

CORPORATE OFFICE PROPERTIES TRUST

Form 10-K

February 18, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended

December 31, 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
incorporation or organization)

(IRS Employer
Identification No.)

Corporate Office Properties, L.P.

Delaware

23-2930022

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD 21046

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)

Common Shares of beneficial interest, \$0.01 par value

Series L Cumulative Redeemable Preferred Shares of beneficial interest,

\$0.01 par value

(Name of Exchange on Which Registered)

New York Stock Exchange

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Corporate Office Properties Trust ☒ Yes ☐ No

Corporate Office Properties, L.P. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Corporate Office Properties Trust ☐ Yes ☒ No

Corporate Office Properties, L.P. ☐ Yes ☒ No

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

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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 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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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 (Check one):

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

The aggregate market value of the voting and nonvoting shares of common stock held by non-affiliates of Corporate Office Properties Trust was approximately \$1.6 billion, as calculated using the closing price of such shares on the New York Stock Exchange and the number of outstanding shares as of June 30, 2014. For purposes of calculating this amount only, affiliates are defined as Trustees, executive owners and beneficial owners of more than 10% of Corporate Office Properties Trust’s outstanding common shares, \$0.01 par value. At January 30, 2015, 93,414,408 of Corporate Office Properties Trust’s common shares were outstanding.

The aggregate market value of the voting and nonvoting common units of limited partnership interest held by non-affiliates of Corporate Office Properties, L.P. was approximately \$99.5 million, as calculated using the closing price of the common shares of Corporate Office Properties Trust (into which common units not held by Corporate Office Properties Trust are exchangeable) on the New York Stock Exchange and the number of outstanding units as of June 30, 2014.

Portions of the proxy statement of Corporate Office Properties Trust for its 2014 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 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 December 31, 2014, COPT owned approximately 96.0% 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 a trustee 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-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. COPT is a real estate investment trust, whose only material asset is its ownership of partnership interests of COPLP. As a result, COPT does not conduct business itself, other than acting as the sole general partner of COPLP, issuing

public equity from time to time and guaranteeing certain debt of COPLP. COPT itself is not directly obligated under any indebtedness but guarantees some of the debt of COPLP. COPLP owns substantially all of the assets of COPT either directly or through its subsidiaries, conducts almost all of the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by COPT, which are contributed to COPLP in exchange for partnership units, COPLP generates the capital required by COPT's business through COPLP's operations, by COPLP's direct or indirect incurrence of indebtedness or through the issuance of partnership units.

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

We believe combining the annual reports on Form 10-K 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;

• Note 14, Equity of COPT and subsidiaries;

• Note 15, Equity of COPLP and subsidiaries;

• Note 21, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries; and

• Note 22, Quarterly Data of COPT and subsidiaries and COPLP and subsidiaries.

• “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT”; and

• “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of the Operating Partnership.”

This report also includes separate sections under Part II, Item 9A. 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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FORWARD-LOOKING STATEMENTS

This Form 10-K contains “forward-looking” statements, within the meaning of federal securities law, 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. Additionally, documents we subsequently file with the SEC and incorporated by reference will contain forward-looking statements.

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. We caution readers that forward-looking statements reflect our opinion only as of the date on which they were made. You should not place undue reliance on forward-looking statements. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- 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 publicly update or supplement forward-looking statements, whether as a result of new information, future events or otherwise. For further information on these and other factors that could affect us and the statements contained herein, you should refer to the section below entitled “Item 1A. Risk Factors.”

PART I

Item 1. Business

OUR COMPANY

General. Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) is a fully-integrated and self-managed real estate investment trust (“REIT”). Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”) is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, “we”, “us” and “our” as used herein refer to each of the Company and the Operating Partnership. We focus primarily on serving the specialized requirements of United States Government agencies and their contractors, most of whom are engaged in national security and information technology related activities. We generally acquire, develop, manage and lease office and data center properties concentrated in large office parks located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of December 31, 2014, our properties included the following:

- 173 operating office properties totaling 16.8 million square feet that were 91% occupied (excluding two properties serving as collateral for a nonrecourse mortgage loan in default, as discussed further below in the section entitled “Significant Developments”);

- 13 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.6 million square feet upon completion;

- 1,464 acres of land we control that we believe are potentially developable into approximately 18.3 million square feet; and

- a partially operational, wholesale data center which upon completion and stabilization is expected to have a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of December 31, 2014, COPT owned 96.0% of the outstanding COPLP common units (“common units”) and 95.5% of the outstanding COPLP preferred units (“preferred units”); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

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

We believe that COPT is organized and has operated in a manner that satisfies the requirements for taxation as a REIT under the Internal Revenue Code of 1986, as amended, and we intend to continue to operate COPT in such a manner. If COPT continues to qualify for taxation as a REIT, it generally will not be subject to Federal income tax on its taxable income (other than that of its TRS) that is distributed to its shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute to its shareholders at least 90%

of its annual taxable income.

Our executive offices are located at 6711 Columbia Gateway Drive, Suite 300, Columbia, Maryland 21046 and our telephone number is (443) 285-5400.

Our Internet address is www.copt.com. We make available on our Internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably possible after we file such material with the Securities and Exchange Commission (the "SEC"). In addition, we have made available on our Internet website under the heading "Corporate Governance" the charters for our Board of Trustees' Audit, Nominating and Corporate Governance, Compensation and Investment Committees, as well as our Corporate

Governance Guidelines, Code of Business Conduct and Ethics and Code of Ethics for Financial Officers. We intend to make available on our website any future amendments or waivers to our Code of Business Conduct and Ethics and Code of Ethics for Financial Officers within four business days after any such amendments or waivers. The information on our Internet site is not part of this report.

The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. This Internet website can be accessed at www.sec.gov. The public may also read and copy paper filings that we have made with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

Significant Developments

In 2014:

we placed into service an aggregate of 692,000 square feet in five newly constructed properties that were 94.6% leased as of December 31, 2014;

we finished the period with occupancy of our portfolio of operating office properties at 90.9%;

COPLP issued a \$300.0 million aggregate principal amount of 3.700% Senior Notes, which are unsecured and guaranteed by COPT, 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 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 their 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 of the securities;

COPT completed a public offering of 5.52 million common shares in November at a price of \$27.30 per share for net proceeds of \$148.9 million, after underwriter discounts but before offering expenses, that were contributed to COPLP in exchange for 5.52 million common units. The net proceeds were used primarily to fund our defeasance of, and full satisfaction of our obligations with respect to, the secured nonrecourse mortgage loans discussed below, as well as costs related to the defeasance and satisfaction;

we completed in December the defeasance of, and full satisfaction of our obligations with respect to, (1) \$103.0 million principal amount of secured nonrecourse mortgage loan due to mature on November 6, 2015 and bearing an interest rate of 5.53% and (2) \$108.5 million principal amount of secured nonrecourse mortgage loan due to mature on January 1, 2016 and bearing an interest rate of 5.56%, as well as costs related to the defeasance and satisfaction. As a result, we recognized a loss on extinguishment of debt of \$9.1 million;

a wholly owned subsidiary defaulted in April 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 had an interest rate of 10.65% (including the effect of default interest) and was originally scheduled to mature in 2017. In connection with the loan's default proceedings, we expect to transfer title to the properties and be relieved of the debt obligation plus accrued interest in early 2015; and

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.

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Effective February 3, 2015, Stephen E. Riffie, our Executive Vice President and Chief Financial Officer (“CFO”), left the Company to pursue other interests. Our Board of Trustees appointed Anthony Mifsud as Executive Vice President and CFO effective upon Mr. Riffie’s departure.

Business and Growth Strategies

Our primary objectives are to achieve sustainable growth in results of operations and to maximize shareholder value. This section sets forth key components of our business and growth strategies that we have in place to support these objectives.

Customer Strategy: We focus on serving the specialized requirements of United States Government agencies and their contractors, most of whom are engaged in national security and information technology related activities. These tenants' missions generally pertain more to knowledge-based activities (such as cyber security, research and development and other highly technical defense and security areas) than to force structure (troops) and weapon system production. A high percentage of our revenue is concentrated in office and data center properties supporting this strategy, and we expect to maintain a high concentration through our:

- properties' (existing buildings and developable land we control) proximity to defense installations and other knowledge-based government demand drivers, and our willingness to expand to new locations with similar proximities;

- extensive experience in developing secured, specialized space, with the ability to satisfy the United States Government's unique needs, including Sensitive Compartmented Information Facility ("SCIF") and Anti-Terrorism Force Protection ("ATFP") requirements;

- depth of knowledge, specialized skills and credentialed personnel in operating highly specialized space with security-oriented needs;

- strong relationships with our tenants; and

- track record of providing service that exceeds customer expectations both in terms of the quality of the space we provide and our level of responsiveness to their needs. We believe that operating with such an emphasis on service enables us to be a landlord of choice with high quality customers and contributes to high levels of customer loyalty and retention.

Market Strategy: In order to support our customer strategy, we focus on owning properties located near defense installations and other knowledge-based government demand drivers. We also focus on owning properties in targeted markets or submarkets in the Greater Washington, DC/Baltimore region with strong supply and demand fundamentals and proximity to growth attributes including, among others: (1) strong demand drivers; (2) diverse and growing economies marked by strong demographics and consistent job growth; (3) major transportation routes and public transportation; (4) a wide range of amenities and support services; (5) housing aligned with demographics of the workforce and decision makers; and/or (6) future acquisition and development opportunities, including infill locations.

Asset Management Strategy: We aggressively manage our portfolio to maximize the operating value and performance of each property through: (1) proactive property management and leasing; (2) achievement of operating efficiencies by increasing economies of scale and, where possible, aggregating vendor contracts to achieve volume pricing discounts; (3) renewing tenant leases and re-tenanting at increased rents where market conditions permit; and (4) redevelopment when we believe property conditions and market demand warrant. We may also seek to dispose of properties when they no longer meet our strategic objectives, or when capital markets and the circumstances pertaining to such holdings otherwise warrant, in order to maximize our return on invested capital and be better positioned for long-term growth.

We also aim to develop and operate our properties in a manner that minimizes adverse impact on the environment by: (1) constructing new buildings designed to use resources with a high level of efficiency and low impact on human health and the environment during their life cycles through our participation in the U.S. Green Building Council's Leadership in Energy and Environmental Design ("LEED") program; (2) investing in energy systems and other equipment that reduce energy consumption and property operating costs; and (3) adopting select LEED Existing Building ("EB") prerequisites for much of our portfolio, including guidelines pertaining to cleaning and recycling practices and energy reduction.

Property Development and Acquisition Strategy: We pursue property development and acquisition opportunities for properties that fit our customer and market strategies. As a result, the focus of our development and acquisition activities includes properties that are either: (1) located near defense installations and other knowledge-based

government demand drivers; or (2) located in markets or submarkets in the Greater Washington, DC/Baltimore region that we believe meet the criteria set forth above in our market strategy. We may also develop or acquire properties that do not align with our customer or market strategies but which we believe provide opportunities for favorable returns on investment given the associated risks.

