CORPORATE OFFICE PROPERTIES TRUST
Form 10-K
February 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
(Mark one)

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

For the fiscal year ended December 31, 2015
or

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

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

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

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

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

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

(Title of Each Class)	(Name of Exchange on Which Registered
Common Shares of beneficial interest, $0.01 par value	New York Stock Exchange
Series L Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	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 ý Yes o No
Corporate Office Properties, L.P. ý Yes o 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 o Yes ý No
Corporate Office Properties, L.P. o Yes ý 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 ý Yes o No

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

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

Corporate Office Properties Trust ý Yes o No

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

Indicate by check mark 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. ý

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

Corporate Office Properties, L.P.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Corporate Office Properties Trust o Yes ý No
Corporate Office Properties, L.P. o Yes ý No
The aggregate market value of the voting and nonvoting shares of common stock held by non-affiliates of Corporate Office Properties Trust was approximately $2.2 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, 2015. 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 February 16, 2016, 94,528,118 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 $79.4 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, 2015.
Portions of the proxy statement of Corporate Office Properties Trust for its 2016 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, 2015 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, 2015, COPT owned approximately 96.3% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP. The remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in this Form 10-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 13, Equity of COPT and subsidiaries;
  - Note 14, Equity of COPLP and subsidiaries;
  - Note 19, 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 COPLP."

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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Form 10-K

FORWARD-LOOKING STATEMENTS

This Form 10-K contains "forward-looking" statements, as defined in the Private Securities Litigation Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. 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," "anticip "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 own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support United States Government agencies and their contractors, most of whom are engaged in national security, defense and information technology ("IT") related activities servicing what we believe are growing, durable priority missions ("Defense/IT Locations"). We also own a complementary portfolio of traditional office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics, as well as other properties supporting general commercial office tenants ("Regional Office"). As of December 31, 2015, our properties included the following:

- 177 operating office properties totaling 18.1 million square feet that were 92% occupied, including nine triple-net leased, single-tenant data center properties;
- 13 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.5 million square feet upon completion, including one partially operational property included above;
- 1,439 acres of land we control that we believe are potentially developable into approximately 17.6 million square feet; and
- a wholesale data center with a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of December 31, 2015, COPT owned 96.3% of the outstanding COPLP common units ("common units") and 95.5% of the outstanding COPLP preferred units ("preferred units"); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest ("common shares") of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest ("preferred shares") in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT's common shares are publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "OFC".

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

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 2015, we:

- finished the period with occupancy of our portfolio of operating office properties of 91.6%;
- leased 11.25 megawatts in our wholesale data center. The center became 100% operational during the period and was 92.5% leased as of year end;
- placed into service an aggregate of 1.1 million square feet in seven newly constructed properties and two redeveloped properties that were 97.1% leased as of December 31, 2015;
- acquired:
  - 250 W. Pratt Street, a 367,000 square foot property in Baltimore, Maryland that was 96.2% leased, for $61.8 million on March 19, 2015;
  - 2600 Park Tower Drive, a 237,000 square foot property in Northern Virginia that was 100% leased, for $80.5 million on April 15, 2015; and
  - 100 Light Street, a 558,000 square foot office property in Baltimore, Maryland that was 93.5% leased, and its structured parking garage, 30 Light Street, for $121.2 million on August 7, 2015. In connection with that acquisition, we assumed a $55.0 million mortgage loan;
- disposed of nine office properties totaling 1.6 million square feet and land for transaction values totaling $365.9 million, including:
  - seven office properties (five in Baltimore County, Maryland and two in Northern Virginia) and land sold for $198.5 million; and
  - two office properties in Northern Virgina totaling 665,000 square feet that secured a $150.0 million nonrecourse mortgage loan. On August 28, 2015, ownership in these properties was transferred to the mortgage lender and we removed the debt obligation and accrued interest from our balance sheet;
- issued $300.0 million of 5.00% Senior Notes on June 29, 2015 at an initial offering price of 99.51% of their face value. The proceeds from the issuance, after deducting underwriting discounts but before other offering expenses, were approximately $296.6 million;
- entered into an unsecured term loan agreement on December 17, 2015 with an initial commitment of $250.0 million of which we borrowed $100.0 million; and
- issued 890,241 COPT common shares at a weighted average price of $30.29 per share under our at-the-market stock offering program established in October 2012. Net proceeds from the shares issued totaled $26.6 million. The net proceeds were contributed to COPLP in exchange for 890,241 common units.

