                             |   | \$ 199,429         | \$ 114,915        | \$ 81,944         |

(1) Excludes amounts eliminated in consolidation.

(2) This joint venture's property is in Huntsville, Alabama.

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

During the periods included herein, we also owned an investment in COPT-FD Indian Head, LLC, a joint venture owning property in Charles County, Maryland. On August 7, 2014, the joint venture's property was repurchased by Charles County under the terms of a development agreement for \$6.4 million, after which the proceeds were distributed to the partners. The joint venture has no remaining business operations or assets.

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 17.

## 6. Mortgage and Other Investing Receivables

Mortgage and other investing receivables, including accrued interest thereon, consisted of the following (in thousands):

|  | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Notes receivable from the City of Huntsville | \$ 47,878          | \$ 44,055         |
| Other investing loans receivable             | 3,008              | 9,608             |
|  | \$ 50,886          | \$ 53,663         |

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 5). We did not have an allowance for credit losses in connection with our mortgage and other investing receivables as of September 30, 2014 or December 31, 2013. The fair value of these receivables approximated their carrying amounts as of September 30, 2014 and December 31, 2013.

## 7. Prepaid Expenses and Other Assets

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

|  | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
|--|--------------------|-------------------|

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|  |          |          |
|--|----------|----------|
| Prepaid expenses   | \$24,497 | \$19,308 |
| Construction contract costs incurred in excess of billings | 17,962   | 2,462    |
| Lease incentives, net                                      | 12,939   | 8,435    |
| Furniture, fixtures and equipment, net                     | 6,527    | 6,556    |
| Deferred tax asset, net (1)                                | 4,058    | 4,305    |
| Interest rate derivatives                                  | 2,907    | 6,594    |
| Other equity method investments                            | 2,240    | 2,258    |
| Other assets   | 3,733    | 4,268    |
| Prepaid expenses and other assets                          | \$74,863 | \$54,186 |

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

Other assets, as reported above, include operating notes receivable due from tenants with terms exceeding one year totaling \$1.7 million as of September 30, 2014 and December 31, 2013; we carried allowances for estimated losses for \$207,000 of the September 30, 2014 balance and \$87,000 of the December 31, 2013 balance.



## 8. Debt

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

|  | Maximum<br>Availability<br>at | Carrying Value at     |                      | Stated Interest Rates as<br>of | Scheduled<br>Maturity<br>as of |
|--|-------------------------------|-----------------------|----------------------|--------------------------------|--------------------------------|
|  | September 30,<br>2014         | September 30,<br>2014 | December 31,<br>2013 | September 30,<br>2014          | September 30,<br>2014          |
| Mortgage and Other Secured Loans:      |                               |                       |                      |                                |                                |
| Fixed rate mortgage loans (1)          |                               | \$ 600,082            | \$ 675,060           | 3.96% - 10.65% (2)             | 2014-2024                      |
| Variable rate secured loan             |                               | 37,087                | 37,691               | LIBOR + 2.25% (3)              | November 2015                  |
| Total mortgage and other secured loans |                               | 637,169               | 712,751              |                                |                                |
| Revolving Credit Facility (4)          | \$ 800,000                    | —                     | —                    | LIBOR + 0.975% to 1.75%        | July 2017                      |
| Term Loan Facilities (5)               |                               | 520,000               | 620,000              | LIBOR + 1.10% to 2.60% (6)     | 2015-2019                      |
| Unsecured Senior Notes                 |                               |                       |                      |                                |                                |
| 3.600% Senior Notes (7)                |                               | 347,432               | 347,244              | 3.60%                          | May 2023                       |
| 5.250% Senior Notes (8)                |                               | 245,707               | 245,445              | 5.25%                          | February 2024                  |
| 3.700% Senior Notes (9)                |                               | 297,483               | —                    | 3.70%                          | June 2021                      |
| Unsecured notes payable                |                               | 1,631                 | 1,700                | 0% (10)                        | 2026                           |
| 4.25% Exchangeable Senior Notes (11)   |                               | 570                   | 563                  | 4.25%                          | April 2030                     |
| Total debt, net                        |                               | \$ 2,049,992          | \$ 1,927,703         |                                |                                |

Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net unamortized premiums totaling \$49,000 as of September 30, 2014 and \$69,000 as of December 31, 2013.

(1) The carrying values of these loans reflect net unamortized premiums totaling \$49,000 as of September 30, 2014 and \$69,000 as of December 31, 2013.

(2) The weighted average interest rate on these loans was 7.20% as of September 30, 2014.

(3) The interest rate on the loan outstanding was 2.41% as of September 30, 2014.

(4) No borrowings were outstanding on this facility as of the end of the respective periods.

(5) We have the ability to borrow an additional \$180.0 million in the aggregate under these term loan facilities, provided that there is no default under the facilities and subject to the approval of the lenders.

(6) The weighted average interest rate on these loans was 1.80% as of September 30, 2014.

The carrying value of these notes included a principal amount of \$350.0 million and an unamortized discount totaling \$2.6 million as of September 30, 2014 and \$2.8 million as of December 31, 2013. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.

The carrying value of these notes included a principal amount of \$250.0 million and an unamortized discount totaling \$4.3 million as of September 30, 2014 and \$4.6 million as of December 31, 2013. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.

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

These notes carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling \$680,000 as of September 30, 2014 and \$761,000 as of December 31, 2013.

(11) As described further in our 2013 Annual Report on Form 10-K, these notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash and, at COPLP's discretion, COPT common shares at an exchange rate (subject to adjustment) of 20.8513 shares per one thousand dollar principal amount of the notes (exchange rate is as of September 30, 2014 and is equivalent to an exchange price of \$47.96 per common share). The carrying value of these notes included a principal amount of \$575,000 and an unamortized discount totaling \$5,000 as of September 30, 2014 and \$12,000 as of December 31, 2013. The effective interest rate under the notes, including amortization of the issuance costs, was 6.05%. Because the closing price of our common shares as of September 30, 2014 and December 31, 2013 was less than the exchange price per common share applicable to these notes, the if-converted value of the notes did not exceed the principal amount. The table below sets forth interest expense recognized on these notes before deductions for amounts capitalized (in thousands):

|   | For the Three Months<br>Ended September 30, |      | For the Nine Months<br>Ended September 30, |         |
|---|---|------|--|---------|
|   | 2014  | 2013 | 2014                                       | 2013    |
| Interest expense at stated interest rate                  | \$6   | \$6  | \$18                                       | \$4,201 |
| Interest expense associated with amortization of discount | 2   | 2    | 7  | 1,613   |
| Total   | \$8   | \$8  | \$25                                       | \$5,814 |

All debt is owed by the Operating Partnership. While COPT is not directly obligated by any debt, it has guaranteed our Revolving Credit Facility, Term Loan Facilities, Unsecured Senior Notes and 4.25% Exchangeable Senior Notes.

In April 2014, a wholly owned subsidiary defaulted on the payment terms of a \$150.0 million nonrecourse mortgage loan secured by two operating properties in Northern Virginia with an aggregate estimated fair value that was less than the loan balance. This loan has an interest rate of 10.65% (including the effect of default interest) and was originally scheduled to mature in 2017. In July 2014, the lender accelerated the loan's maturity date to July 2014. Additional disclosure regarding this loan is provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Quarterly Report on Form 10-Q.

On May 14, 2014, we issued a \$300.0 million aggregate principal amount of 3.700% Senior Notes at an initial offering price of 99.739% of their face value. The proceeds from the offering, after deducting underwriting discounts, but before other offering expenses, were approximately \$297.3 million. The notes mature on June 15, 2021. We may redeem the notes, in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (1) the aggregate principal amount of the notes being redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to its present value, on a semi-annual basis at an adjusted treasury rate plus 25 basis points, plus, in each case, accrued and unpaid interest thereon to the date of redemption. The notes are unconditionally guaranteed by COPT. The carrying value of these notes reflects an unamortized discount totaling \$2.5 million at September 30, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.

We capitalized interest costs of \$1.3 million in the three months ended September 30, 2014, \$2.2 million in the three months ended September 30, 2013, \$4.3 million in the nine months ended September 30, 2014 and \$6.7 million in the nine months ended September 30, 2013.