We pursue development activities as market conditions and leasing opportunities support favorable risk-adjusted returns on investment. We typically seek to make acquisitions at attractive yields and below replacement cost, or that otherwise meet our strategic objectives. We also seek to increase operating cash flow of certain acquisitions by repositioning the properties and capitalizing on existing below market leases and expansion opportunities.

Capital Strategy: Our capital strategy is aimed at maintaining access to capital in the face of differing market conditions in the most cost-effective manner by:

- maintaining 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;

• using secured nonrecourse debt from institutional lenders and banks, when appropriate;
• managing our debt by monitoring, among other things: (1) our total and secured debt levels relative to our overall capital structure; (2) the relationship of certain measures of earnings to our debt level and to certain capital costs; (3) the timing of debt maturities to ensure that maturities in any year do not exceed levels that we believe we can refinance; and (4) the relationship of our variable-rate debt to our total debt;
• using equity raised through issuances of common and preferred shares, issuances of common and preferred units in COPLP and, to a lesser extent, joint venture structures for certain investments;
• paying dividends at a level that at least enables us to maintain our REIT status;
• recycling proceeds from property sales under our asset management strategy (discussed above) to fund our investment activities and to reduce overall debt; and
• continuously evaluating the ability of our capital resources to accommodate our plans for future growth.

Industry Segments

We operate in two primary industries: commercial office properties and our wholesale data center. We classify our properties containing data center space as commercial office real estate when tenants significantly fund the data center infrastructure costs. As of December 31, 2014, our commercial office real estate operations were primarily located in the following geographical segments:

• Baltimore/Washington Corridor (primarily defined as the Maryland counties of Howard, Anne Arundel and Prince George's);
• Northern Virginia (defined as the Virginia counties of Fairfax and Loudoun);
• San Antonio, Texas;
• Huntsville, Alabama;
• Washington, DC - Capital Riverfront;
• St. Mary's & King George Counties (in Maryland and Virginia, respectively);
• Greater Baltimore, Maryland (generally defined as the Maryland counties of Baltimore and Harford and Baltimore City); and
• Greater Philadelphia, Pennsylvania (in Blue Bell, Pennsylvania).

As of December 31, 2014, 155 of our office properties, or 86% of our square feet in operations, were located in the Greater Washington, DC/Baltimore region, which includes all the segments set forth above except for San Antonio, Huntsville and Greater Philadelphia. Our wholesale data center, which is comprised of one property in Manassas, Virginia, is reported as a separate segment.

For information relating to our segments, you should refer to Note 18 to our consolidated financial statements, which is included in a separate section at the end of this Annual Report on Form 10-K beginning on page F-1.

All of our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Annual Report on Form 10-K exclude the effect of the two properties serving as collateral for nonrecourse mortgage debt that was in default due to the expected debt extinguishment via conveyance of such properties (totaling 665,000 square feet that were 36.1% occupied as of December 31, 2014); effective April 1, 2014, all cash flows from such properties belong to the lender.

Employees

As of December 31, 2014, we had 378 employees, none of whom were parties to collective bargaining agreements. We believe that our relations with our employees are good.

Competition

The commercial real estate market is highly competitive. Numerous commercial properties compete with us for tenants. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties' owners may be willing to accept lower rents than are acceptable to us. We also compete with our own tenants, many of whom have the right to sublease their space. The competitive environment for leasing is affected considerably by a number of factors including, among other things, changes in economic conditions and supply of and

demand for space. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.

We compete for the acquisition of commercial properties with many entities, including other publicly-traded commercial REITs. Competitors for such acquisitions may have substantially greater financial resources than ours. In addition, our competitors may be willing to accept lower returns on their investments or may be willing to incur higher leverage. If our competitors prevent us from buying properties that we have targeted for acquisition, we may not be able to meet our property acquisition goals.

We also compete with many entities, including other publicly-traded commercial REITs, for capital. This competition could adversely affect our ability to raise capital we may need to fulfill our capital strategy.

Item 1A. Risk Factors

Set forth below are risks and uncertainties relating to our business and the ownership of our securities. You should carefully consider each of these risks and uncertainties and all of the information in this Annual Report on Form 10-K and its Exhibits, including our consolidated financial statements and notes thereto for the year ended December 31, 2014, which are included in a separate section at the end of this report beginning on page F-1.

Our performance and value are subject to risks associated with our properties and with the real estate industry. Real estate investments are subject to various risks and fluctuations in value and demand, many of which are beyond our control. Our economic performance and the value of our real estate assets may decline due to conditions in the general economy and the real estate business which, in turn, could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders. These conditions include, but are not limited to:

- downturns in national, regional and local economic environments, including increases in the unemployment rate and inflation or deflation;
- competition from other properties;
- deteriorating local real estate market conditions, such as oversupply, reduction in demand and decreasing rental rates;
- declining real estate valuations;
- increasing vacancies and the need to periodically repair, renovate and re-lease space;
- adverse developments concerning our tenants, which could affect our ability to collect rents and execute lease renewals;
- government actions and initiatives, including risks associated with the impact of prolonged government shutdowns and budgetary reductions or impasses, such as a reduction of rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- increasing operating costs, including insurance expenses, utilities, real estate taxes and other expenses, much of which we may not be able to pass through to tenants;
- increasing interest rates and unavailability of financing on acceptable terms or at all;
- trends in office real estate that may adversely affect future demand, including telecommuting and flexible workplaces that increase the population density per square foot;
- adverse changes in taxation or zoning laws;
- potential inability to secure adequate insurance;
- adverse consequences resulting from civil disturbances, natural disasters, terrorist acts or acts of war; and
- potential liability under environmental or other laws or regulations.

We may suffer adverse consequences as a result of adverse economic conditions. Our business may be affected by adverse economic conditions in the United States economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the impact of high unemployment and constrained credit. Adverse economic conditions could increase the likelihood of tenants encountering financial difficulties, including bankruptcy, insolvency or general downturn of business, and as a result could increase the likelihood of tenants defaulting on their lease obligations to us. Such conditions also could increase the likelihood of

our being unsuccessful in renewing tenants, renewing tenants on terms less favorable to us or being unable to lease newly constructed properties. In addition, such conditions could increase the level of risk that we may not be able to obtain new financing for development activities, acquisitions, refinancing of existing debt or other capital requirements at reasonable terms, if at all. As a result, adverse economic conditions could collectively have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may suffer adverse consequences as a result of our reliance on rental revenues for our income. We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.

For new tenants or upon lease expiration for existing tenants, we generally must make improvements and pay other leasing costs for which we may not receive increased rents. We also make building-related capital improvements for which tenants may not reimburse us.

If our properties do not generate revenue sufficient to meet our operating expenses and capital costs, we may have to borrow additional amounts to cover these costs. In such circumstances, we would likely have lower profits or possibly incur losses. We may also find in such circumstances that we are unable to borrow to cover such costs, in which case our operations could be adversely affected. Moreover, there may be less or no cash available for distributions to our equityholders.

In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes due to economic factors such as supply and demand. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meet our short-term capital needs.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so. Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. If one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, government shutdown, or general downturn of business, there could be an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be adversely affected by developments concerning some of our major tenants and sector concentrations, including prolonged shutdowns of the United States Government and actual, or potential, reductions in government spending targeting United States Government agencies and defense contractors engaged in knowledge-based activities. As of December 31, 2014, our 20 largest tenants accounted for 65.3% of the total annualized rental revenue of our office properties, and the five largest of these tenants accounted for 46.0%. We calculated the annualized rental revenue by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases in our portfolio of office properties as of December 31, 2014. Information regarding our five largest tenants is set forth below:

Tenant	Annualized Rental Revenue as of December 31, 2014 (in thousands)	Percentage of Total Annualized Rental Revenue of Office Properties	Number of Leases
United States of America	\$123,117	27.6%	58
Booz Allen Hamilton, Inc.	23,927	5.4%	7
Northrop Grumman Corporation (1)	22,397	5.0%	9
General Dynamics Corporation (1)	18,736	4.2%	7
The Boeing Company (1)	17,171	3.8%	11

(1) Includes affiliated organizations and agencies and predecessor companies.

Most of our leases with the United States Government provide for a series of one-year terms or provide for early termination rights. The United States Government may terminate its leases if, among other reasons, the United States Congress fails to provide funding. If any of our four largest tenants fail to make rental payments to us, including as a result of a prolonged government shutdown, or if the United States Government elects to terminate some or all of its leases and the space cannot be re-leased on satisfactory terms, there would be an adverse effect on our financial performance and ability to make distributions to our equityholders.

As of December 31, 2014, 76.6% of the total annualized rental revenue of our office properties was from properties located near defense installations and other knowledge-based government demand drivers, or that were otherwise at least 50% occupied by United States Government agencies or defense contractors. We expect to maintain a high revenue concentration with United States Government agencies and defense contractors, most of whom are engaged in knowledge-based defense and security activities. A reduction in government spending targeting these activities could affect the ability of these tenants to fulfill lease obligations, decrease the likelihood that these tenants will renew their leases or enter into new leases and limit our future growth from these sectors. Moreover, uncertainty regarding the potential for future reduction in government spending targeting these activities could also decrease or delay leasing activity from tenants engaged in these activities. A reduction in government spending targeting knowledge-based defense and security activities and/or uncertainty regarding the potential for

future spending reductions could have an adverse effect on our results of operations, financial condition, cash flows and ability to make distributions to our equityholders.

We may suffer adverse consequences due to our inexperience in developing, managing and leasing wholesale data centers. We have significant experience in developing, managing and leasing single user data center space. However, we do not have the same depth and length of experience in relation to wholesale data centers, having acquired only one such center in 2010. This may increase the likelihood of us being unsuccessful in executing our plans with respect to that center or any similar centers that we may acquire or develop in the future. If we are unsuccessful in executing our wholesale data center plans, we could record an impairment loss, which would adversely affect our financial position and results of operations.

Most of our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Greater Washington, DC/Baltimore region, or in particular office parks. We may suffer economic harm in the event of a decline in the real estate market or general economic conditions in those regions or parks. Most of our properties are located in the Mid-Atlantic region of the United States and, as of December 31, 2014, our properties located in the Greater Washington, DC/Baltimore region accounted for a combined 85.1% of our total annualized rental revenue from office properties. Our properties are also often concentrated in office parks in which we own most of the properties. Consequently, our portfolio of properties is not broadly distributed geographically. As a result, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Greater Washington, DC/Baltimore region or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant vacates a property, we can expect to experience a vacancy for some period of time, as well as incur higher leasing costs than we would likely incur if a tenant renews. As a result, our financial performance and ability to make expected distributions to our equityholders could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms.

We may be adversely affected by trends in the office real estate industry. Some businesses increasingly permit employee telecommuting, flexible work schedules, open workplaces and teleconferencing. These practices enable businesses to reduce their space requirements. These trends could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations, each of which could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may encounter a decline in the value of our real estate. The value of our real estate could be adversely affected by general economic and market conditions connected to a specific property, a market or submarket, a broader economic region or the office real estate industry. Examples of such conditions include a broader economic recession, declining demand and decreases in market rental rates and/or market values of real estate assets. If our real estate assets decline in value, it could result in our recognition of impairment losses. Moreover, a decline in the value of our real estate could adversely affect the amount of borrowings available to us under credit facilities and other loans, which could, in turn, adversely affect our cash flows and financial condition.