On February 10, 2016, our Board of Trustees appointed Stephen E. Budorick, our Executive Vice President and Chief Operating Officer since September 2011, to become our President and Chief Executive Officer effective May 12, 2016, the date of the Company's 2016 Annual Meeting of Shareholders. On that date, Roger A. Waesche, Jr., our current President and Chief Executive Officer, will leave the Company to pursue other interests and he will not be nominated for reelection as a Trustee. The Board expects to appoint Mr. Budorick to our Board of Trustees after the 2016 Annual Meeting of Shareholders.

Business and Growth Strategies

Our primary goal is to deliver attractive and competitive total returns to our shareholders. This section sets forth key components of our business and growth strategies that we have in place to support this goal.

Defense/ IT Locations Strategy: We specialize in serving the unique requirements of tenants of our Defense/IT Locations. The majority of our properties are located adjacent to, or houses, United States Government agencies. Our customers in these properties are primarily United States Government agencies and their contractors engaged in activities servicing what we believe are high priority security, defense and IT missions. These tenants' missions generally pertain to knowledge-based activities (such as cyber security, research and development and other highly technical defense and security areas) rather than to force structure (troops) and weapon system production. A high percentage of our revenue (80.8% as of December 31, 2015) is concentrated in Defense/IT Locations, 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;
- well-established relationships with United States Government agencies and their contractors; 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 tenants of these properties and contributes to high levels of customer loyalty and retention.

Regional Office Strategy: While our primary focus pertains to Defense/IT Locations, we also own a portfolio of traditional office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics, as well as other properties supporting general commercial office tenants. We believe that our Regional Office portfolio enables us to leverage our local expertise in a region into a second growth platform in a way that is complementary to our Defense/IT Locations strategy. Characteristics that we seek in Regional Office submarkets include: (1) mixed-use, lifestyle oriented locations with a robust high-end residential and retail base; (2) proximity to public transportation and major transportation routes; (3) educated workforce; and (4) diverse and growing employment base. We believe that these types of submarkets provide better overall quality and opportunity for long-term, sustained growth than other commercial office submarkets.

Asset Management Strategy: We aggressively manage our portfolio to maximize the value and operating 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. In 2015, we participated for the first time in the GRESB (or Global Real Estate Sustainability Benchmark) survey, which is widely recognized for measuring the sustainability performance of real estate companies and funds, and earned an overall score of "Green Star," which represents the highest quadrant of achievement from the survey.

Property Development and Acquisition Strategy: We pursue property development and acquisition opportunities for properties that fit our Defense/IT Locations and Regional Office strategies and, as discussed above, have significant land holdings that we believe can help fuel future development of Defense/IT Locations in particular. We pursue development activities as market conditions and leasing opportunities support favorable risk-adjusted returns on investment, and therefore typically prefer properties to be significantly leased prior to commencing construction. 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;
- 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. Effective in the quarter ended December 31, 2015, we changed the reportable segments that we use to review operating results and make decisions regarding segment performance and resource allocation. Given the changes in our portfolio resulting from development, acquisition and disposition activities, we made this change to better align our segments with our business strategy by contemplating the market characteristics of our properties. As of December 31, 2015, our commercial office real estate operations included the following: Defense/IT Locations and Regional Office. Our segment reporting also included reporting for Defense/IT Locations sub-segments, which included the following:

- Fort George G. Meade and the Baltimore/Washington Corridor (referred to herein as “Fort Meade/BW Corridor”);
- Northern Virginia Defense I/T Locations;
- Lackland Air Force Base in San Antonio, Texas;
- locations serving the U.S. Navy (referred to herein as “Navy Support Locations”). Properties in this segment as of December 31, 2015 were proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia;
- Redstone Arsenal in Huntsville, Alabama; and
- data center shells, which are properties leased to tenants to be operated as data centers in which the tenants generally fund the costs for the power, fiber connectivity and data center infrastructure. Most of our data center shells as of December 31, 2015 were proximate to the MAE-East Corridor, a major center in the United States for interconnecting traffic between Internet service providers.