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

|                                 | September 30, 2014 |                      | December 31, 2013 |                      |
|---------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                 | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Fixed-rate debt                 |                    |                      |                   |                      |
| Unsecured Senior Notes          | \$890,622          | \$901,022            | \$592,689         | \$575,374            |
| 4.25% Exchangeable Senior Notes | 570                | 575                  | 563               | 575                  |
| Other fixed-rate debt           | 601,713            | 578,116              | 676,760           | 650,997              |
| Variable-rate debt              | 557,087            | 558,665              | 657,691           | 657,527              |
|                                 | \$2,049,992        | \$2,038,378          | \$1,927,703       | \$1,884,473          |

## 9. Interest Rate Derivatives

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

| Notional Amount | Fixed Rate  | Floating Rate Index     | Effective Date | Expiration Date | Fair Value at      |                   |
|-----------------|-------------|-------------------------|----------------|-----------------|--------------------|-------------------|
|                 |             |                         |                |                 | September 30, 2014 | December 31, 2013 |
| \$100,000       | 0.8320%     | One-Month LIBOR         | 1/3/2012       | 9/1/2015        | \$(556)            | \$(861)           |
| 100,000         | 0.8320%     | One-Month LIBOR         | 1/3/2012       | 9/1/2015        | (556)              | (861)             |
| 37,087          | (1) 3.8300% | One-Month LIBOR + 2.25% | 11/2/2010      | 11/2/2015       | (515)              | (832)             |
| 100,000         | 0.8055%     | One-Month LIBOR         | 9/2/2014       | 9/1/2016        | (300)              | (94)              |
| 100,000         | 0.8100%     | One-Month LIBOR         | 9/2/2014       | 9/1/2016        | (309)              | (105)             |
| 100,000         | 1.6730%     | One-Month LIBOR         | 9/1/2015       | 8/1/2019        | 1,551              | 3,377             |
| 100,000         | 1.7300%     | One-Month LIBOR         | 9/1/2015       | 8/1/2019        | 1,356              | 3,217             |
| 100,000         | 0.6123%     | One-Month LIBOR         | 1/3/2012       | 9/1/2014        | —                  | (279)             |

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|         |         |                 |          |          |       |         |   |
|---------|---------|-----------------|----------|----------|-------|---------|---|
| 100,000 | 0.6100% | One-Month LIBOR | 1/3/2012 | 9/1/2014 | —     | (277    | ) |
|         |         |                 |          |          | \$671 | \$3,285 |   |

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

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

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

| Derivatives  | September 30, 2014                |            | December 31, 2013                 |            |
|--|-----------------------------------|------------|-----------------------------------|------------|
|  | Balance Sheet Location            | Fair Value | Balance Sheet Location            | Fair Value |
| Interest rate swaps designated as cash flow hedges | Prepaid expenses and other assets | \$ 2,907   | Prepaid expenses and other assets | \$ 6,594   |
| Interest rate swaps designated as cash flow hedges | Interest rate derivatives         | (2,236 )   | Interest rate derivatives         | (3,309 )   |

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

|   | For the Three Months Ended September 30, |            | For the Nine Months Ended September 30, |         |
|---|--|------------|---|---------|
|   | 2014                                     | 2013       | 2014                                    | 2013    |
| Amount of gains (losses) recognized in accumulated other comprehensive income (loss) ("AOCI") (effective portion) | \$1,015                                  | \$(2,482 ) | \$(4,738 )                              | \$5,810 |
| Amount of losses reclassified from AOCI into interest expense (effective portion)                                 | 756                                      | 689        | 2,170                                   | 2,021   |

Over the next 12 months, we estimate that approximately \$2.9 million of losses will be reclassified from AOCI as an increase to interest expense.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on our derivative obligations. These agreements also incorporate the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparties. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of September 30, 2014, the fair value of interest rate derivatives in a liability position related to these agreements was \$2.2 million, excluding the effects of accrued interest. As of September 30, 2014, we had not posted any collateral related to these agreements. We are not in default with any of these provisions. If we breached any of these provisions, we could be required to settle our obligations under the agreements at their termination value of \$2.5 million.

#### 10. Redeemable Noncontrolling Interest

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

|  | For the Nine Months Ended September 30, |          |
|--|---|----------|
|  | 2014                                    | 2013     |
| Beginning balance                                  | \$17,758                                | \$10,298 |
| Distributions                                      | (976 )                                  | (811 )   |
| Net income attributable to noncontrolling interest | 1,647                                   | 888      |
| Adjustment to arrive at fair value of interest     | 7                                       | 6,414    |
| Ending balance                                     | \$18,436                                | \$16,789 |

#### 11. Equity

On June 16, 2014, COPT redeemed all of its outstanding 7.5% Series H Preferred Shares of beneficial interest (the "Series H Preferred Shares") at a price of \$25.00 per share, or \$50.0 million in the aggregate, plus accrued and unpaid

dividends thereon through the date of redemption. Concurrently, COPLP redeemed the Series H Preferred Units previously owned by COPT that carried terms substantially the same as the Series H Preferred Shares. At the time of the redemption, we recognized a \$1.8 million decrease to net income available to common shareholders/unitholders pertaining to the original issuance costs incurred on these securities.

During the nine months ended September 30, 2014, certain COPLP limited partners redeemed 117,149 common units in COPLP for common shares in COPT on the basis of one common share for each common unit.

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

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## 12. Information by Business Segment

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

|  | Operating Office Property Segments   |                      |                |            |  |   |                      |                         |                     |         |                |
|--|--------------------------------------|----------------------|----------------|------------|--|---|----------------------|-------------------------|---------------------|---------|----------------|
|  | Baltimore/<br>Washington<br>Corridor | Northern<br>Virginia | San<br>Antonio | Huntsville | Washington<br>DC - Capitol<br>Riverfront | St. Mary's &<br>King George<br>Counties | Greater<br>Baltimore | Greater<br>Philadelphia | Colorado<br>Springs | Other   | Op<br>Wh<br>Da |
| Three Months<br>Ended<br>September 30,<br>2014   |                                      |                      |                |            |  |   |                      |                         |                     |         |                |
| Revenues<br>from real<br>estate<br>operations    | \$58,883                             | \$21,369             | \$9,031        | \$2,471    | \$3,524                                  | \$4,158                                 | \$10,436             | \$2,951                 | \$—                 | \$2,541 | \$2,000        |
| Property<br>operating<br>expenses                | 19,457                               | 7,500                | 5,100          | 763        | 1,824                                    | 1,277                                   | 3,810                | 837                     | 3                   | 257     | 2,000          |
| NOI from real<br>estate<br>operations            | \$39,426                             | \$13,869             | \$3,931        | \$1,708    | \$1,700                                  | \$2,881                                 | \$6,626              | \$2,114                 | \$(3)               | \$2,284 | \$800          |
| Additions to<br>long-lived<br>assets             | \$7,248                              | \$5,898              | \$—            | \$455      | \$458                                    | \$5,189                                 | \$3,021              | \$625                   | \$—                 | \$(125) | \$2,000        |
| Transfers<br>from<br>non-operating<br>properties | \$22,680                             | \$15,403             | \$—            | \$1,496    | \$—                                      | \$—                                     | \$495                | \$2,506                 | \$—                 | \$—     | \$2,000        |
| Three Months<br>Ended<br>September 30,<br>2013   |                                      |                      |                |            |  |   |                      |                         |                     |         |                |
| Revenues<br>from real<br>estate<br>operations    | \$59,558                             | \$23,062             | \$7,898        | \$1,360    | \$4,295                                  | \$4,270                                 | \$10,703             | \$3,258                 | \$6,571             | \$2,510 | \$1,800        |
| Property<br>operating<br>expenses                | 19,642                               | 7,999                | 4,061          | 382        | 1,946                                    | 1,299                                   | 4,143                | 924                     | 2,361               | 282     | 1,800          |
| NOI from real<br>estate<br>operations            | \$39,916                             | \$15,063             | \$3,837        | \$978      | \$2,349                                  | \$2,971                                 | \$6,560              | \$2,334                 | \$4,210             | \$2,228 | \$(700)        |
| Additions to<br>long-lived                       | \$7,292                              | \$2,459              | \$251          | \$4        | \$86                                     | \$630                                   | \$1,707              | \$102                   | \$1,413             | \$(88)  | \$800          |



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|   |             |           |           |           |          |           |           |           |          |          |       |  |
|---|-------------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|----------|-------|--|
| assets                                  |             |           |           |           |          |           |           |           |          |          |       |  |
| Transfers from non-operating properties | \$8,523     | \$26,355  | \$—       | \$(33)    | ) \$—    | \$—       | \$9       | \$3,414   | \$1,860  | \$—      | \$2   |  |
| Nine Months Ended September 30, 2014    |             |           |           |           |          |           |           |           |          |          |       |  |
| Revenues from real estate operations    | \$177,452   | \$67,235  | \$26,268  | \$7,430   | \$10,989 | \$12,676  | \$32,956  | \$8,657   | \$6      | \$7,662  | \$7   |  |
| Property operating expenses             | 62,402      | 24,124    | 14,391    | 2,275     | 5,343    | 4,070     | 13,786    | 3,281     | 5        | 1,190    | 5,6   |  |
| NOI from real estate operations         | \$115,050   | \$43,111  | \$11,877  | \$5,155   | \$5,646  | \$8,606   | \$19,170  | \$5,376   | \$1      | \$6,472  | \$2   |  |
| Additions to long-lived assets          | \$19,278    | \$14,198  | \$(6)     | ) \$3,296 | \$999    | \$6,971   | \$5,275   | \$724     | \$—      | \$(163)  | ) \$4 |  |
| Transfers from non-operating properties | \$50,303    | \$42,674  | \$—       | \$21,821  | \$—      | \$—       | \$3,522   | \$15,880  | \$30     | \$—      | \$8   |  |
| Segment assets at September 30, 2014    | \$1,278,713 | \$648,248 | \$116,837 | \$98,334  | \$96,131 | \$100,009 | \$274,931 | \$107,051 | \$—      | \$78,240 | \$1   |  |
| Nine Months Ended September 30, 2013    |             |           |           |           |          |           |           |           |          |          |       |  |
| Revenues from real estate operations    | \$177,858   | \$68,992  | \$24,019  | \$3,459   | \$12,716 | \$12,355  | \$32,246  | \$8,529   | \$19,722 | \$7,571  | \$4   |  |
| Property operating expenses             | 59,423      | 24,020    | 12,427    | 874       | 5,769    | 3,715     | 12,408    | 2,482     | 6,983    | 824      | 4,6   |  |
| NOI from real estate operations         | \$118,435   | \$44,972  | \$11,592  | \$2,585   | \$6,947  | \$8,640   | \$19,838  | \$6,047   | \$12,739 | \$6,747  | \$(2  |  |
| Additions to long-lived assets          | \$14,172    | \$6,699   | \$268     | \$3,501   | \$484    | \$1,634   | \$1,761   | \$387     | \$2,323  | \$87     | \$2   |  |
| Transfers from non-operating properties | \$37,607    | \$37,209  | \$—       | \$20,924  | \$—      | \$12      | \$113     | \$28,031  | \$4,539  | \$2      | \$6   |  |