We may not be able to compete successfully with other entities that operate in our industry. The commercial real estate market is highly competitive. We compete for the purchase of commercial property with many entities, including other publicly traded commercial REITs. Many of our competitors have substantially greater financial resources than we do. If our competitors prevent us from buying properties that we target for acquisition, we may not be able to meet our property acquisition goals. Moreover, numerous commercial properties compete with our

properties for tenants. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties' owners may be willing to accept lower rates than are acceptable to us. Competition for property acquisitions, or for tenants for properties that we own, could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We are dependent on external sources of capital for future growth. Because COPT is a REIT, it must distribute at least 90% of its annual taxable income to its shareholders. Due to this requirement, we are not able to significantly fund our acquisition, construction and development activities using retained cash flow from operations. Therefore, our ability to fund these activities is dependent on our ability to access debt or equity capital. Such capital could be in the form of new debt, common shares, preferred shares, common and preferred units in COPLP or joint venture funding. These capital sources may not be available on favorable terms or at all. Moreover, additional debt financing may substantially increase our leverage and subject us to covenants that restrict management's flexibility in directing our operations, and additional equity offerings may

result in substantial dilution of our equityholders' interests. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business and fund other cash requirements.

We often use our Revolving Credit Facility to initially finance much of our investing activities and certain financing activities. We also use other credit facilities to fund a significant portion of our construction activities. Our lenders under these and other facilities could, for financial hardship or other reasons, fail to honor their commitments to fund our requests for borrowings under these facilities. If lenders under these facilities are not able or willing to fund a borrowing request, it would adversely affect our ability to access borrowing capacity under these facilities, which would in turn adversely affect our financial condition, cash flows and ability to make expected distributions to our equityholders.

We may be unable to successfully execute our plans to acquire existing commercial real estate properties. We intend to acquire existing commercial real estate properties to the extent that suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties entail risks, such as the risks that we may not be in a position, or have the opportunity in the future, to make suitable property acquisitions on advantageous terms and/or that such acquisitions will fail to perform as expected. The occurrence of these risk outcomes could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be exposed to unknown liabilities from acquired properties. We may acquire properties that are subject to liabilities in situations where we have no recourse, or only limited recourse, against the prior owners or other third parties with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Examples of unknown liabilities with respect to acquired properties include, but are not limited to:

- liabilities for clean-up of disclosed or undisclosed environmental contamination;
- claims by tenants, vendors or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may suffer economic harm as a result of making unsuccessful acquisitions in new markets. We may pursue selective acquisitions of properties in regions where we have not previously owned properties. These acquisitions may entail risks in addition to those we face in other acquisitions where we are familiar with the regions, such as the risk that we do not correctly anticipate conditions or trends in a new market and are therefore not able to operate the acquired property profitably. If this occurs, it could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be unable to execute our plans to develop and construct additional properties. Although the majority of our investments are in currently leased properties, we also develop, construct and redevelop properties, including some that are not fully pre-leased. When we develop, construct and redevelop properties, we assume the risk that actual costs will exceed our budgets, that we will experience conditions which delay or preclude project completion and that projected leasing will not occur, any of which could adversely affect our financial performance, results of operations and our ability to make distributions to our equityholders. In addition, we generally do not obtain construction financing commitments until the development stage of a project is complete and construction is about to commence. We may find that we are unable to obtain financing needed to continue with the construction activities for such projects.

Our data centers may become obsolete. Data centers are much more expensive investments on a per square foot basis than office properties due to the level of infrastructure required to operate the centers. At the same time, technology, industry standards and service requirements for data centers are rapidly evolving and, as a result, the risk of investments we make in data centers becoming obsolete is higher than office properties. Our data centers may become obsolete due to the development of new systems to deliver power to, or eliminate heat from, the servers housed in the properties, or due to other technological advances. In addition, we may not be able to efficiently upgrade or change power and cooling systems to meet new demands or industry standards without incurring significant costs that we may not be able to pass on to our tenants. The obsolescence of our data centers could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

Certain of our properties containing data centers contain space not suitable for lease other than as data centers, which could make it difficult or impractical to reposition them for alternative use. Certain of our properties contain data center space, which is highly specialized space containing extensive electrical and mechanical systems that are designed uniquely to run and maintain banks of computer servers. As discussed above, our data centers are subject to obsolescence risks.

In the event that we needed to reposition data center space for another use, the renovations required to do so could be very difficult and costly, and we may, as a result, deem such renovations to be impractical. The inability to reposition our data center space could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

Real estate investments are illiquid, and we may not be able to dispose of properties on a timely basis when we determine it is appropriate to do so. We may seek to dispose of properties in connection with our asset management strategy, the success of which may be key to our capital strategy. Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Moreover, under certain circumstances, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. In addition, for certain of our properties that we acquired by issuing units in COPLP, we are restricted by agreements with the sellers of the properties for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the seller's consent. Our failure to successfully execute such dispositions could adversely affect our ability to effectively execute our business strategy, which in turn could affect our financial position, results of operations, cash flows and ability to make expected distributions to equityholders.

We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt. Some of our properties are pledged by us to support repayment of indebtedness. Any foreclosure on our properties could result in loss of income and asset value that would negatively affect our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders. In addition, we rely on borrowings to fund some or all of the costs of new property acquisitions, construction and development activities and other items. Our organizational documents do not limit the amount of indebtedness that we may incur.

Payments of principal and interest on our debt may leave us with insufficient cash to operate our properties or pay distributions to COPT's shareholders required to maintain its qualification as a REIT. We are also subject to the risks that:

- we may not be able to refinance our existing indebtedness, or may refinance on terms that are less favorable to us than the terms of our existing indebtedness;
- in the event of our default under the terms of our Revolving Credit Facility, COPLP could be restricted from making cash distributions to COPT, which could result in reduced distributions to our equityholders or the need for us to incur additional debt to fund these distributions; and
- if we are unable to pay our debt service on time or are unable to comply with restrictive financial covenants in certain of our debt, our lenders could foreclose on our properties securing such debt and, in some cases, other properties and assets that we own.

Some of our unsecured debt is cross-defaulted, which means that failure to pay interest or principal on the debt above a threshold value will create a default on certain of our other debt.

If interest rates were to rise, our debt service payments on debt with variable interest rates would increase, which would adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

As of December 31, 2014, our scheduled debt maturities over the next five years were as of follows:

Year	Amount (1) (in thousands)
2015	\$343,545
2016	171,399

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2017	339,247
2018	2,036
2019	122,094

Represents principal maturities only and therefore excludes net discounts. As of December 31, 2014, maturities in 2015 include \$150.0 million pertaining to a nonrecourse mortgage loan secured by two operating properties the (1) title for which we expect to transfer to extinguish our debt obligation. Maturities also include \$150.0 million in 2015 that may be extended for two one-year periods and \$333.0 million in 2017 that may be extended for one year, subject to certain conditions.

Our operations likely will not generate enough cash flow to repay some or all of this debt without additional borrowings, equity issuances and/or property sales. If we cannot refinance our debt, extend the repayment dates, or raise additional equity prior to the dates when our debt matures, we would default on our existing debt, which would have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

A downgrade in our credit ratings could materially adversely affect our business and financial condition. COPLP's Senior Notes are currently rated investment grade by the three major rating agencies. These credit ratings are subject to ongoing evaluation by the credit rating agencies and can change. Any downgrades in terms of ratings or outlook by the credit rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders, and also have a material adverse effect on the market price of COPT's common shares.

We have certain distribution requirements that reduce cash available for other business purposes. Since COPT is a REIT, it must distribute at least 90% of its annual taxable income, which limits the amount of cash that can be retained for other business purposes, including amounts to fund acquisitions and development activity. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period during which we report those items for distribution purposes, we may have to borrow funds for COPT to meet the 90% distribution requirement.

We may be unable to continue to make equityholders distributions at expected levels. We expect to make regular quarterly cash distributions to our equityholders. However, our ability to make such distributions depends on a number of factors, some of which are beyond our control. Some of our loan agreements contain provisions that could restrict future distributions. Our ability to make distributions at expected levels will also be dependent, in part, on other matters, including, but not limited to:

- continued property occupancy and timely receipt of rent obligations;
- the amount of future capital expenditures and expenses relating to our properties;
- the level of leasing activity and future rental rates;
- the strength of the commercial real estate market;
- our ability to compete;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses;
- our costs of compliance with environmental and other laws;
- our corporate overhead levels;
- our amount of uninsured losses; and
- our decision to reinvest in operations rather than distribute available cash.

In addition, we can make distributions to the holders of our common shares/units only after we make preferential distributions to holders of our preferred shares/units.

Our ability to pay distributions may be limited, and we cannot provide assurance that we will be able to pay distributions regularly. Our ability to pay distributions will depend on a number of things discussed elsewhere herein, including our ability to operate profitably and generate cash flow from our operations. We cannot guarantee that we will be able to pay distributions on a regular quarterly basis in the future. Additionally, the terms of some of COPLP's debt may limit its ability to make some types of payments and other distributions to COPT. This in turn may limit our ability to make some types of payments, including payment of distributions on common or preferred shares/units, unless we meet certain financial tests or such payments or distributions are required to maintain COPT's qualification

as a REIT. As a result, if we are unable to meet the applicable financial tests, we may not be able to pay distributions in one or more periods. Furthermore, any new common or preferred shares/units that may in the future be issued for raising capital, financing acquisitions, share-based compensation arrangements or otherwise will increase the cash required to continue to pay cash distributions at current levels.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay distributions to equityholders. Our governing documents do not limit us from incurring additional indebtedness and other liabilities. As of December 31, 2014, we had \$1.9 billion of indebtedness outstanding. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay distributions to equityholders.

Our ability to pay distributions is further limited by the requirements of Maryland law. As a Maryland REIT, COPT may not under applicable Maryland law make a distribution if either of the following conditions exists after giving effect to the distribution: (1) the REIT would not be able to pay its debts as the debts become due in the usual course of business; or (2) the

REIT's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the REIT were dissolved at the time of the distribution, to satisfy upon dissolution the rights of equityholders whose preferential rights are superior to those receiving the distribution. Therefore, we may not be able to make expected distributions to our equityholders if either of the above described conditions exists for COPT after giving effect to the distribution.

We may issue additional common or preferred shares/units that dilute our equityholders' interests. We may issue additional common and preferred shares/units without shareholder approval. Similarly, COPT may cause COPLP to issue its common or preferred units for contributions of cash or property without approval by the limited partners of COPLP or COPT's shareholders. Our existing equityholders' interests could be diluted if such additional issuances were to occur.