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Segment

assets at

September 30,  
2013

\$1,275,972 \$593,335 \$118,701 \$50,737 \$99,852 \$96,679 \$305,947 \$105,112 \$158,690 \$80,749 \$1

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

|   | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|---|---|-----------|--|-----------|
|   | 2014  | 2013      | 2014                                       | 2013      |
| Segment revenues from real estate operations          | \$118,240                                   | \$124,561 | \$359,100                                  | \$371,913 |
| Construction contract and other service revenues      | 34,739                                      | 16,991    | 80,390                                     | 52,048    |
| Less: Revenues from discontinued operations (Note 15) | 36  | (9,740 )  | 12   | (29,403 ) |
| Total revenues  | \$153,015                                   | \$131,812 | \$439,502                                  | \$394,558 |

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

|  | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |           |
|--|---|----------|--|-----------|
|  | 2014  | 2013     | 2014                                       | 2013      |
| Segment property operating expenses                                      | \$42,881                                    | \$44,885 | \$136,489                                  | \$133,605 |
| Less: Property operating expenses from discontinued operations (Note 15) | 175   | (3,524 ) | 111  | (10,523 ) |
| Total property operating expenses  | \$43,056                                    | \$41,361 | \$136,600                                  | \$123,082 |

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

|  | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|--|---|-----------|--|-----------|
|  | 2014  | 2013      | 2014                                       | 2013      |
| Construction contract and other service revenues | \$34,739                                    | \$16,991  | \$80,390                                   | \$52,048  |
| Construction contract and other service expenses | (33,593 )                                   | (16,306 ) | (75,353 )                                  | (49,165 ) |
| NOI from service operations                      | \$1,146                                     | \$685     | \$5,037                                    | \$2,883   |

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

|  | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |           |
|--|---|----------|--|-----------|
|  | 2014  | 2013     | 2014                                       | 2013      |
| NOI from real estate operations  | \$75,359                                    | \$79,676 | \$222,611                                  | \$238,308 |
| NOI from service operations  | 1,146                                       | 685      | 5,037                                      | 2,883     |
| Interest and other income (loss)   | 1,191                                       | (3)      | 3,775                                      | 2,949     |
| Equity in income of unconsolidated entities                                | 193   | 44       | 206  | 211       |
| Income tax expense   | (101)                                       | (24)     | (257)                                      | (61)      |
| Other adjustments:   | —   | —        | —  | —         |
| Depreciation and other amortization associated with real estate operations | (30,237)                                    | (28,205) | (104,728)                                  | (82,888)  |
| Impairment losses  | (66)  | (5,857)  | (1,368)                                    | (5,857)   |
| General, administrative and leasing expenses                               | (7,211)                                     | (8,027)  | (22,882)                                   | (22,430)  |
| Business development expenses and land carry costs                         | (1,430)                                     | (1,383)  | (4,107)                                    | (4,069)   |
| Interest expense on continuing operations                                  | (24,802)                                    | (19,342) | (69,107)                                   | (60,734)  |
| NOI from discontinued operations   | (139)                                       | (6,216)  | (99)                                       | (18,880)  |
| Loss on early extinguishment of debt                                       | (176)                                       | (374)    | (446)                                      | (27,028)  |
| Income from continuing operations  | \$13,727                                    | \$10,974 | \$28,635                                   | \$22,404  |

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

|                                | September 30,<br>2014 | September 30,<br>2013 |
|--------------------------------|-----------------------|-----------------------|
| Segment assets                 | \$2,962,686           | \$3,053,813           |
| Non-operating property assets  | 518,951               | 530,389               |
| Other assets                   | 198,551               | 171,386               |
| Total COPT consolidated assets | \$3,680,188           | \$3,755,588           |

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

### 13. Share-Based Compensation

#### Performance Share Units (“PSUs”)

On March 6, 2014, our Board of Trustees granted 49,103 PSUs with an aggregate grant date fair value of \$1.7 million to executives. The PSUs have a performance period beginning on January 1, 2014 and concluding on the earlier of December 31, 2016 or the date of: (1) termination by us without cause, death or disability of the executive or constructive discharge of the executive (collectively, “qualified termination”); or (2) a sale event. The number of PSUs

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

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

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

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

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

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

We computed a grant date fair value of \$35.09 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$26.52; expected volatility for COPT common shares of 28.6%; and a risk-free interest rate of 0.66%. We are recognizing the grant date fair value in connection with these PSU awards over the period commencing on March 6, 2014 and ending on December 31, 2016.

With regard to the PSUs granted to our executives in prior years that were outstanding as of December 31, 2013 as described in our 2013 Annual Report on Form 10-K:

the performance period for the PSUs granted to executives on March 3, 2011 ended on March 2, 2014. Based on COPT's total shareholder return during the performance period relative to its peer group of companies, there was no payout value in connection with the termination of the PSUs; and  
 the PSUs granted to executives on March 1, 2012 and March 1, 2013 were outstanding as of September 30, 2014.

#### Restricted Shares

During the nine months ended September 30, 2014, certain employees, as well as nonemployee members of our Board of Trustees, were granted a total of 211,982 restricted common shares with an aggregate grant date fair value of \$5.7 million (weighted average of \$26.71 per share). Restricted shares granted to employees vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employees remain employed by us. The grants of restricted shares to nonemployee Trustees vest on the first anniversary of the grant date provided that the Trustee remains in his or her position. During the nine months ended September 30, 2014, forfeiture restrictions lapsed on 165,076 previously issued common shares; these shares had a weighted average grant date fair value of \$29.01 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$4.4 million.

#### Options

During the nine months ended September 30, 2014, 57,888 options to purchase common shares ("options") were exercised. The weighted average exercise price of these options was \$23.50 per share, and the aggregate intrinsic value of the options exercised was \$214,000.

#### 14. Income Taxes

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

| For the Three Months<br>Ended September 30, |      | For the Nine Months<br>Ended September 30, |      |
|---|------|--|------|
| 2014  | 2013 | 2014                                       | 2013 |

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|                          |         |   |         |   |
|--------------------------|---------|---|---------|---|
| Deferred                 |         |   |         |   |
| Federal                  | \$ (83  | ) | \$ (20  | ) |
| State                    | (18     | ) | (42     | ) |
| Total income tax expense | \$ (101 | ) | \$ (257 | ) |

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

Our TRS's combined Federal and state effective tax rate was 37.7% for the three and nine months ended September 30, 2014 and 36.7% for the three and nine months ended September 30, 2013.

## 15. Discontinued Operations

Income from discontinued operations primarily includes revenues and expenses associated with the following:

• 20 Elkridge Landing Road in the Baltimore/Washington Corridor that was sold on June 25, 2013;  
 • 4230 Forbes Boulevard in the Baltimore/Washington Corridor that was sold on December 11, 2013;  
 • 15 operating properties in Colorado Springs that were sold on December 12, 2013; and  
 • nine operating properties in the Baltimore/Washington Corridor and five operating properties in Colorado Springs for which the title to the properties was transferred to the mortgage lender on December 23, 2013.

The table below sets forth the components of discontinued operations reported on our consolidated statements of operations (in thousands):

|  | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |            |
|--|---|-----------|--|------------|
|  | 2014  | 2013      | 2014                                       | 2013       |
| Revenue from real estate operations          | \$(36                                       | ) \$9,740 | \$(12                                      | ) \$29,403 |
| Property operating expenses                  | 175   | (3,524    | ) 111                                      | (10,523    |
| Depreciation and amortization                | —   | (1,005    | ) —  | (3,509     |
| Impairment recoveries (losses)               | 24  | (16,217   | ) (3                                       | ) (25,269  |
| General, administrative and leasing expenses | —   | —         | —  | (1         |
| Interest expense                             | —   | (1,968    | ) —  | (6,316     |
| Gain on sales of real estate                 | 28  | —         | 24   | —          |
| Loss on early extinguishment of debt         | —   | —         | (116                                       | ) —        |
| Discontinued operations                      | \$191                                       | \$(12,974 | ) \$4                                      | \$(16,215  |

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

### COPT and Subsidiaries EPS

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

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



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

|   | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |             |
|---|---|------------|--|-------------|
|   | 2014  | 2013       | 2014                                       | 2013        |
| Numerator:  |   |            |  |             |
| Income from continuing operations   | \$13,727                                    | \$10,974   | \$28,635                                   | \$22,404    |
| Gain on sales of real estate, net   | 10,630                                      | —          | 10,630                                     | 2,683       |
| Preferred share dividends   | (3,553 )                                    | (4,490 )   | (12,387 )                                  | (15,481 )   |
| Issuance costs associated with redeemed preferred shares  | —   | —          | (1,769 )                                   | (2,904 )    |
| Income from continuing operations attributable to noncontrolling interests                              | (1,820 )                                    | (1,456 )   | (3,923 )                                   | (2,710 )    |
| Income from continuing operations attributable to restricted shares                                     | (103 )                                      | (97 )      | (332 )                                     | (317 )      |
| Numerator for basic and diluted EPS from continuing operations attributable to COPT common shareholders | \$18,881                                    | \$4,931    | \$20,854                                   | \$3,675     |
| Discontinued operations   | 191   | (12,974 )  | 4  | (16,215 )   |
| Discontinued operations attributable to noncontrolling interests  | (8 )  | 492        | 5  | 529         |
| Numerator for basic and diluted EPS on net income (loss) attributable to COPT common shareholders       | \$19,064                                    | \$(7,551 ) | \$20,863                                   | \$(12,011 ) |
| Denominator (all weighted averages):  |   |            |  |             |
| Denominator for basic EPS (common shares)   | 87,290                                      | 86,760     | 87,196                                     | 84,547      |
| Dilutive effect of share-based compensation awards  | 195   | —          | 169  | —           |
| Denominator for diluted EPS (common shares)   | 87,485                                      | 86,760     | 87,365                                     | 84,547      |
| Basic EPS:  |   |            |  |             |
| Income from continuing operations attributable to COPT common shareholders                              | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |
| Discontinued operations attributable to COPT common shareholders  | 0.00  | (0.15 )    | 0.00                                       | (0.18 )     |
| Net income (loss) attributable to COPT common shareholders  | \$0.22                                      | \$(0.09 )  | \$0.24                                     | \$(0.14 )   |
| Diluted EPS:  |   |            |  |             |
| Income from continuing operations attributable to COPT common shareholders                              | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |
| Discontinued operations attributable to COPT common shareholders  | 0.00  | (0.15 )    | 0.00                                       | (0.18 )     |
| Net income (loss) attributable to COPT common shareholders  | \$0.22                                      | \$(0.09 )  | \$0.24                                     | \$(0.14 )   |

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

|   | Weighted Average Shares Excluded from Denominator |       |  |       |
|---|---|-------|--|-------|
|   | For the Three Months<br>Ended September 30,       |       | For the Nine Months<br>Ended September 30, |       |
|   | 2014  | 2013  | 2014                                       | 2013  |
| Conversion of common units              | 3,876   | 3,804 | 3,915                                      | 3,832 |
| Conversion of Series I Preferred Units  | 176   | 176   | 176  | 176   |
| Conversion of Series K Preferred Shares | 434   | 434   | 434  | 434   |

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

weighted average restricted shares for the three months ended September 30, 2014 and 2013 of 401,000 and 377,000, respectively, and for the nine months ended September 30, 2014 and 2013 of 404,000 and 388,000, respectively; and

weighted average options for the three months ended September 30, 2014 and 2013 of 490,000 and 613,000, respectively, and for the nine months ended September 30, 2014 and 2013 of 495,000 and 571,000, respectively.

As discussed in Note 8, we have outstanding senior notes that have an exchange settlement feature, but such notes did not affect our diluted EPS reported above since the weighted average closing price of COPT's common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

## COPLP and Subsidiaries EPU

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

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

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

|   | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |             |
|---|---|------------|--|-------------|
|   | 2014  | 2013       | 2014                                       | 2013        |
| Numerator:  |   |            |  |             |
| Income from continuing operations   | \$13,727                                    | \$10,974   | \$28,635                                   | \$22,404    |
| Gain on sales of real estate, net   | 10,630                                      | —          | 10,630                                     | 2,683       |
| Preferred unit distributions  | (3,718 )                                    | (4,655 )   | (12,882 )                                  | (15,976 )   |
| Issuance costs associated with redeemed preferred units   | —   | —          | (1,769 )                                   | (2,904 )    |
| Income from continuing operations attributable to noncontrolling interests                              | (897 )                                      | (986 )     | (2,476 )                                   | (2,025 )    |
| Income from continuing operations attributable to restricted units                                      | (103 )                                      | (97 )      | (332 )                                     | (317 )      |
| Numerator for basic and diluted EPU from continuing operations attributable to COPLP common unitholders | \$19,639                                    | \$5,236    | \$21,806                                   | \$3,865     |
| Discontinued operations   | 191   | (12,974 )  | 4  | (16,215 )   |
| Discontinued operations attributable to noncontrolling interests  | —   | (49 )      | 5  | (147 )      |
| Numerator for basic and diluted EPU on net income attributable to COPLP common unitholders              | \$19,830                                    | \$(7,787 ) | \$21,815                                   | \$(12,497 ) |
| Denominator (all weighted averages):  |   |            |  |             |
| Denominator for basic EPU (common units)  | 91,166                                      | 90,564     | 91,111                                     | 88,379      |
| Dilutive effect of share-based compensation awards  | 195   | —          | 169  | —           |
| Denominator for basic and diluted EPU (common units)  | 91,361                                      | 90,564     | 91,280                                     | 88,379      |
| Basic EPU:  |   |            |  |             |
| Income from continuing operations attributable to COPLP common unitholders                              | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |
| Discontinued operations attributable to COPLP common unitholders  | 0.00  | (0.15 )    | 0.00                                       | (0.18 )     |
| Net income (loss) attributable to COPLP common unitholders  | \$0.22                                      | \$(0.09 )  | \$0.24                                     | \$(0.14 )   |
| Diluted EPU:  |   |            |  |             |
| Income from continuing operations attributable to COPLP common unitholders                              | \$0.22                                      | \$0.06     | \$0.24                                     | \$0.04      |
| Discontinued operations attributable to COPLP common unitholders  | 0.00  | (0.15 )    | 0.00                                       | (0.18 )     |
| Net income (loss) attributable to COPLP common unitholders  | \$0.22                                      | \$(0.09 )  | \$0.24                                     | \$(0.14 )   |



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

|  | Weighted Average Units Excluded from Denominator |      |  |      |
|--|--|------|--|------|
|  | For the Three Months<br>Ended September 30,      |      | For the Nine Months<br>Ended September 30, |      |
|  | 2014   | 2013 | 2014                                       | 2013 |
| Conversion of Series I preferred units | 176  | 176  | 176  | 176  |
| Conversion of Series K preferred units | 434  | 434  | 434  | 434  |

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

• weighted average restricted units for the three months ended September 30, 2014 and 2013 of 401,000 and 377,000, respectively, and for the nine months ended September 30, 2014 and 2013 of 404,000 and 388,000, respectively; and

• weighted average options for the three months ended September 30, 2014 and 2013 of 490,000 and 613,000, respectively, and for the nine months ended September 30, 2014 and 2013 of 495,000 and 571,000, respectively.

As discussed in Note 8, we have outstanding senior notes that have an exchange settlement feature, but such notes did not affect our diluted EPU reported above since the weighted average closing price of COPT's common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

## 17. Commitments and Contingencies

### Litigation

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

### Environmental

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

### Joint Ventures

In connection with our 2005 contribution of properties to an unconsolidated partnership in which we hold a joint venture interest, we entered into standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation, and springing guarantees of partnership debt in the event of a voluntary bankruptcy of the partnership). On December 6, 2013, the holder of mortgage debt encumbering all of the joint venture's properties foreclosed on the properties. As a result, title to the properties was transferred to the mortgage lender and the joint venture was relieved of the debt obligation plus accrued interest and penalties. The joint venture still had \$5.6 million in nonrecourse mezzanine debt as of September 30, 2014; however, the joint venture no longer holds any property and has ceased all business operations. Management estimates there to be no fair value to

the guarantees as of September 30, 2014 because the actions that would trigger performance are all within our control.

#### Tax Incremental Financing Obligation

In August 2010, Anne Arundel County, Maryland issued \$30 million in tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as National Business Park North. The real estate taxes on increases in assessed value of a development district encompassing National Business Park North are to be transferred to a special fund pledged to the repayment of the bonds. We recognized a \$1.1 million liability through September 30, 2014 representing our estimated obligation to fund through a special tax any future shortfalls between debt service on the bonds and real estate taxes available to repay the bonds.

### Environmental Indemnity Agreement

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

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

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

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

Overview

COPT is a REIT that focuses primarily on serving the specialized requirements of United States Government agencies and defense contractors, most of whom are engaged in defense information technology and national security related activities. COPLP and its subsidiaries are the entities through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. We generally acquire, develop, manage and lease office and data center properties concentrated in large office parks located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. COPLP owns real estate both directly and through subsidiary partnerships and LLCs. COPLP also owns subsidiaries that provide real estate services such as property management and construction and development services primarily for our properties but also for third parties.