We may suffer economic harm as a result of the actions of our partners in real estate joint ventures and other investments. We may invest in certain entities in which we are not the exclusive investor or principal decision maker. Investments in such entities may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that the other parties to these investments might become bankrupt or fail to fund their share of required capital contributions. Our partners in these entities may have economic, tax or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments. Each of these factors could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may elect to make additional cash outlays to protect our investment in loans we make that are subordinate to other loans. We have made, and may in the future make, loans under which we have a secured interest in the ownership of a property that is subordinate to other loans on the property. If a default were to occur under the terms of any such loans with us or under the first mortgage loans related to the properties on such loans, we may, in order to protect our investment, elect to either (1) purchase the other loan, or (2) foreclose on the ownership interest in the property and repay the first mortgage loan, either of which could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be subject to possible environmental liabilities. We are subject to various Federal, state and local environmental laws, including air and water quality, hazardous or toxic substances and health and safety. These laws can impose liability on current and prior property owners or operators for the costs of removal or remediation of hazardous substances released on a property, even if the property owner was not responsible for, or even aware of, the release of the hazardous substances. Costs resulting from environmental liability could be substantial. The presence of hazardous substances on our properties may also adversely affect occupancy and our ability to sell or borrow against those properties. In addition to the costs of government claims under environmental laws, private plaintiffs may bring claims for personal injury or other reasons. Additionally, various laws impose liability for the costs of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances at such a facility is potentially liable under such laws. These laws often impose liability on an entity even if the facility was not owned or operated by the entity.

Although most of our properties have been subject to varying degrees of environmental assessment, many of these assessments are limited in scope and may not include or identify all potential environmental liabilities or risks associated with the property. Identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in cleanup or compliance requirements could result in significant costs to us that could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected

distributions to our equityholders.

Terrorist attacks may adversely affect the value of our properties, our financial position and cash flows. We have significant investments in properties located in large metropolitan areas and near military installations. Future terrorist attacks could directly or indirectly damage our properties or cause losses that materially exceed our insurance coverage. After such an attack, tenants in these areas may choose to relocate their businesses to areas of the United States that may be perceived to be less likely targets of future terrorist activity, and fewer customers may choose to patronize businesses in these areas. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease space on less favorable terms. As a result, the occurrence of terrorist attacks could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be subject to other possible liabilities that would adversely affect our financial position and cash flows. Our properties may be subject to other risks related to current or future laws, including laws benefiting disabled persons, state or

local laws relating to zoning, construction, fire and life safety requirements and other matters. These laws may require significant property modifications in the future and could result in the levy of fines against us. In addition, although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore a property that is damaged by a fire or other catastrophic events, including acts of war or, as mentioned above, terrorism. The occurrence of any of these events could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders.

We may be subject to increased costs of insurance and limitations on coverage, particularly regarding acts of terrorism. Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 30, 2015. These policies include coverage for acts of terrorism. Future changes in the insurance industry's risk assessment approach and pricing structure may increase the cost of insuring our properties and decrease the scope of insurance coverage, either of which could adversely affect our financial position and operating results. Most of our loan agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs, or at all, in the future. In addition, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance and/or refinance our properties and execute our growth strategies, which, in turn, would have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders.

Our business could be adversely affected by a negative audit by the United States Government. Agencies of the United States, including the Defense Contract Audit Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. The United States Government also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the United States Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

Our business could be adversely affected by security breaches through cyber attacks, cyber intrusions or otherwise. We face risks associated with security breaches and other significant disruptions of our information technology networks and related systems, which are essential to our business operations. Such breaches and disruptions may occur through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization. Because of our concentration on serving United States Government agencies and their contractors with a general focus on national security and information technology, we may be especially likely to be targeted by cyber attacks, including by governments, organizations or persons hostile to our government. Despite our activities to maintain the security and integrity of our networks and related systems, there can be no absolute assurance that these activities will be effective. A security breach involving our networks and related systems could disrupt our operations in numerous ways, including by creating difficulties for our tenants that may reflect poorly on us, that could ultimately have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our equityholders.

COPT's ownership limits are important factors. COPT's Declaration of Trust limits ownership of its common shares by any single shareholder to 9.8% of the number of the outstanding common shares or 9.8% of the value of the outstanding common shares, whichever is more restrictive. COPT's Declaration of Trust also limits ownership by any single shareholder of our common and preferred shares in the aggregate to 9.8% of the aggregate value of the outstanding common and preferred shares. We call these restrictions the "Ownership Limit." COPT's Declaration of

Trust allows our Board of Trustees to exempt shareholders from the Ownership Limit. The Ownership Limit and the restrictions on ownership of our common shares may delay or prevent a transaction or a change of control that might involve a premium price for our common shares/units or otherwise be in the best interest of our equityholders.

COPT's Declaration of Trust includes other provisions that may prevent or delay a change of control. Subject to the requirements of the New York Stock Exchange, our Board of Trustees has the authority, without shareholder approval, to issue additional securities on terms that could delay or prevent a change in control. In addition, our Board of Trustees has the authority to reclassify any of our unissued common shares into preferred shares. Our Board of Trustees may issue preferred shares with such preferences, rights, powers and restrictions as our Board of Trustees may determine, which could also delay or prevent a change in control.

The Maryland business statutes impose potential restrictions that may discourage a change of control of our company. Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to equityholders. Resolutions adopted by our Board of Trustees and/or provisions of our bylaws exempt us from such laws, but our Board of Trustees can alter its resolutions or change our bylaws at any time to make these provisions applicable to us.

COPT's failure to qualify as a REIT would have adverse tax consequences, which would substantially reduce funds available to make distributions to our equityholders. We believe that COPT has qualified for taxation as a REIT for Federal income tax purposes since 1992. We plan for COPT to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of COPT's gross income must come from certain sources that are specified in the REIT tax laws. COPT is also required to distribute to shareholders at least 90% of its REIT taxable income (excluding capital gains). The fact that COPT holds most of its assets through COPLP and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize COPT's REIT status. Furthermore, Congress and the Internal Revenue Service might make changes to the tax laws and regulations and the courts might issue new rulings that make it more difficult or impossible for COPT to remain qualified as a REIT.

If COPT fails to qualify as a REIT, it would be subject to Federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, COPT would remain disqualified as a REIT for four years following the year it first fails to qualify. If COPT fails to qualify as a REIT, it would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our equityholders. In addition, if COPT fails to qualify as a REIT, it will no longer be required to pay distributions to shareholders. As a result of all these factors, COPT's failure to qualify as a REIT could impair our ability to expand our business and raise capital and would likely have a significant adverse effect on the value of our shares/units.

We could face possible adverse changes in tax laws, which may result in an increase in our tax liability. From time to time, changes in state and local tax laws or regulations are enacted that may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for distributions to our equityholders.

A number of factors could cause our security prices to decline. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of COPT's common and preferred shares. These conditions include, but are not limited to:

- market perception of REITs in general and office REITs in particular;
- market perception regarding our major tenants and sector concentrations;
- the level of institutional investor interest in COPT;
- general economic and business conditions;
- prevailing interest rates;
- our financial performance;
- our underlying asset value;
- market perception of our financial condition, performance, dividends and growth potential; and
- adverse changes in tax laws.

We may experience significant losses and harm to our financial condition if financial institutions holding our cash and cash equivalents file for bankruptcy protection. We believe that we maintain our cash and cash equivalents with high quality financial institutions. We have not experienced any losses to date on our deposited cash. However, we may incur significant losses and harm to our financial condition in the future if any of these financial institutions files for bankruptcy protection.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table provides certain information about our office property markets and submarkets as of December 31, 2014, excluding the effect of the two properties serving as collateral for nonrecourse mortgage debt that was in default and expected to be extinguished via conveyance of such properties (totaling 665,000 square feet that were 36.1% occupied as of December 31, 2014):

Property Region, Business Park/Submarket and Location	Number of Buildings	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2) (in thousands)	Annualized Rental Revenue per Occupied Square Foot (2)(3)
Baltimore/Washington Corridor:					
National Business Park - Annapolis Junction, MD	29	3,485,071	95.7	% \$121,378	\$36.38
Columbia Gateway - Columbia, MD	27	2,141,654	91.3	% 47,510	24.29
Airport Square/bwtech - Linthicum, MD	14	1,090,111	86.4	% 23,639	25.10
Commons/Parkway - Hanover, MD	10	431,246	91.1	% 9,322	23.73
Other	11	1,119,849	98.2	% 31,632	28.78
Subtotal / Average	91	8,267,931	93.4	% \$233,481	\$30.22
Northern Virginia:					
Westfields Corporate Center - Chantilly, VA	7	769,035	75.5	% \$16,048	\$27.64
Patriot Ridge - Springfield, VA	1	239,272	51.3	% 4,995	40.67
Herndon, Tysons Corner and Merrifield, VA	9	1,701,754	92.6	% 51,546	32.71
Other	3	543,765	100.0	% 5,856	10.77
Subtotal / Average	20	3,253,826	86.8	% \$78,445	\$27.79
San Antonio:					
Sentry Gateway - San Antonio, TX	6	792,454	100.0	% \$33,907	\$42.79
Other	2	120,054	73.8	% 1,709	19.29
Subtotal / Average	8	912,508	96.6	% \$35,616	\$40.42
Huntsville	5	562,757	80.8	% \$9,628	\$21.17
Washington DC-Capitol Riverfront	2	360,326	74.4	% \$12,388	\$46.22
St. Mary's & King George Counties	18	874,408	90.8	% \$15,530	\$19.56
Greater Baltimore:					
White Marsh, MD and Timonium, MD	20	984,186	93.2	% \$20,150	\$21.97
Baltimore City, MD	1	480,348	97.9	% 15,927	33.86
North Gate Business Park - Aberdeen, MD	3	284,907	46.0	% 4,037	30.82
Subtotal / Average	24	1,749,441	86.8	% \$40,114	\$26.41
Greater Philadelphia, Pennsylvania	3	513,347	96.2	% \$11,827	\$23.96
Other Region	2	295,842	100.0	% \$9,555	\$32.30

Total	173	16,790,386	90.9	%	\$446,584	\$29.27
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(1) This percentage is based upon all rentable square feet under lease terms that were in effect as of December 31, 2014.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2014 (ignoring free rent then in effect) multiplied by 12, plus the estimated annualized expense reimbursements under existing leases. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under generally accepted accounting principles does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

(3) Annualized rental revenue per occupied square foot is a property's annualized rental revenue divided by that property's occupied square feet as of December 31, 2014. Our computation of annualized rental revenue excludes the effect of lease incentives. The annualized rent per occupied square foot, including the effect of lease incentives, for our total office portfolio and two largest regions follows: total office portfolio: \$29.09; Baltimore/Washington Corridor: \$30.11; and Northern Virginia: \$27.61.