During the nine months ended September 30, 2014:

- we issued a \$300.0 million aggregate principal amount of 3.700% Senior Notes on May 14, 2014 at an initial offering price of 99.739% of their face value. The proceeds from the offering, after deducting underwriting discounts but before other offering expenses, were approximately \$297.3 million. We used the net proceeds of the offering to repay borrowings under our Revolving Credit Facility, repay \$50.0 million under an existing term loan facility, fund the expected redemption of our Series H Preferred Shares and for general corporate purposes;

COPT redeemed all of its outstanding Series H Preferred Shares on June 16, 2014 at a price of \$25.00 per share, or \$50.0 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption, using proceeds from the 3.700% Senior Notes issuance. These shares accrued dividends equal to 7.5% of the liquidation preference. In connection with this redemption, COPLP redeemed the Series H Preferred Units previously owned by COPT that carried terms substantially the same as the Series H Preferred Shares. At the time of the redemption, we recognized a \$1.8 million decrease to net income available to common shareholders/unitholders pertaining to the original issuance costs incurred on the securities;

a wholly owned subsidiary defaulted on the payment terms of a \$150.0 million nonrecourse mortgage loan secured by two operating properties in Northern Virginia with an aggregate estimated fair value that was less than the loan balance. This loan has an interest rate of 10.65% (including the effect of default interest) and was originally scheduled to mature in 2017. In July 2014, the lender accelerated the loan's maturity date to July 2014. In September 2014, the court appointed a receiver to control the property and to appoint a replacement property manager. We expect that the lender will proceed with a foreclosure action resulting in our conveyance of the properties to the lender to extinguish the loan;

- we placed into service an aggregate of 692,000 square feet in five newly constructed properties that were 94.6% leased as of September 30, 2014;

we completed dispositions of eight operating properties in the Greater Baltimore region totaling 303,000 square feet that were 48.9% occupied for \$28.8 million and sold land for \$28.3 million. We used most of the proceeds from these sales for general corporate purposes; and

- we finished the period with occupancy of our portfolio of operating office properties at 91.5%.

On October 15, 2014, our Board of Trustees appointed Anthony Mifsud as our Executive Vice President and Chief Financial Officer effective as of April 1, 2015. He will replace Stephen E. Riffée, who will fulfill his contract term on March 31, 2015.



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

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

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

You should refer to our consolidated financial statements as you read this section.

This section contains “forward-looking” statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the

financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “could,” “believe,” “anticipate,” “expect,” “estimate,” “plan” or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to borrow on favorable terms;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares;
- our ability to achieve projected results; and
- environmental requirements.

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

## Occupancy and Leasing

### Office Properties

The tables below set forth occupancy information pertaining to our portfolio of operating office properties. All of our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Quarterly Report on Form 10-Q exclude the effect of the two properties serving as collateral for debt that is in default that we expect to extinguish via conveyance to the lender of such properties (totaling 665,000 square feet that were 37.8% occupied as of September 30, 2014); effective April 1, 2014, all cash flows from such properties belong to the lender.

|                               | September 30,<br>2014 | December 31,<br>2013 |  |   |
|-------------------------------|-----------------------|----------------------|--|---|
| Occupancy rates at period end |                       |                      |  |   |
| Total                         | 91.5                  | % 89.1               |  | % |
| Baltimore/Washington Corridor | 92.9                  | % 91.7               |  | % |
| Northern Virginia             | 90.9                  | % 88.6               |  | % |
| San Antonio                   | 96.6                  | % 96.6               |  | % |
| Huntsville                    | 88.4                  | % 80.7               |  | % |

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|  |         |   |         |   |
|--|---------|---|---------|---|
| Washington, DC - Capitol Riverfront                                      | 72.6    | % | 76.4    | % |
| St. Mary's and King George Counties                                      | 91.2    | % | 89.8    | % |
| Greater Baltimore  | 85.2    | % | 77.2    | % |
| Greater Philadelphia   | 96.2    | % | 93.7    | % |
| Other  | 100.0   | % | 100.0   | % |
| Average contractual annual rental rate per square foot at period end (1) | \$29.14 |   | \$28.99 |   |

(1) Includes estimated expense reimbursements.

|   | Rentable<br>Square Feet<br>(in thousands) | Occupied<br>Square Feet |
|---|---|-------------------------|
| December 31, 2013   | 17,370                                    | 15,484                  |
| Square feet vacated upon lease expiration (1)                           | —   | (571 )                  |
| Occupancy of previously vacated space in connection with new leases (2) | —   | 516                     |
| Square feet constructed or redeveloped                                  | 763                                       | 767                     |
| Dispositions  | (303 )                                    | (148 )                  |
| Square feet removed from operations for redevelopment                   | (304 )                                    | —                       |
| Square feet of properties to be conveyed                                | (665 )                                    | (623 )                  |
| Other changes   | 2   | 3                       |
| September 30, 2014  | 16,863                                    | 15,428                  |

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

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

Occupancy of our Same Office Properties was 92.1% as of September 30, 2014, up from 90.6% as of December 31, 2013.

During the nine months ended September 30, 2014, we completed 2.0 million square feet of leasing, including 488,000 of construction and redevelopment space, and renewed 73.6% of the square footage of our lease expirations for the period (including the effect of early renewals, and excluding the effect of a 219,000 square foot property vacated in Greater Philadelphia that was removed from service for redevelopment).

#### Wholesale Data Center Property

Our wholesale data center property is expected to have a critical load of 18 megawatts upon completion. As of September 30, 2014, the property had 9.0 megawatts in operations, of which 6.3 were leased to tenants with further expansion rights of up to a combined 7.2 megawatts.

#### Results of Operations

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

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

You may refer to Note 15 of the consolidated financial statements for a summary of operating properties that were disposed and therefore are included in discontinued operations.

In addition to owning properties, we provide construction management and other services. The primary manner in which we evaluate the operating performance of our construction management and other service activities is through a

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

We believe that operating income, as reported on our consolidated statements of operations, is the most directly comparable generally accepted accounting principles (“GAAP”) measure for both NOI from real estate operations and NOI from service operations. Since both of these measures exclude certain items includable in operating income, reliance on these

measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures.

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

|  | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|--|---|-----------|--|-----------|
|  | 2014  | 2013      | 2014                                       | 2013      |
|  | (in thousands)                              |           |  |           |
| NOI from real estate operations                                      | \$75,359                                    | \$79,676  | \$222,611                                  | \$238,308 |
| NOI from service operations  | 1,146                                       | 685       | 5,037                                      | 2,883     |
| NOI from discontinued operations                                     | (139 )                                      | (6,216 )  | (99 )                                      | (18,880 ) |
| Depreciation and amortization associated with real estate operations | (30,237 )                                   | (28,205 ) | (104,728 )                                 | (82,888 ) |
| Impairment losses  | (66 )                                       | (5,857 )  | (1,368 )                                   | (5,857 )  |
| General, administrative and leasing expenses                         | (7,211 )                                    | (8,027 )  | (22,882 )                                  | (22,430 ) |
| Business development expenses and land carry costs                   | (1,430 )                                    | (1,383 )  | (4,107 )                                   | (4,069 )  |
| Operating income   | \$37,422                                    | \$30,673  | \$94,464                                   | \$107,067 |

#### Comparison of Statements of Operations

|  | For the Three Months Ended September 30, |           |          |
|--|--|-----------|----------|
|  | 2014                                     | 2013      | Variance |
|  | (in thousands)                           |           |          |
| Revenues   |  |           |          |
| Revenues from real estate operations                                 | \$118,276                                | \$114,821 | \$3,455  |
| Construction contract and other service revenues                     | 34,739                                   | 16,991    | 17,748   |
| Total revenues   | 153,015                                  | 131,812   | 21,203   |
| Expenses   |  |           |          |
| Property operating expenses  | 43,056                                   | 41,361    | 1,695    |
| Depreciation and amortization associated with real estate operations | 30,237                                   | 28,205    | 2,032    |
| Construction contract and other service expenses                     | 33,593                                   | 16,306    | 17,287   |
| Impairment losses  | 66                                       | 5,857     | (5,791 ) |
| General, administrative and leasing expenses                         | 7,211                                    | 8,027     | (816 )   |
| Business development expenses and land carry costs                   | 1,430                                    | 1,383     | 47       |
| Total operating expenses   | 115,593                                  | 101,139   | 14,454   |
| Operating income   | 37,422                                   | 30,673    | 6,749    |
| Interest expense   | (24,802 )                                | (19,342 ) | (5,460 ) |
| Interest and other income (loss)                                     | 1,191                                    | (3 )      | 1,194    |
| Loss on early extinguishment of debt                                 | (176 )                                   | (374 )    | 198      |
| Equity in income of unconsolidated entities                          | 193                                      | 44        | 149      |
| Income tax expense   | (101 )                                   | (24 )     | (77 )    |
| Income from continuing operations                                    | 13,727                                   | 10,974    | 2,753    |
| Discontinued operations  | 191                                      | (12,974 ) | 13,165   |
| Gain on sales of real estate   | 10,630                                   | —         | 10,630   |
| Net income (loss)  | \$24,548                                 | \$2,000 ) | \$26,548 |

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NOI from Real Estate Operations

|   | For the Three Months Ended September 30,            |            |             |
|---|---|------------|-------------|
|   | 2014  | 2013       | Variance    |
|   | (Dollars in thousands, except per square foot data) |            |             |
| Revenues  |   |            |             |
| Same Office Properties                                  | \$ 105,409  | \$ 104,219 | \$ 1,190    |
| Constructed office properties placed in service         | 7,510   | 2,677      | 4,833       |
| Properties to be conveyed                               | 2,000   | 5,094      | (3,094 )    |
| Dispositions  | 216   | 10,425     | (10,209 )   |
| Other   | 3,105   | 2,146      | 959         |
|   | 118,240   | 124,561    | (6,321 )    |
| Property operating expenses                             |   |            |             |
| Same Office Properties                                  | 37,518  | 36,199     | 1,319       |
| Constructed office properties placed in service         | 1,877   | 736        | 1,141       |
| Properties to be conveyed                               | 1,268   | 1,795      | (527 )      |
| Dispositions  | (65 )   | 4,002      | (4,067 )    |
| Other   | 2,283   | 2,153      | 130         |
|   | 42,881  | 44,885     | (2,004 )    |
| NOI from real estate operations                         |   |            |             |
| Same Office Properties                                  | 67,891  | 68,020     | (129 )      |
| Constructed office properties placed in service         | 5,633   | 1,941      | 3,692       |
| Properties to be conveyed                               | 732   | 3,299      | (2,567 )    |
| Dispositions  | 281   | 6,423      | (6,142 )    |
| Other   | 822   | (7 )       | 829         |
|   | \$ 75,359   | \$ 79,676  | \$ (4,317 ) |
| Same Office Properties rent statistics                  |   |            |             |
| Average occupancy rate                                  | 91.6  | % 90.8     | % 0.8       |
| Average straight-line rent per occupied square foot (1) | \$6.13  | \$6.21     | \$(0.08 )   |

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

Our Same Office Properties pool consisted of 161 office properties, comprising 89% of our operating office square footage as of September 30, 2014. The pool excluded operating office properties disposed or otherwise no longer held for long-term investment (currently two properties expected to be conveyed to lenders) by, or as of, September 30, 2014. This pool of properties included the following changes from the pool used for purposes of comparing 2013 and 2012 in our 2013 Annual Report on Form 10-K: the additions of three properties placed in service and 100% operational by January 1, 2013, one property acquired and fully operational by January 1, 2013 and two properties in the Greater Philadelphia region (this region was previously excluded from the pool as it was not considered held for long-term investment); and the removals of eight properties sold in 2014 and two properties newly classified as redevelopment.

NOI from Service Operations

|  | For the Three Months Ended September 30, |           |           |
|--|--|-----------|-----------|
|  | 2014                                     | 2013      | Variance  |
|  | (in thousands)                           |           |           |
| Construction contract and other service revenues | \$ 34,739                                | \$ 16,991 | \$ 17,748 |
| Construction contract and other service expenses | 33,593                                   | 16,306    | 17,287    |
| NOI from service operations                      | \$ 1,146                                 | \$ 685    | \$ 461    |

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



### Impairment Losses

We recognized impairment losses in the prior period (including amounts in discontinued operations) in connection with expected dispositions of properties and land.

### Interest Expense

The increase in interest expense in the current period included \$1.9 million in incremental additional interest expense in connection with the default rate on the debt to be extinguished via conveyance of properties.

### Discontinued Operations

Discontinued operations in the prior period was due primarily to impairment losses recognized in connection with the expected dispositions of properties and land no longer aligned with our strategy.

### Gain on sale of real estate

We recognized gain on sales of real estate in the current period of \$5.5 million in connection with the disposition of a non-operating property and \$5.1 million in connection with dispositions of operating properties in the Greater Baltimore region.

### Comparison of Statements of Operations

|  | For the Nine Months Ended September 30, |           |          |
|--|---|-----------|----------|
|  | 2014                                    | 2013      | Variance |
|  | (in thousands)                          |           |          |
| Revenues   |   |           |          |
| Revenues from real estate operations                                 | \$359,112                               | \$342,510 | \$16,602 |
| Construction contract and other service revenues                     | 80,390                                  | 52,048    | 28,342   |
| Total revenues   | 439,502                                 | 394,558   | 44,944   |
| Expenses   |   |           |          |
| Property operating expenses  | 136,600                                 | 123,082   | 13,518   |
| Depreciation and amortization associated with real estate operations | 104,728                                 | 82,888    | 21,840   |
| Construction contract and other service expenses                     | 75,353                                  | 49,165    | 26,188   |
| Impairment losses  | 1,368                                   | 5,857     | (4,489)  |
| General, administrative and leasing expenses                         | 22,882                                  | 22,430    | 452      |
| Business development expenses and land carry costs                   | 4,107                                   | 4,069     | 38       |
| Total operating expenses   | 345,038                                 | 287,491   | 57,547   |
| Operating income   | 94,464                                  | 107,067   | (12,603) |
| Interest expense   | (69,107)                                | (60,734)  | (8,373)  |
| Interest and other income  | 3,775                                   | 2,949     | 826      |
| Loss on early extinguishment of debt                                 | (446)                                   | (27,028)  | 26,582   |
| Equity in income of unconsolidated entities                          | 206                                     | 211       | (5)      |
| Income tax expense   | (257)                                   | (61)      | (196)    |
| Income from continuing operations                                    | 28,635                                  | 22,404    | 6,231    |
| Discontinued operations  | 4                                       | (16,215)  | 16,219   |
| Gain on sales of real estate   | 10,630                                  | 2,683     | 7,947    |
| Net income   | \$39,269                                | \$8,872   | \$30,397 |



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NOI from Real Estate Operations

|   | For the Nine Months Ended September 30,             |           |             |
|---|---|-----------|-------------|
|   | 2014  | 2013      | Variance    |
|   | (Dollars in thousands, except per square foot data) |           |             |
| Revenues  |   |           |             |
| Same Office Properties                                  | \$319,541   | \$311,277 | \$8,264     |
| Constructed office properties placed in service         | 19,762  | 6,062     | 13,700      |
| Properties to be conveyed                               | 9,253   | 15,532    | (6,279 )    |
| Dispositions  | 1,698   | 31,505    | (29,807 )   |
| Other   | 8,846   | 7,537     | 1,309       |
|   | 359,100   | 371,913   | (12,813 )   |
| Property operating expenses                             |   |           |             |
| Same Office Properties                                  | 118,933   | 108,988   | 9,945       |
| Constructed office properties placed in service         | 5,385   | 1,624     | 3,761       |
| Properties to be conveyed                               | 4,416   | 5,492     | (1,076 )    |
| Dispositions  | 885   | 11,924    | (11,039 )   |
| Other   | 6,870   | 5,577     | 1,293       |
|   | 136,489   | 133,605   | 2,884       |
| NOI from real estate operations                         |   |           |             |
| Same Office Properties                                  | 200,608   | 202,289   | (1,681 )    |
| Constructed office properties placed in service         | 14,377  | 4,438     | 9,939       |
| Properties to be conveyed                               | 4,837   | 10,040    | (5,203 )    |
| Dispositions  | 813   | 19,581    | (18,768 )   |
| Other   | 1,976   | 1,960     | 16          |
|   | \$222,611   | \$238,308 | \$(15,697 ) |
| Same Office Properties rent statistics                  |   |           |             |
| Average occupancy rate                                  | 91.1  | %90.3     | % 0.8       |
| Average straight-line rent per occupied square foot (1) | \$18.44   | \$18.49   | \$(0.05 )   |

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

The increase in revenues from our Same Office Properties was attributable primarily to a \$7.7 million, or 13.3%, increase in tenant recoveries and other real estate operations revenue. The increases in tenant recoveries and other real estate operations revenue and property operating expenses for these properties were primarily due to higher than normal snowfall and lower than normal temperatures in the Mid-Atlantic region in the current period.

Depreciation and Amortization Expense

The increase in depreciation and amortization expense was attributable primarily to our revision of the useful life of a property that was removed from service for redevelopment.

NOI from Service Operations

|  | For the Nine Months Ended September 30, |          |          |
|--|---|----------|----------|
|  | 2014                                    | 2013     | Variance |
|  | (in thousands)                          |          |          |
| Construction contract and other service revenues | \$80,390                                | \$52,048 | \$28,342 |
| Construction contract and other service expenses | 75,353                                  | 49,165   | 26,188   |
| NOI from service operations                      | \$5,037                                 | \$2,883  | \$2,154  |

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

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#### Impairment Losses

We recognized impairment losses in the current and prior periods (including amounts in discontinued operations) in connection with expected dispositions of properties and land.

#### Interest Expense

The increase in interest expense in the current period included \$3.8 million in incremental additional interest expense in connection with the default rate on the debt to be extinguished via conveyance of properties.

#### Loss on Early Extinguishment of Debt

The loss on early extinguishment of debt in the prior period was attributable primarily to a \$25.9 million loss recognized on our repayment of a \$239.4 million principal amount of our 4.25% Exchangeable Senior Notes.

#### Gain on sales of real estate

The gain on sales of real estate in the current period was attributable to the dispositions discussed above for the three-month period, and the prior period amount was attributable primarily to the condemnation of a land parcel in the Greater Baltimore region in connection with an interstate highway widening project.

#### Discontinued Operations

Discontinued operations in the prior period was due primarily to impairment losses recognized in connection with the expected dispositions of properties and land no longer aligned with our strategy.

#### Funds from Operations

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

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

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

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

Diluted FFO, as adjusted for comparability is defined as Diluted FFO adjusted to exclude operating property acquisition costs; gains on sales of, and impairment losses on, properties other than previously depreciated operating properties, net of associated income tax; gain or loss on early extinguishment of debt; FFO associated with properties securing non-recourse debt on which we have defaulted and which we have extinguished, or expect to extinguish, via conveyance of those properties (including property NOI, interest expense and gains on debt extinguishment); loss on interest rate derivatives; executive transition costs; and accounting charges for original issuance costs associated with redeemed preferred shares. We believe that the excluded items are not reflective of normal operations and, as a result, we believe that a measure that excludes these items is a useful supplemental measure in evaluating our operating performance. We believe that the numerator to diluted EPS is the most directly comparable GAAP measure to this non-GAAP measure. This measure has essentially the same limitations as Diluted FFO, as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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

Diluted FFO per share, as adjusted for comparability is (1) Diluted FFO, as adjusted for comparability divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that this measure is useful to investors because it provides investors with a further context for evaluating our FFO results. We believe that diluted EPS is the most directly comparable GAAP measure to this per share measure. This measure has most of the same limitations as Diluted FFO (described above) as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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

We use measures called payout ratios as supplemental measures of our ability to make distributions to investors based on each of the following: FFO; Diluted FFO; and Diluted FFO, adjusted for comparability. These measures are defined as (1) the sum of (a) dividends on common shares and (b) distributions to holders of interests in COPLP and dividends on convertible preferred shares when such distributions and dividends are included in Diluted FFO divided by either (2) FFO, Diluted FFO or Diluted FFO, adjusted for comparability.