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The following table provides certain information about our office properties that were under, or contractually committed for, construction, or had redevelopment underway, or otherwise approved, as of December 31, 2014 (dollars in thousands):

Property and Location	Submarket	Estimated Rentable Square Feet Upon Completion	Percentage Leased	Calendar Quarter of Anticipated Completion	Costs Incurred to Date (1)	Estimated Costs to Complete (1)
Under Construction						
Baltimore/Washington Corridor:						
310 Sentinel Way Annapolis Junction, MD	National Business Park	191,464	0	% 1Q 2016	\$36,324	\$20,976
7880 Milestone Parkway Hanover, MD	Arundel Preserve	119,980	74	% 3Q 2016	17,929	13,606
Subtotal / Average		311,444	28	%	\$54,253	\$34,582
Northern Virginia:						
NOVA Office A Northern Virginia	Other Northern Virginia	159,300	100	% 1Q 2015	\$44,067	493
Ashburn Crossing - DC 10 Ashburn, Virginia	Ashburn Crossing	120,000	100	% 1Q 2015	12,815	3,460
NOVA Office B Northern Virginia	Other Northern Virginia	161,030	0	% 1Q 2016	22,927	18,573
NOVA Office D Northern Virginia	Other Northern Virginia	240,000	100	% 2Q 2017	8,365	38,160
Subtotal / Average		680,330	76	%	\$88,174	\$60,686
San Antonio:						
Sentry Gateway - Z San Antonio, TX	San Antonio	160,466	100	% 1Q 2015	\$25,157	\$9,558
Huntsville:						
7400 Redstone Gateway Huntsville, AL	Huntsville	69,191	100	% 3Q 2015	\$4,841	\$5,167
Total Under Construction		1,221,431	69	%	\$172,425	\$109,993
Under Redevelopment						
Baltimore/Washington Corridor:						
6708 Alexander Bell Drive Columbia, MD	Howard County Perimeter	52,000	0	% 1Q 2016	\$6,713	\$4,756
921 Elkridge Landing Road (AS 5) Linthicum, MD	Airport Square	56,452	0	% To be determined	\$3,787	To be determined
1201 Winterson Road (AS 13)	Airport	67,450	0	% 3Q 2016	4,813	11,950

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Linthicum, MD	Square						
Subtotal / Average		175,902	0	%		\$15,313	\$16,706
St. Mary's County							
44417 Pecan Court	St. Mary's	27,122	0	%	3Q 2015	\$2,689	\$2,688
California, MD	County						
Greater Philadelphia:							
731 Arbor Way (Hillcrest III)	Greater	140,765	100	%	2Q 2015	\$13,211	\$14,821
Blue Bell, PA	Philadelphia						
Total Under Redevelopment		343,789	41	%		\$31,213	\$34,215

(1) Includes land, construction, leasing costs and allocated portion of structured parking and other shared infrastructure, if applicable.

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The following table provides certain information about our land held or under pre-construction as of December 31, 2014, including properties under ground lease to us:

Market/Submarket and Location	Acres	Estimated Developable Square Feet
Land Held for Future Development		
Baltimore/Washington Corridor:		
National Business Park	193	1,976
Arundel Preserve	83	960
Columbia Gateway	27	630
M Square	49	525
Airport Square	5	84
Subtotal	357	4,175
Northern Virginia	71	1,860
San Antonio	69	1,033
Huntsville (1)	434	4,103
St. Mary's & King George Counties	44	109
Greater Baltimore	49	1,478
Greater Philadelphia (2)	41	720
Total land held for future development	1,065	13,478
Other Land		
Baltimore/Washington Corridor	6	60
Greater Baltimore	115	1,242
Colorado Springs	171	2,540
Other	107	1,000
Total other land held	399	4,842
Total land held	1,464	18,320
Land held for sale	(56)	(632)
Land held, net	1,408	17,688

(1) This land is owned by the United States Government and is under a long term enhanced-use lease to us. We are not required to pay rent on the individual land sites included in this lease until tenants of properties completed on such land sites begin paying rent.

(2) Includes a property that was removed from service and placed under redevelopment in March 2014. This property will be reported as land held until its redevelopment plan is finalized and market demand supports commencement of such redevelopment.

The following table provides certain information about our wholesale data center property as of December 31, 2014:

Property and Location	Year Built	Gross Building Area	Raised Floor Square Footage (1)	Initial Stabilization Critical Load (in MWs) (2)	MW Operational	MW Leased
9651 Hornbaker Road - Manassas, VA	2010	233,000	100,000	19.25	9.00	6.56

- (1) Raised floor square footage is that portion of the gross building area in which tenants locate their computer servers. Raised floor area is considered to be the net rentable square footage.
- (2) Critical load is the power available for exclusive use of tenants in the property (expressed in terms of megawatts ("MWs")).

Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place at our office properties as of December 31, 2014, assuming that none of the tenants exercise any early termination rights. This analysis includes the effect of early renewals completed on existing leases but excludes the effect of new tenant leases on 256,646 square feet executed but yet to commence as of December 31, 2014.

Year of Lease Expiration (1)	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Annualized Rental Revenue of Expiring Leases (2)	Percentage of Total Annualized Rental Revenue Expiring (2)	Total Annualized Rental Revenue of Expiring Leases Per Occupied Square Foot
(in thousands)						
2015	120	1,819,685	11.9	% \$52,780	11.8	% \$29.01
2016	85	1,472,752	9.7	% 42,776	9.6	% 29.04
2017	79	1,882,897	12.3	% 56,291	12.6	% 29.90
2018	75	2,146,343	14.1	% 63,543	14.2	% 29.61
2019	85	1,977,815	13.0	% 58,955	13.2	% 29.81
2020	63	1,918,184	12.6	% 56,270	12.6	% 29.33
2021	33	696,253	4.6	% 21,313	4.8	% 30.61
2022	17	917,287	6.0	% 27,764	6.2	% 30.27
2023	17	649,529	4.3	% 12,927	2.9	% 19.90
2024	15	577,677	3.8	% 15,460	3.5	% 26.76
2025	14	1,034,020	6.8	% 34,901	7.8	% 33.75
2026	2	58,500	0.4	% 1,040	0.2	% 17.78
2027	1	16,200	0.1	% 435	0.1	% 26.86
2030	2	88,217	0.6	% 2,129	0.5	% 24.13
Total/Weighted Average	608	15,255,359	100.0	% \$446,584	100.0	% \$29.27

With regard to leases expiring in 2015, we believe that the weighted average annualized rental revenue per occupied square foot for such leases at December 31, 2014 was, on average, approximately 2% to 4% higher than estimated current market rents for the related space, with specific results varying by market.

The following table provides a summary schedule of the lease expirations for leases in place at our wholesale data center property as of December 31, 2014:

Year of Lease Expiration (1)	Number of Leases Expiring	Raised Floor Square Footage Expiring	Critical Load Leased (in megawatts)	Critical Load Used (in megawatts)	Annualized Rental Revenue of Expiring Leases (2)
(in thousands)					
2016	1	9,437	2.00	1.00	\$1,140
2018	2	1,283	0.26	0.26	528
2019	1	6,374	1.00	1.00	2,184
2020	2	11,122	2.30	2.00	4,623
2022	1	5,590	1.00	1.00	1,475
Total/Weighted Average	7	33,806	6.56	5.26	\$9,950

- All of the leasing statistics set forth above assume no exercise of any existing early termination rights. In addition, most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms;
- (1) all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases prematurely. Annualized rental revenue is the monthly contractual base rent as of December 31, 2014 multiplied by 12, plus the
- (2) estimated annualized expense reimbursements under existing office leases. Our computation of annualized rental revenue excludes the effect of lease incentives, although the effect of this exclusion is generally not material.

Item 3. 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

COPT's common shares trade on the New York Stock Exchange ("NYSE") under the symbol "OFC." The table below shows the range of the high and low sale prices for COPT's common shares as reported on the NYSE, as well as the quarterly common share dividends per share declared:

	Price Range		Dividends
	Low	High	Per Share
2013			
First Quarter	\$24.75	\$27.52	\$0.2750
Second Quarter	\$23.81	\$29.95	\$0.2750
Third Quarter	\$22.40	\$28.85	\$0.2750
Fourth Quarter	\$21.48	\$25.37	\$0.2750
	Price Range		Dividends
	Low	High	Per Share
2014			
First Quarter	\$23.55	\$27.28	\$0.2750
Second Quarter	\$26.18	\$29.09	\$0.2750
Third Quarter	\$25.53	\$29.44	\$0.2750
Fourth Quarter	\$25.29	\$29.24	\$0.2750

The number of holders of record of COPT's common shares was 507 as of December 31, 2014. This number does not include shareholders whose shares are held of record by a brokerage house or clearing agency, but does include any such brokerage house or clearing agency as one record holder.

COPT pays dividends at the discretion of its Board of Trustees. COPT's ability to pay cash dividends will be dependent upon: (1) the cash flow generated from our operations; (2) cash generated or used by our financing and investing activities; and (3) the annual distribution requirements under the REIT provisions of the Code described above and such other factors as the Board of Trustees deems relevant. COPT's ability to make cash dividends will also be limited by the terms of COPLP's Partnership Agreement, as well as by limitations imposed by state law. In addition, COPT is prohibited from paying cash dividends in excess of the amount necessary for it to qualify for taxation as a REIT if a default or event of default exists pursuant to the terms of our Revolving Credit Facility; this restriction does not currently limit COPT's ability to pay dividends, and COPT does not believe that this restriction is reasonably likely to limit its ability to pay future dividends because it expects to comply with the terms of our Revolving Credit Facility.

There is no established public trading market for COPLP's partnership units. Quarterly common unit distributions per unit were the same as quarterly common dividends per share declared by COPT. As of December 31, 2014, there were 37 holders of record of COPLP's common units.

Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended December 31, 2014, 23,000 of COPLP's common units were exchanged for 23,000 COPT common shares in accordance with the 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(2) of the Securities Act of 1933, as amended.

COPT's Common Shares Performance Graph

The graph and the table set forth below assume \$100 was invested on December 31, 2009 in COPT's common shares. The graph and the table compare the cumulative return (assuming reinvestment of dividends) of this investment with a \$100 investment at that time in the S&P 500 Index or the All Equity REIT Index of the National Association of Real Estate Investment Trusts ("NAREIT"):

Index	Period Ended					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Corporate Office Properties Trust	\$100.00	\$99.52	\$64.47	\$79.40	\$78.69	\$98.11
S&P 500	100.00	115.06	117.49	136.3	180.44	205.14
NAREIT All Equity REIT Index	100.00	127.95	138.55	165.84	170.58	218.38

Item 6. Selected Financial Data

The following tables set forth summary historical consolidated financial data and operating data for COPT and COPLP and their respective subsidiaries as of and for each of the years ended December 31, 2010 through 2014. You should read the following summary historical financial data in conjunction with the consolidated historical financial statements and notes thereto of COPT and its subsidiaries and COPLP and its subsidiaries and the section of this report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information.

Corporate Office Properties Trust and Subsidiaries

(in thousands, except per share data and number of properties)

	2014	2013	2012	2011	2010
Revenues					
Revenues from real estate operations (1)	\$479,725	\$460,997	\$434,299	\$408,611	\$365,253
Construction contract and other service revenues	106,748	62,363	73,836	84,345	104,675
Total revenues	586,473	523,360	508,135	492,956	469,928
Expenses					
Property operating expenses (1)	179,934	167,199	159,206	154,375	138,471
Depreciation and amortization associated with real estate operations (1)	136,086	113,214	107,998	107,003	91,705
Construction contract and other service expenses	100,058	58,875	70,576	81,639	102,302
Impairment losses (1)	1,416	5,857	43,678	83,213	—
General, administrative and leasing expenses (1)	31,794	30,869	31,900	30,306	28,485
Business development expenses and land carry costs	5,573	5,436	5,711	6,122	6,403
Total operating expenses	454,861	381,450	419,069	462,658	367,366
Operating income	131,612	141,910	89,066	30,298	102,562
Interest expense (1)	(92,393)	(82,010)	(86,401)	(90,037)	(87,551)
Interest and other income	4,923	3,834	7,172	5,603	9,682
Loss on early extinguishment of debt	(9,552)	(27,030)	(943)	(1,639)	—
Loss on interest rate derivatives	—	—	—	(29,805)	—
Income (loss) from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	34,590	36,704	8,894	(85,580)	24,693
Equity in income (loss) of unconsolidated entities	229	2,110	(546)	(331)	1,376
Income tax (expense) benefit	(310)	(1,978)	(381)	6,710	(108)
Income (loss) from continuing operations	34,509	36,836	7,967	(79,201)	25,961
Discontinued operations (1)(2)	26	55,692	12,353	(51,107)	16,714
Income (loss) before gain on sales of real estate	34,535	92,528	20,320	(130,308)	42,675
Gain on sales of real estate, net of income taxes (3)	10,671	9,016	21	2,732	2,829
Net income (loss)	45,206	101,544	20,341	(127,576)	45,504
Net (income) loss attributable to noncontrolling interests	(4,951)	(7,837)	636	8,148	(2,744)
Net income (loss) attributable to COPT	40,255	93,707	20,977	(119,428)	42,760
Preferred share dividends	(15,939)	(19,971)	(20,844)	(16,102)	(16,102)
Issuance costs associated with redeemed preferred shares (4)	(1,769)	(2,904)	(1,827)	—	—
Net income (loss) attributable to COPT common shareholders	\$22,547	\$70,832	\$(1,694)	\$(135,530)	\$26,658
Basic earnings per common share (5)					

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Income (loss) from continuing operations	\$0.25	\$0.21	\$(0.19)) \$(1.28)) \$0.17
Net income (loss)	\$0.25	\$0.83	\$(0.03)) \$(1.97)) \$0.43
Diluted earnings per common share (5)					
Income (loss) from continuing operations	\$0.25	\$0.21	\$(0.19)) \$(1.28)) \$0.17
Net income (loss)	\$0.25	\$0.83	\$(0.03)) \$(1.97)) \$0.43
Weighted average common shares outstanding – basic	88,092	85,167	73,454	69,382	59,611
Weighted average common shares outstanding – diluted	88,263	85,224	73,454	69,382	59,944

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	2014	2013	2012	2011	2010
Balance Sheet Data (as of year end):					
Total properties, net	\$3,296,914	\$3,214,301	\$3,163,044	\$3,352,975	\$3,445,455
Total assets	\$3,670,257	\$3,629,952	\$3,653,759	\$3,863,555	\$3,844,517
Debt	\$1,920,057	\$1,927,703	\$2,019,168	\$2,426,303	\$2,323,681
Total liabilities	\$2,130,956	\$2,114,945	\$2,206,962	\$2,648,748	\$2,521,379
Redeemable noncontrolling interest	\$18,417	\$17,758	\$10,298	\$8,908	\$9,000
Total equity	\$1,520,884	\$1,497,249	\$1,436,499	\$1,205,899	\$1,323,138
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	\$193,885	\$158,979	\$191,838	\$152,143	\$156,436
Investing activities	\$(209,689)	\$(119,790)	\$13,744	\$(260,387)	\$(479,167)
Financing activities	\$(32,492)	\$4,590	\$(200,547)	\$103,701	\$324,571
Numerator for diluted EPS	\$22,115	\$70,418	\$(2,163)	\$(136,567)	\$25,587
Diluted funds from operations (6)	\$155,296	\$214,149	\$165,720	\$53,062	\$148,645
Diluted funds from operations per share (6)	\$1.69	\$2.40	\$2.13	\$0.72	\$2.30
Cash dividends declared per common share	\$1.10	\$1.10	\$1.10	\$1.65	\$1.61
Property Data (as of year end):					
Number of properties owned (7)	173	183	208	238	256
Total rentable square feet owned (7)	16,790	17,370	18,831	20,514	20,432

Certain prior period amounts pertaining to properties included in discontinued operations have been reclassified to (1) conform with the current presentation. These reclassifications did not affect consolidated net income or shareholders' equity.

Includes income derived from three operating properties disposed in 2010, 23 operating properties disposed in (2) 2011, 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013 (see Note 20 to our consolidated financial statements).

(3) Reflects gain from sales of properties and unconsolidated real estate joint ventures not associated with discontinued operations.

Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs (4) recognized upon the redemption of the Series G Preferred Shares in 2012, Series J Preferred Shares in 2013 and Series H Preferred Shares in 2014.

(5) Basic and diluted earnings per common share are calculated based on amounts attributable to common shareholders of COPT.

(6) For definitions of diluted funds from operations per share and diluted funds from operations and reconciliations of these measures to their comparable measures under generally accepted accounting principles, you should refer to the section entitled "Funds from Operations" within the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(7) Amounts reported reflect only operating office properties.

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Corporate Office Properties, L.P. and Subsidiaries

(in thousands, except per share data and number of properties)

	2014	2013	2012	2011	2010
Revenues					
Revenues from real estate operations (1)	\$479,725	\$460,997	\$434,299	\$408,611	\$365,253
Construction contract and other service revenues	106,748	62,363	73,836	84,345	104,675
Total revenues	586,473	523,360	508,135	492,956	469,928
Expenses					
Property operating expenses (1)	179,934	167,199	159,206	154,375	138,471
Depreciation and amortization associated with real estate operations (1)	136,086	113,214	107,998	107,003	91,705
Construction contract and other service expenses	100,058	58,875	70,576	81,639	102,302
Impairment losses (1)	1,416	5,857	43,678	83,213	—
General, administrative and leasing expenses (1)	31,794	30,869	31,900	30,300	28,461
Business development expenses and land carry costs	5,573	5,436	5,711	6,122	6,403
Total operating expenses	454,861	381,450	419,069	462,652	367,342
Operating income	131,612	141,910	89,066	30,304	102,586
Interest expense (1)	(92,393)	(82,010)	(86,401)	(90,037)	(87,551)
Interest and other income	4,923	3,834	7,172	5,603	9,682
Loss on early extinguishment of debt	(9,552)	(27,030)	(943)	(1,639)	—
Loss on interest rate derivatives	—	—	—	(29,805)	—
Income (loss) from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	34,590	36,704	8,894	(85,574)	24,717
Equity in income (loss) of unconsolidated entities	229	2,110	(546)	(331)	1,376
Income tax (expense) benefit	(310)	(1,978)	(381)	6,710	(108)
Income (loss) from continuing operations	34,509	36,836	7,967	(79,195)	25,985
Discontinued operations (1)(2)	26	55,692	12,353	(51,107)	16,714
Income (loss) before gain on sales of real estate	34,535	92,528	20,320	(130,302)	42,699
Gain on sales of real estate, net of income taxes (3)	10,671	9,016	21	2,732	2,829
Net income (loss)	45,206	101,544	20,341	(127,570)	45,528
Net (income) loss attributable to noncontrolling interests	(3,276)	(3,907)	507	244	(61)
Net income (loss) attributable to COPLP	41,930	97,637	20,848	(127,326)	45,467
Preferred unit distributions	(16,599)	(20,631)	(21,504)	(16,762)	(16,762)
Issuance costs associated with redeemed preferred units (4)	(1,769)	(2,904)	(1,827)	—	—
Net income (loss) attributable to COPLP common unitholders	\$23,562	\$74,102	\$(2,483)	\$(144,088)	\$28,705
Basic earnings per common unit (5)					
Income (loss) from continuing operations	\$0.25	\$0.21	\$(0.19)	\$(1.29)	\$0.18
Net income (loss)	\$0.25	\$0.83	\$(0.04)	\$(2.00)	\$0.44
Diluted earnings per common unit (5)					
Income (loss) from continuing operations	\$0.25	\$0.21	\$(0.19)	\$(1.29)	\$0.18
Net income (loss)	\$0.25	\$0.83	\$(0.04)	\$(2.00)	\$0.44
Weighted average common units outstanding – basic	91,989	89,036	77,689	72,564	62,553
Weighted average common units outstanding – diluted	92,160	89,093	77,689	72,564	62,886

	2014	2013	2012	2011	2010
Balance Sheet Data (as of year end):					
Total properties, net	\$3,296,914	\$3,214,301	\$3,163,044	\$3,352,975	\$3,445,455
Total assets	\$3,664,375	\$3,622,485	\$3,646,983	\$3,855,967	\$3,836,329
Debt	\$1,920,057	\$1,927,703	\$2,019,168	\$2,426,303	\$2,323,681
Total liabilities	\$2,125,074	\$2,107,478	\$2,200,186	\$2,641,160	\$2,512,504
Redeemable noncontrolling interest	\$18,417	\$17,758	\$10,298	\$8,908	\$9,000
Total equity	\$1,520,884	\$1,497,249	\$1,436,499	\$1,205,899	\$1,314,825
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	\$193,885	\$158,979	\$191,838	\$152,149	\$156,460
Investing activities	\$(209,689)	\$(119,790)	\$13,744	\$(260,387)	\$(479,167)
Financing activities	\$(32,492)	\$4,590	\$(200,547)	\$103,695	\$324,547
Numerator for diluted EPU	\$23,130	\$73,688	\$(2,952)	\$(145,125)	\$27,634
Cash distributions declared per common unit	\$1.10	\$1.10	\$1.10	\$1.65	\$1.61
Property Data (as of year end):					
Number of properties owned (6)	173	183	208	238	256
Total rentable square feet owned (6)	16,790	17,370	18,831	20,514	20,432

Certain prior period amounts pertaining to properties included in discontinued operations have been reclassified to (1) conform with the current presentation. These reclassifications did not affect consolidated net income or shareholders' equity.

Includes income derived from three operating properties disposed in 2010, 23 operating properties disposed in (2) 2011, 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013 (see Note 20 to our consolidated financial statements).

(3) Reflects gain from sales of properties and unconsolidated real estate joint ventures not associated with discontinued operations.

Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs (4) recognized upon the redemption of the Series G Preferred Units in 2012, Series J Preferred Units in 2013 and Series H Preferred Units in 2014.

(5) Basic and diluted earnings per common unit are calculated based on amounts attributable to common unitholders of COPLP.

(6) Amounts reported reflect only operating office properties.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should refer to our consolidated financial statements and the notes thereto and our Selected Financial Data table 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 term. 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.

Overview

Our revenues relating to real estate operations are derived from rents and property operating expense reimbursements earned from tenants leasing space in our properties. Most of our expenses relating to our real estate operations take the form of property operating costs (such as real estate taxes, utilities and repairs and maintenance) and depreciation and amortization associated with our operating properties. Most of our profitability from real estate operations depends on our ability to maintain high levels of occupancy and increase rents, which is affected by a number of factors, including, among other things, our tenants’ ability to fulfill their lease obligations and their continuing space needs based on variables such as employment levels, business confidence, competition, general economic conditions of the markets in which we operate and governmental actions and initiatives.