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The table appearing below sets forth the computation of the above stated measures for the three and nine months ended September 30, 2014 and 2013 of COPT and subsidiaries, and provides reconciliations to the GAAP measures associated with such measures:

|  | For the Three<br>Months Ended<br>September 30,              |            | For the Nine Months<br>Ended September 30, |             |
|--|---|------------|--|-------------|
|  | 2014  | 2013       | 2014                                       | 2013        |
|  | (Dollars and shares in thousands,<br>except per share data) |            |  |             |
| Net income (loss)  | \$24,548  | \$(2,000 ) | \$39,269                                   | \$8,872     |
| Real estate-related depreciation and amortization  | 30,237  | 29,210     | 104,728                                    | 86,397      |
| Impairment (recoveries) losses on previously depreciated operating properties                      | (7 )  | 22,074     | 1,322                                      | 31,126      |
| Gain on sales of previously depreciated operating properties                                       | (5,123 )  | —          | (5,119 )                                   | —           |
| FFO  | 49,655  | 49,284     | 140,200                                    | 126,395     |
| Less: Noncontrolling interests-preferred units in COPLP  | (165 )  | (165 )     | (495 )                                     | (495 )      |
| Less: FFO allocable to other noncontrolling interests  | (830 )  | (833 )     | (2,349 )                                   | (2,830 )    |
| Less: Preferred share dividends  | (3,553 )  | (4,490 )   | (12,387 )                                  | (15,481 )   |
| Less: Issuance costs associated with redeemed preferred shares                                     | —   | —          | (1,769 )                                   | (2,904 )    |
| Basic and diluted FFO allocable to restricted shares   | (191 )  | (178 )     | (542 )                                     | (450 )      |
| Basic and Diluted FFO  | \$44,916  | \$43,618   | \$122,658                                  | \$104,235   |
| Gain on sales of non-operating properties  | (5,535 )  | —          | (5,535 )                                   | (2,683 )    |
| Impairment losses on other properties  | 49  | —          | 49   | —           |
| Loss on early extinguishment of debt   | 176   | 374        | 562  | 27,028      |
| Issuance costs associated with redeemed preferred shares   | —   | —          | 1,769                                      | 2,904       |
| FFO on properties in default to be conveyed (1)  | 3,806   | —          | 7,435                                      | —           |
| Diluted FFO comparability adjustments allocable to restricted shares                               | 7   | —          | (19 )                                      | —           |
| Diluted FFO, as adjusted for comparability   | \$43,419  | \$43,992   | \$126,919                                  | \$131,484   |
| Weighted average common shares   | 87,290  | 86,760     | 87,196                                     | 84,547      |
| Conversion of weighted average common units  | 3,876   | 3,804      | 3,915                                      | 3,832       |
| Weighted average common shares/units - Basic FFO   | 91,166  | 90,564     | 91,111                                     | 88,379      |
| Dilutive effect of share-based compensation awards   | 195   | 45         | 169  | 63          |
| Weighted average common shares/units - Diluted FFO   | 91,361  | 90,609     | 91,280                                     | 88,442      |
| Diluted FFO per share  | \$0.49  | \$0.48     | \$1.34                                     | \$1.18      |
| Diluted FFO per share, as adjusted for comparability   | \$0.48  | \$0.49     | \$1.39                                     | \$1.49      |
| Numerator for diluted EPS  | \$19,064  | \$(7,551 ) | \$20,863                                   | \$(12,011 ) |
| Income allocable to noncontrolling interests-common units in COPLP                                 | 768   | (232 )     | 942  | (474 )      |
| Real estate-related depreciation and amortization  | 30,237  | 29,210     | 104,728                                    | 86,397      |
| Impairment (recoveries) losses on previously depreciated operating properties                      | (7 )  | 22,074     | 1,322                                      | 31,126      |
| Numerator for diluted EPS allocable to restricted shares   | 103   | 97         | 332  | 317         |
| Depreciation and amortization allocable to noncontrolling interests in other consolidated entities | (180 )  | (238 )     | (540 )                                     | (747 )      |
| Increase in noncontrolling interests unrelated to earnings   | 245   | 436        | 672  | 77          |
| Basic and diluted FFO allocable to restricted shares   | (191 )  | (178 )     | (542 )                                     | (450 )      |
| Gain on sales of previously depreciated operating properties                                       | (5,123 )  | —          | (5,119 )                                   | —           |

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|  |          |          |           |           |
|--|----------|----------|-----------|-----------|
| Basic and Diluted FFO  | \$44,916 | \$43,618 | \$122,658 | \$104,235 |
| Gain on sales of non-operating properties                            | (5,535 ) | —        | (5,535 )  | (2,683 )  |
| Impairment losses on other properties                                | 49       | —        | 49        | —         |
| Loss on early extinguishment of debt                                 | 176      | 374      | 562       | 27,028    |
| Issuance costs associated with redeemed preferred shares             | —        | —        | 1,769     | 2,904     |
| FFO on properties in default to be conveyed (1)                      | 3,806    | —        | 7,435     | —         |
| Diluted FFO comparability adjustments allocable to restricted shares | 7        | —        | (19 )     | —         |
| Diluted FFO, as adjusted for comparability                           | \$43,419 | \$43,992 | \$126,919 | \$131,484 |
| Denominator for diluted EPS  | 87,485   | 86,760   | 87,365    | 84,547    |
| Weighted average common units  | 3,876    | 3,804    | 3,915     | 3,832     |
| Anti-dilutive EPS effect of share-based compensation awards          | —        | 45       | —         | 63        |
| Denominator for diluted FFO per share measures                       | 91,361   | 90,609   | 91,280    | 88,442    |

(1) Interest expense exceeded NOI from these properties by the amounts in the statement.

## Property Additions

The table below sets forth the major components of our additions to properties for the nine months ended September 30, 2014 (in thousands):

|  |           |     |
|--|-----------|-----|
| Construction, development and redevelopment  | \$152,960 |     |
| Tenant improvements on operating properties  | 19,214    | (1) |
| Capital improvements on operating properties | 17,637    |     |
|  | \$189,811 |     |

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

## Cash Flows

Net cash flow provided by operating activities increased \$37.2 million when comparing the nine months ended September 30, 2014 and 2013 due primarily to \$35.1 million in previously accreted interest and early extinguishment of debt costs paid in 2013 mostly in connection with the repayment of our 4.25% Exchangeable Senior Notes.

Net cash flow used in investing activities decreased \$49.8 million when comparing the nine months ended September 30, 2014 and 2013 due primarily to higher proceeds from sales of properties.

Net cash flow used in financing activities in the nine months ended September 30, 2014 was \$21.6 million, and included the following:

- net proceeds from debt borrowings of \$120.2 million; offset by
- dividends and/or distributions to equity holders of \$89.2 million; and
- redemptions of preferred shares (or units) of \$50.0 million.

Net cash flow provided by financing activities in the nine months ended September 30, 2013 was \$96.6 million, and included the following:

- net proceeds from the issuance of common shares (or units) of \$157.3 million; and
- net proceeds from debt borrowings of \$116.5 million; offset in part by
- dividends and/or distributions to equity holders of \$90.0 million; and
- redemptions of preferred shares (or units) of \$84.8 million.

## Liquidity and Capital Resources of COPT

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

As of September 30, 2014, COPT owned 95.8% of the outstanding common units and 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties, which included certain members of COPT's Board of Trustees. As the sole general partner of COPLP, COPT has the full, exclusive and complete responsibility for COPLP's day-to-day management and control.

The liquidity of COPT is dependent on COPLP's ability to make sufficient distributions to COPT. The primary cash requirement of COPT is its payment of dividends to its shareholders. COPT also guarantees some of the Operating Partnership's debt, as discussed further in Note 8 of the notes to consolidated financial statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger COPT's guarantee obligations, then COPT will be required to fulfill its cash payment commitments under such guarantees. However, COPT's only significant asset is its investment in COPLP.

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

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

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

#### Liquidity and Capital Resources of COPLP

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions. We expect to continue to use cash flow provided by operations as the primary source to meet our short-term capital needs, including property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, distributions to our security holders and improvements to existing properties. As of September 30, 2014, we had \$40.0 million in cash and cash equivalents. We believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements without necessitating property sales. We expect to complete future dispositions opportunistically, depending on the circumstances pertaining to properties, or groups of properties, or when capital markets otherwise warrant.

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

We use our Revolving Credit Facility to initially finance much of our investing activities. We subsequently pay down the facility using proceeds from long-term borrowings, equity issuances and property sales. The lenders' aggregate commitment under the facility is \$800.0 million, with the ability for us to increase the lenders' aggregate commitment to \$1.3 billion, provided that there is no default under the facility and subject to the approval of the lenders. Amounts available under the facility are computed based on 60% of our unencumbered asset value, as defined in the loan agreement. The Revolving Credit Facility matures in July 2017, and may be extended by one year at our option, provided that there is no default under the facility and we pay an extension fee of 0.15% of the total availability of the facility. As of September 30, 2014, the maximum borrowing capacity under this facility totaled \$800.0 million, of which \$785.2 million was available.

The following table summarizes our contractual obligations as of September 30, 2014 (in thousands):

|   | For the Periods Ending December 31, |            |            |            |           |              | Total        |
|---|-------------------------------------|------------|------------|------------|-----------|--------------|--------------|
|   | 2014                                | 2015       | 2016       | 2017       | 2018      | Thereafter   |              |
| Contractual obligations (1)                                 |                                     |            |            |            |           |              |              |
| Debt (2)  |                                     |            |            |            |           |              |              |
| Balloon payments due upon maturity                          | \$ 150,000                          | \$ 289,751 | \$ 274,605 | \$ 254,110 | \$—       | \$ 1,063,561 | \$ 2,032,027 |
| Scheduled principal payments                                | 1,654                               | 6,794      | 5,337      | 2,137      | 2,036     | 10,021       | 27,979       |
| Interest on debt (3)  | 22,826                              | 72,338     | 55,573     | 42,683     | 41,874    | 160,919      | 396,213      |
| New construction and redevelopment obligations (4)(5)       | 46,529                              | 36,752     | —          | —          | —         | —            | 83,281       |
| Third-party construction and development obligations (5)(6) | 16,358                              | 26,017     | —          | —          | —         | —            | 42,375       |
| Capital expenditures for operating properties (5)(7)        | 39,966                              | 8,072      | —          | —          | —         | —            | 48,038       |
| Operating leases (8)  | 231                                 | 882        | 824        | 752        | 726       | 77,397       | 80,812       |
| Other purchase obligations                                  | 2,223                               | 758        | 683        | 298        | 10        | —            | 3,972        |
| Total contractual cash obligations                          | \$ 279,787                          | \$ 441,364 | \$ 337,022 | \$ 299,980 | \$ 44,646 | \$ 1,311,898 | \$ 2,714,697 |

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

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes a net discount of \$10.0 million. In April 2014, a wholly owned subsidiary of ours defaulted on the payment terms of a \$150.0 million nonrecourse mortgage loan secured by two operating properties in Northern Virginia that is included in the maturities for 2014; we expect that we will convey the properties to the lender to extinguish the loan.

(3) Represents interest costs for our outstanding debt as of September 30, 2014 for the terms of such debt. For variable rate debt, the amounts reflected above used September 30, 2014 interest rates on variable rate debt in computing interest costs for the terms of such debt.

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

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

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

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

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

We expect to spend more than \$80 million on construction and development costs and approximately \$10 million on improvements to operating properties (including the commitments set forth in the table above) during the remainder of 2014. We expect to fund the construction and development costs using cash on hand and borrowings under our Revolving Credit Facility. We expect to fund improvements to existing operating properties using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of September 30, 2014, we were in compliance with these financial covenants.



## Off-Balance Sheet Arrangements

We had no significant changes in our off-balance sheet arrangements from those described in the section entitled “Off-Balance Sheet Arrangements” in our 2013 Annual Report on Form 10-K.

## Inflation

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

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The following table sets forth as of September 30, 2014 our debt obligations and weighted average interest rates for fixed rate debt by expected maturity date (dollars in thousands):

|                                | For the Periods Ending December 31, |            |            |            |          |            | Total        |
|--------------------------------|-------------------------------------|------------|------------|------------|----------|------------|--------------|
|                                | 2014                                | 2015       | 2016       | 2017       | 2018     | Thereafter |              |
| Debt:                          |                                     |            |            |            |          |            |              |
| Fixed rate debt (1)            | \$ 151,444                          | \$ 109,668 | \$ 279,942 | \$ 6,247   | \$ 2,036 | \$ 953,582 | \$ 1,502,919 |
| Weighted average interest rate | 10.61                               | % 5.57     | % 6.56     | % 5.18     | % 4.61   | % 4.10     | % 5.33       |
| Variable rate debt (2)         | \$ 210                              | \$ 186,877 | \$ —       | \$ 250,000 | \$ —     | \$ 120,000 | \$ 557,087   |

(1) Represents principal maturities only and therefore excludes net discounts of \$10.0 million. As of September 30, 2014, maturities include \$150.0 million in 2014 pertaining to a nonrecourse mortgage loan secured by two operating properties in Northern Virginia for which we expect to convey the properties to the lender to extinguish the loan.

(2) As of September 30, 2014, maturities include \$150.0 million in 2015 that may be extended for two one-year periods and \$250.0 million in 2017 that may be extended for one year, subject to certain conditions.

The fair value of our debt was \$2.0 billion as of September 30, 2014. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$91.0 million as of September 30, 2014.



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The following table sets forth information pertaining to interest rate swap contracts in place as of September 30, 2014 and December 31, 2013 and their respective fair values (dollars in thousands):

| Notional Amount | Fixed Rate  | Floating Rate Index     | Effective Date | Expiration Date | Fair Value at      |                   |
|-----------------|-------------|-------------------------|----------------|-----------------|--------------------|-------------------|
|                 |             |                         |                |                 | September 30, 2014 | December 31, 2013 |
| \$ 100,000      | 0.8320%     | One-Month LIBOR         | 1/3/2012       | 9/1/2015        | \$(556)            | \$(861)           |
| 100,000         | 0.8320%     | One-Month LIBOR         | 1/3/2012       | 9/1/2015        | (556)              | (861)             |
| 37,087          | (1) 3.8300% | One-Month LIBOR + 2.25% | 11/2/2010      | 11/2/2015       | (515)              | (832)             |
| 100,000         | 0.8055%     | One-Month LIBOR         | 9/2/2014       | 9/1/2016        | (300)              | (94)              |
| 100,000         | 0.8100%     | One-Month LIBOR         | 9/2/2014       | 9/1/2016        | (309)              | (105)             |
| 100,000         | 1.6730%     | One-Month LIBOR         | 9/1/2015       | 8/1/2019        | 1,551              | 3,377             |
| 100,000         | 1.7300%     | One-Month LIBOR         | 9/1/2015       | 8/1/2019        | 1,356              | 3,217             |
| 100,000         | 0.6123%     | One-Month LIBOR         | 1/3/2012       | 9/1/2014        | —                  | (279)             |
| 100,000         | 0.6100%     | One-Month LIBOR         | 1/3/2012       | 9/1/2014        | —                  | (277)             |
|                 |             |                         |                |                 | \$671              | \$3,285           |

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

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by \$1.5 million in the nine months ended September 30, 2014 if the one-month LIBOR rate was 1% higher.

Item 4. Controls and Procedures

COPT

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2014 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

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

COPLP

(a) Evaluation of Disclosure Controls and Procedures

The Operating Partnership's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 15d-15(e) under the Exchange Act) as of September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial

Officer concluded that the Operating Partnership's disclosure controls and procedures as of September 30, 2014 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Operating Partnership in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Operating Partnership's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

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

## PART II

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There have been no material changes to the risk factors included in our 2013 Annual Report on Form 10-K.

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

(a) During the three months ended September 30, 2014, 38,651 of COPLP's common units were exchanged for 38,651 COPT common shares in accordance with COPLP's Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

(b) Not applicable

(c) Not applicable

### Item 3. Defaults Upon Senior Securities

(a) Not applicable

(b) Not applicable

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

### Item 6. Exhibits

(a) Exhibits:

| EXHIBIT<br>NO. | DESCRIPTION |
|----------------|-------------|
|----------------|-------------|

3.1

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Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland on September 22, 2014 (filed with the Company's Current Report on Form 8-K dated September 24, 2014 and incorporated herein by reference).

10.1 Letter Agreement, dated August 28, 2014, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Wayne H. Lingafelter (filed with the Company's Current Report on Form 8-K dated September 3, 2014 and incorporated herein by reference).

10.2 Letter Agreement, dated September 26, 2014, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Stephen E. Budorick (filed with the Company's Current Report on Form 8-K dated October 1, 2014 and incorporated herein by reference).

12.1 COPT's Statement regarding Computation of Earnings to Combined Fixed Charges and Preferred Share Dividends (filed herewith).

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- 12.2 COPLP's Statement regarding Computation of Consolidated Ratio of Earnings to Fixed Charges (filed herewith).
- 31.1 Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.3 Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.4 Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
- 32.1 Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
- 32.2 Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
- 32.3 Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
- 32.4 Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
- 101.INS XBRL Instance Document (furnished herewith).
- 101.SCH XBRL Taxonomy Extension Schema Document (furnished herewith).
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith).

- 101.LAB XBRL Extension Labels Linkbase (furnished herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith).

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SIGNATURES

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

CORPORATE OFFICE PROPERTIES TRUST

CORPORATE OFFICE PROPERTIES, L.P.

By: Corporate Office Properties Trust,  
its General Partner

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

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

/s/ Stephen E. Riffie  
Stephen E. Riffie  
Executive Vice President and Chief Financial  
Officer

/s/ Stephen E. Riffie  
Stephen E. Riffie  
Executive Vice President and Chief Financial  
Officer

Dated: October 28, 2014

Dated: October 28, 2014