Our strategy for operations and growth focuses on serving the specialized requirements of United States Government agencies and their contractors, most of whom are engaged in national security and information technology related activities. These tenants' missions generally pertain more to knowledge-based activities (such as cyber security, research and development and other highly technical security and information technology related areas) than to force structure (troops) and weapon system production. As a result of this strategy, a large concentration of our revenue is derived from several large tenants. As of December 31, 2014, 65.3% of our annualized rental revenue (as defined below) from office properties was from our 20 largest tenants, 46.0% from our five largest tenants and 27.6% from our largest tenant, the United States Government. In addition, most of the total annualized rental revenue of our office properties was from properties located near defense installations and other knowledge-based government demand drivers (referred to elsewhere as "Strategic Demand Drivers"), or that were

otherwise at least 50% leased by United States Government agencies or their contractors; we refer to these properties herein as “Strategic Tenant Properties.”

We began 2014 with a smaller, yet more strategic, portfolio of properties, an improved capital position and an improved outlook for the leasing environment of our Strategic Tenant Properties due to:

the completion in 2013 of our Strategic Reallocation Plan, a plan we commenced in 2011 that entailed the disposition of office properties and land no longer closely aligned with our strategy, and the use of the resulting proceeds to invest primarily in Strategic Tenant Properties and repay borrowings. While this plan was in place, we completed dispositions of 89 operating properties totaling 5.5 million square feet and non-operating land for transaction values totaling \$687.1 million, including the disposition of our Colorado Springs operating segment. As a result, we started 2014 with a smaller portfolio of properties and a higher concentration of Strategic Tenant Properties relative to when we commenced the plan;

our execution of an initiative from 2011 to 2013 focused on improving our capital position, pursuant to which we repaid existing borrowings using proceeds from property sales under the Strategic Reallocation Plan, public offerings of common and preferred shares and new unsecured, longer term debt borrowings. Due to this initiative, we increased the fixed-rate portion of our debt, the unsecured portion of our debt and our weighted average debt term; and a return to a more normalized operating environment for our United States Government agency and Government contractor tenants. For an extended number of years, continuing delays in Federal budget approvals and uncertainty regarding the potential for future reductions in government spending targeting defense had disrupted the Government’s process for awarding contracts to prospective tenants, which delayed our ability to lease certain existing properties and new construction proximate to Strategic Demand Drivers. In January 2014, the 2014 Consolidated Appropriations Act was passed, establishing a budget for the 2014 fiscal year that rolled back certain of the defense spending reductions that were to occur under the 2011 Budget Act. With the passage of this Act, defense spending levels were essentially unchanged in 2014 and are expected to remain flat through September 30, 2015. The passage of the budget enabled the Federal Government to resume a more normalized process for awarding contracts by mid-2014. See the discussion below regarding our expectations for periods after September 2015.

We further improved the strategic focus of our portfolio in 2014 by:

placing into service an aggregate of 692,000 square feet in five newly constructed properties that were 94.6% leased as of December 31, 2014;

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

choosing in April not to provide support to a wholly owned subsidiary with 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. As a result, the subsidiary defaulted on the loan’s payment terms. The loan had an interest rate of 10.65% (including the effect of default interest of 5.0%) and was originally scheduled to mature in 2017. In connection with the loan’s default proceedings, we expect to transfer title to the properties and be relieved of the debt obligation plus accrued interest in early 2015; and

leasing 3.0 million square feet, including 893,000 of construction and redevelopment space.

Due in large part to these activities, we:

improved occupancy of our office property portfolio to 90.9% as of December 31, 2014, a 1.8% increase over year end 2013, due in large part to our sale, or removal from operations for redevelopment, of low occupancy operating properties and our achievement of strong occupancy on newly constructed or redeveloped space;

increased occupancy of our Same Office Properties (defined below) to 91.3% as of December 31, 2014 (up slightly from 91.0% as of December 31, 2013);
maintained occupancy of our Strategic Tenant Properties at 91.6% as of December 31, 2014, or unchanged from year end 2013;
increased the percentage of our total annualized rental revenue of our office properties derived from Strategic Tenant Properties to 76.6% as of December 31, 2014, an increase of 6.9% from year end 2013; and
commenced construction on six new Strategic Tenant Properties in 2014 that were 57.4% leased as of December 31, 2014.

As discussed above, the passage of the budget in January enabled the Federal Government to resume a more normalized process for awarding contracts, which improved the leasing outlook for our Strategic Tenant Properties, particularly those proximate to Strategic Demand Drivers. These demand drivers include Fort George G. Meade (which also houses the United States Cyber Command), Redstone Arsenal, Fort Belvoir, San Antonio and Aberdeen Proving Ground. We believe that the

knowledge-based activities of most of our tenants will continue to be a priority in the defense budget as such activities are considered increasingly critical to our national security. Absent passage of further related legislation, budgetary sequestration of funding levels by the United States Government will go into effect on October 1, 2015; if this occurs, our operations may be adversely effected, particularly those of our Strategic Tenant Properties. However, we believe that Federal budget discussions will eventually lead to defense spending levels remaining flat or increasing at the rate of inflation for the next two to three years.

In addition to the effect of the uncertainty in Federal spending discussed above, 2014 also followed an extended period of otherwise challenging economic conditions in the United States and our region that prompted many tenants and prospective tenants to consolidate their operations, close their businesses, downsize their space requirements or cancel or delay expansion plans in our regions, and ultimately placed downward pressure on our occupancy and rental rates. Our properties that are not proximate to Strategic Demand Drivers tend to be more subject to general market conditions. We believe that general market conditions improved in 2014, as traditional office tenants in healthcare, education and professional services industries supported some growth in demand in many of our submarkets in the Baltimore/Washington Corridor. We expect a slow, but continued, recovery to pre-recession occupancy levels for our properties not proximate to Strategic Demand Drivers.

We financed our construction activities while maintaining our capital position in 2014 through:

COPLP's issuance of a \$300.0 million aggregate principal amount of 3.700% Senior Notes, which are unsecured and guaranteed by COPT, 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 redemption of our Series H Preferred Shares and for general corporate purposes;

COPT's redemption of 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 of the securities;

COPT's completion of a public offering of 5.52 million common shares in November at a price of \$27.30 per share for net proceeds of \$148.9 million, after underwriter discounts but before offering expenses, that were contributed to COPLP in exchange for 5.52 million common units. The net proceeds were used primarily to fund our defeasance of, and full satisfaction of our obligations with respect to, the secured nonrecourse mortgage loans discussed below, as well as costs related to the defeasance and satisfaction; and

the defeasance in December of, and full satisfaction of our obligations with respect to, (i) \$103.0 million principal amount of secured nonrecourse mortgage loan due to mature on November 6, 2015 and bearing an interest rate of 5.53% and (ii) \$108.5 million principal amount of secured nonrecourse mortgage loan due to mature on January 1, 2016 and bearing an interest rate of 5.56%, as well as costs related to the defeasance and satisfaction. As a result, we recognized an early extinguishment loss of \$9.1 million.

Due in large part to these transactions and the property dispositions completed in 2014, as of December 31, 2014:

the fixed-rate portion of our debt was 89% (including the effect of variable rate loans subject to interest rate swaps), virtually unchanged from year end 2013;

our weighted average debt maturity was 5.1 years, virtually unchanged from year end 2013; and

the unsecured portion of our debt increased from 63% to 78%.

We discuss significant factors contributing to changes in our net income over the last three years 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;
- our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition; and
- our commitments and contingencies.

We refer to the measure “annualized rental revenue” in various sections of the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of this Annual Report on Form 10-K. Annualized rental revenue is a measure that we use to evaluate the source of our rental revenue as of a point in time. It is computed by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases as of a point in time (ignoring free rent then in effect). Our computation of annualized rental revenue excludes the effect of lease incentives, although the effect of this exclusion is generally not material. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under generally accepted accounting principles in the United States of America (“GAAP”) does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

All of our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Annual Report on Form 10-K exclude the effect of the two properties serving as collateral for debt that was in default due to the expected debt extinguishment via conveyance of such properties (totaling 665,000 square feet that were 36.1% occupied as of December 31, 2014); effective April 1, 2014, all cash flows from such properties belong to the lender.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements. The following section is a summary of certain aspects of those accounting policies involving estimates and assumptions that (1) require our most difficult, subjective or complex judgments in accounting for uncertain matters or matters that are susceptible to change and (2) materially affect our reported operating performance or financial condition. It is possible that the use of different reasonable estimates or assumptions in making these judgments could result in materially different amounts being reported in our consolidated financial statements. While reviewing this section, you should refer to Note 2 to our consolidated financial statements, including terms defined therein.

Acquisitions of Properties

When we acquire properties, we allocate the purchase price to numerous tangible and intangible components. Most of the terms in this bullet section are discussed in further detail in Note 2 to the consolidated financial statements entitled “Acquisitions of Properties.” Our process for determining the allocation to these components requires many estimates and assumptions, including the following: (1) determination of market rental rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases; (3) assumptions used in determining the in-place lease value, if-vacant value and tenant relationship value, including the rental rates, period of time that it would take to lease vacant space and estimated tenant improvement and leasing costs; (4) renewal probabilities; and (5) allocation of the if-vacant value between land and building. A change in any of the above key assumptions can materially change not only the presentation of acquired properties in our consolidated financial statements but also our reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our consolidated balance sheets; the amount of costs assigned to individual properties in multiple property acquisitions; and the amount of gain recognized in our consolidated statements of operations should we determine that the fair value of the acquisition exceeds its cost;

- where the amortization of the components appear over time in our consolidated statements of operations. Allocations to above- and below-market leases are amortized into rental revenue, whereas allocations to most of the other tangible

and intangible assets are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as funds from operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and the timing over which the items are recognized as revenue or expense in our consolidated statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to above- and below-market leases, in-place lease value and tenant relationship value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are written off upon termination. These differences in timing can materially affect our reported results of operations. In addition, we establish lives for tenant relationship values based on our estimates of how long we expect the respective tenants to remain in the properties.

Impairment of Long-Lived Assets

We assess each of our operating properties for impairment quarterly using cash flow projections and estimated fair values that we derive for each of the properties. We update the leasing and other assumptions used in these projections regularly, paying particular attention to properties that have experienced chronic vacancy or face significant market challenges. We review our plans and intentions for our development projects and land parcels quarterly. If our analyses indicate that the carrying values of operating properties, properties in development or land held for future development may be impaired, we perform a recovery analysis for such properties. For long-lived assets to be held and used, we analyze recoverability based on the estimated undiscounted future cash flows expected to be generated from the operations and eventual disposition of the assets over, in most cases, a ten-year holding period. If we believe there is a significant possibility that we might dispose of the assets earlier, we analyze recoverability using a probability weighted analysis of the estimated undiscounted future cash flows expected to be generated from the operations and eventual disposition of the assets over the various possible holding periods. If the analysis indicates that the carrying value of a tested property is not recoverable from estimated future cash flows, it is written down to its estimated fair value and an impairment loss is recognized. If and when our plans change, we revise our recoverability analyses to use the cash flows expected from the operations and eventual disposition of each asset using holding periods that are consistent with our revised plans.

Property fair values are determined based on contract prices, indicative bids, discounted cash flow analyses or yield analyses. Estimated cash flows used in such analyses are based on our plans for the property and our views of market and economic conditions. The estimates consider items such as current and future rental rates, occupancies for the tested property and comparable properties, estimated operating and capital expenditures and recent sales data for comparable properties; most of these items are influenced by market data obtained from real estate leasing and brokerage firms and our direct experience with the properties and their markets. Determining the appropriate capitalization or yield rate also requires significant judgment and is typically based on many factors, including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Changes in the estimated future cash flows due to changes in our plans for a property (especially our expected holding period), views of market and economic conditions and/or our ability to obtain development rights could result in recognition of impairment losses which could be substantial.

Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. Accordingly, decisions to sell certain operating properties, properties in development or land held for development will result in impairment losses if carrying values of the specific properties exceed their estimated fair values less costs to sell. The estimates of fair value consider matters such as recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with prospective purchasers. These estimates are subject to revision as market conditions, and our assessment of such conditions, change.

Assessment of Lease Term

As discussed above, a significant portion of our portfolio is leased to the United States Government, and the majority of those leases consist of a series of one-year renewal options, or provide for early termination rights. In addition, certain other leases in our portfolio provide early termination rights to tenants. Applicable accounting guidance requires us to recognize minimum rental payments on a straight-line basis over the terms of each lease and to assess the lease terms as including all periods for which failure to renew, or continue, the lease imposes a penalty on the lessee in such amounts that renewal, or continuation, appears, at the inception of the lease, to be reasonably assured. Factors we consider when determining whether a penalty is significant include the uniqueness of the purpose or location of the property, the availability of a comparable replacement property, the relative importance or significance of the property to the continuation of the lessee's line of business and the existence of leasehold improvements or other

assets whose value would be impaired by the lessee vacating or discontinuing use of the leased property. For a number of our leases with the United States Government, we have concluded, based on the factors above, that exercise of existing renewal options, or continuation of such leases without exercising early termination rights, is reasonably assured. Changes in these assessments could result in the write-off of any recorded assets associated with straight-line rental revenue and acceleration of depreciation and amortization expense associated with costs we have incurred related to these leases.

Revenue Recognition on Tenant Improvements

Most of our leases involve some form of improvements to leased space. When we are required to provide improvements under the terms of a lease, we need to determine whether the improvements constitute landlord assets or tenant assets. If the improvements are landlord assets, we capitalize the cost of the improvements and recognize depreciation expense associated with such improvements over the shorter of the useful life of the assets or the term of the lease and recognize any payments from the tenant as rental revenue over the term of the lease. If the improvements are tenant assets, we defer the cost of

improvements funded by us as a lease incentive asset and amortize it as a reduction of rental revenue over the term of the lease. Our determination of whether improvements are landlord assets or tenant assets also may affect when we commence revenue recognition in connection with a lease.

In determining whether improvements constitute landlord or tenant assets, we consider numerous factors that may require subjective or complex judgments, including: whether the improvements are unique to the tenant or reusable by other tenants; whether the tenant is permitted to alter or remove the improvements without our consent or without compensating us for any lost fair value; whether the ownership of the improvements remains with us or remains with the tenant at the end of the lease term; and whether the economic substance of the lease terms is properly reflected.

Collectability of Accounts and Deferred Rent Receivable

Allowances for doubtful accounts and deferred rent receivable are established based on quarterly analyses of the risk of loss on specific accounts. The analyses place particular emphasis on past-due accounts and consider information such as the nature and age of the receivables, the payment history of the tenants, the financial condition of the tenants and our assessment of their ability to meet their lease obligations, the basis for any disputes and the status of related negotiations. Our estimate of the required allowance is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on tenants.

Activities we conduct to monitor the credit quality of our tenants include the following: monitoring the timeliness of tenant lease payments; reviewing credit ratings of tenants that are rated by a nationally recognized credit agency prior to such tenants' entry into leases, and monitoring periodically thereafter; reviewing financial statements of tenants that are publicly available or that are required to be provided to us pursuant to the terms of such tenants' leases; and monitoring news reports regarding our tenants.

Accounting Method for Investments

We use three different accounting methods to report our investments in entities: the consolidation method; the equity method; and the cost method (see Note 2 to our consolidated financial statements). We use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. We also consolidate certain entities when control of such entities can be achieved through means other than voting rights ("variable interest entities" or "VIEs") if we are deemed to be the primary beneficiary. Generally, this applies to entities for which either: (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve, or are conducted on behalf of, an investor with a disproportionately small voting interest. We use the equity method of accounting when we own an interest in an entity and can exert significant influence over, but cannot control, the entity's operations.

In making these determinations, we need to make subjective estimates and judgments regarding the entity's future operating performance, financial condition, future valuation and other variables that may affect the cash flows of the entity. We must consider both our and our partner's ability to participate in the management of the entity's operations and make decisions that allow the parties to manage their economic risks. We may also need to estimate the probability of different scenarios taking place over time and their effect on the partners' cash flows. The conclusion reached as a result of this process affects whether or not we use the consolidation method in accounting for our investment or the equity method. Whether or not we consolidate an investment can materially affect our consolidated financial statements.

Accounting for Interest Rate Derivatives

We use interest rate derivatives to hedge the cash flows associated with interest rates on debt, including forecasted borrowings. When we designate a derivative as a cash flow hedge, we defer the effective portion of changes in its fair value to the accumulated other comprehensive income (loss) section of shareholders' equity and recognize the ineffective portion of changes in fair value of derivatives in earnings. If and when a derivative ceases to qualify as a cash flow hedge, we reclassify the associated accumulated other comprehensive income (loss) to net earnings (loss). Our accounting for derivatives requires that we make judgments in determining the nature of the derivatives and their effectiveness as hedges, including ones regarding the likelihood that a forecasted transaction will take place. Therefore, these judgments could materially affect our consolidated financial statements.

Concentration of Operations

Customer Concentration of Property Operations

The table below sets forth the 20 largest tenants in our portfolio of office properties based on percentage of annualized rental revenue:

Tenant	Percentage of Annualized Rental Revenue of Office Properties for 20 Largest Tenants as of December 31,				
	2014	2013	2012		
United States of America	27.6	% 24.8	% 24.2		%
Booz Allen Hamilton, Inc.	5.4	% 5.8	% 5.5		%
Northrop Grumman Corporation (1)	5.0	% 6.1	% 6.3		%
General Dynamics Corporation (1)	4.2	% 4.0	% 3.6		%
The Boeing Company (1)	3.8	% 2.6	% 1.4		%
Computer Sciences Corporation (1)	2.4	% 4.4	% 4.8		%
CareFirst, Inc.	2.2	% 2.0	% 1.9		%
The MITRE Corporation	2.1	% 2.0	% 1.9		%
Wells Fargo & Company (1)	1.7	% 1.6	% 1.7		%
Vadata Inc.	1.3	% N/A	N/A		
AT&T Corporation (1)	1.3	% 1.3	% 1.2		%
L-3 Communications Holdings, Inc. (1)	1.2	% 1.3	% 1.4		%
Science Applications International Corporation (1)	1.0	% 1.0	% 1.0		%
Kratos Defense & Security Solution, Inc. (1)	1.0	% 0.9	% 1.5		%
TASC Inc.	0.9	% 0.9	% N/A		
Raytheon Company (1)	0.9	% 0.9	% 1.1		%
ITT Exelis (1)	0.9	% 1.2	% 1.7		%
KEYW Corporation	0.8	% 0.8	% N/A		
The Johns Hopkins Institutions (1)	0.8	% 0.9	% 0.8		%
Unisys Corporation	0.8	% 0.8	% 0.8		%
The Aerospace Corporation (1)	N/A	1.8	% 1.7		%
Ciena Corporation	N/A	N/A	1.0		%
Lockheed Martin Corporation	N/A	N/A	0.8		%
Subtotal of 20 largest tenants	65.3	% 65.1	% 64.5		%
All remaining tenants	34.7	% 34.9	% 35.5		%
Total	100.0	% 100.0	% 100.0		%

(1) Includes affiliated organizations and agencies and predecessor companies.

The United States Government's concentration increased each of the last two years in large part due to our significant dispositions of properties in which it was not a tenant and its occupancy of a significant portion of our newly-constructed square feet placed into service.

Our Strategic Tenant Properties accounted for 76.6% of our annualized rental revenue from office properties as of December 31, 2014. We expect to maintain a high concentration of revenue from customers in these properties, as discussed further in the section in Item 1 to this Annual Report on Form 10-K entitled "Business and Growth Strategies."

Geographic Concentration of Property Operations

The table below sets forth the regional allocation of our annualized rental revenue of office properties as of the end of the last three calendar years:

Region	Percentage of Annualized Rental Revenue of Office Properties as of December 31,			Number of Office Properties as of December 31,		
	2014	2013	2012	2014	2013	2012
Baltimore/Washington Corridor	52.3	% 49.5	% 49.2	% 91	92	101
Northern Virginia	17.5	% 21.3	% 19.1	% 20	20	19
San Antonio	8.0	% 7.0	% 6.3	% 8	8	8
Huntsville	2.2	% 1.9	% 0.7	% 5	4	1
Washington, DC - Capitol Riverfront	2.8	% 2.8	% 3.1	% 2	2	2
St. Mary's and King George Counties	3.5	% 3.7	% 3.4	% 18	19	19
Greater Baltimore	9.0	% 8.9	% 8.8	% 24	32	32
Greater Philadelphia	2.6	% 2.8	% 2.0	% 3	4	3
Colorado Springs	—	% —	% 5.4	% —	—	20
Other	2.1	% 2.1	% 2.0	% 2	2	3
	100.0	% 100.0	% 100.0	% 173	183	208

The most significant changes in our regional allocations set forth above were due to: significant dispositions of properties (particularly in 2013), including our exit from the Colorado Springs region and dispositions of numerous properties in the Greater Baltimore and Baltimore/Washington Corridor regions; and newly-constructed properties placed into service primarily in the Baltimore/Washington Corridor, Northern Virginia and Huntsville regions.

Occupancy and Leasing

Office Properties

The tables below set forth occupancy information pertaining to our portfolio of operating office properties:

	December 31,			
	2014	2013	2012	
Occupancy rates at period end				
Total	90.9	% 89.1	% 87.8	%
Baltimore/Washington Corridor	93.4	% 91.7	% 89.5	%
Northern Virginia	86.8	% 88.6	% 89.2	%
San Antonio	96.6	% 96.6	% 96.4	%
Huntsville	80.8	% 80.7	% 83.2	%
Washington, DC - Capitol Riverfront	74.4	% 76.4	% 89.0	%
St. Mary's and King George Counties	90.8	% 89.8	% 85.9	%
Greater Baltimore	86.8	% 77.2	% 78.6	%
Greater Philadelphia	96.2	% 93.7	% 100.0	%
Colorado Springs	N/A	N/A	77.6	%
Other	100.0	% 100.0	% 100.0	%
Average contractual annual rental rate per square foot at year end (1)	\$29.27	\$28.99	\$27.92	

(1) Includes estimated expense reimbursements.

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	Rentable Square Feet (in thousands)	Occupied Square Feet
December 31, 2013	17,370	15,484
Square feet vacated upon lease expiration (1)	—	(893)
Occupancy of previously vacant space in connection with new leases (2)	—	638
Square feet constructed or redeveloped	763	796
Dispositions	(303)	(148)
Square feet removed from operations for redevelopment	(371)	—
Square feet of properties to be conveyed		