As of December 31, 2015, Defense/IT Locations comprised 146 of our office properties, or 79.6% of our square feet in operations, while Regional Office comprised 24 of our office properties, or 17.7% of our square feet in operations. 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 17 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.

Employees

As of December 31, 2015, we had 383 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 we are. 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

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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. These risks and uncertainties may lead to outcomes that could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders. 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, 2015, 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;
- unavailability of financing for potential purchasers of our properties;
- 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.

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.

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. As a result, we would be harmed 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.

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, 2015, our 20 largest tenants accounted for 63.8% of the total annualized rental revenue of our office properties, and the four largest of these tenants accounted for 41.9%. 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, 2015. Information regarding our four largest tenants is set forth below:

Tenant	Annualized Rental Revenue as of December 31, 2015 (in thousands)	Percentage of Total Annualized Rental Revenue of Office Properties	Number of Leases
United States of America	$141,497	29.0%	63
Northrop Grumman Corporation (1)	22,403	4.6%	9
The Boeing Company (1)	21,842	4.5%	12
General Dynamics Corporation (1)	19,163	3.9%	7

(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. We would be harmed 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.

As of December 31, 2015, 80.8% of the total annualized rental revenue of our office properties was from Defense/IT Locations, and we expect to maintain a similarly high revenue concentration in these types of properties. A reduction in government spending targeting the activities of these agencies and contractors (such as knowledge-based defense and security 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 such activities could also decrease or delay leasing activity from tenants engaged in these activities.

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, particularly in the Greater Washington, DC/Baltimore region. 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, we would be harmed by 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.

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, we may be harmed 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.

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 future credit facilities and other loans.

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.

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 intend to sell properties to fund our development plans and reduce debt. Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions, including real estate lending 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. Our failure to successfully execute dispositions could adversely affect our ability to effectively execute our business strategy. 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.

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 default under these facilities by not being able or willing to fund a borrowing request, it would adversely affect our ability to access borrowing capacity under these facilities.

We may be unable to successfully execute plans to acquire existing commercial real estate properties. We may 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.

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.

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. 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.

Certain of our properties containing data centers contain space not suitable for lease other than as data centers, which could make it difficult 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 difficult and costly, and we may, as a result, deem such renovations to be impractical.

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. In addition, we rely on borrowings to fund some or all of the costs of construction and development activities, new property acquisitions 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.

As of December 31, 2015, our scheduled debt maturities over the next five years were as follows:

Year	Amount (1) (in thousands)
2016	$208,109
2017	3,252
2018	3,400
2019	167,014
2020	315,252

(1) Represents principal maturities only and therefore excludes net debt discounts and deferred financing costs. As of December 31, 2015, maturities include $43.5 million in 2019 that may be extended to 2020, 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.

A downgrade in our credit ratings would 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 would have a material adverse impact on our cost and availability of capital 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, in the event of default, 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 in the event of certain default situations. 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, 2015, we had $2.1 billion of indebtedness outstanding. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position.

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.

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.

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.

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.

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, 2016. 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. 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.

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, as well as purchasing available insurance coverage, there can be no absolute assurance that these activities will be effective in mitigating these risks. 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.

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.

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 segments as of December 31, 2015 (dollars and square feet in thousands, except per square foot amounts):

Segment	Number of Buildings	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2)(3)
Defense/IT Locations:						
Fort Meade/BW Corridor:						
National Business Park (Annapolis Junction, MD)	29	3,485	97.4	%	$126,271	$37.19
Howard County, MD	33	2,695	94.6	%	68,916	27.04
Other	28	1,998	89.5	%	47,149	26.37
Subtotal / Average	90	8,178	94.5	%	242,336	31.35
Northern Virginia Defense/IT	13	1,934	81.9	%	50,567	31.91
Lackland Air Force Base	7	953	100.0	%	40,672	42.68
Navy Support Locations	21	1,262	72.1	%	25,333	27.85
Redstone Arsenal	6	632	97.0	%	13,262	21.63
Data Center Shells	9	1,415	100.0	%	22,805	16.11
Defense/IT Locations Subtotal / Average	146	14,374	91.9	%	394,975	29.91
Regional Office (4)	24	3,202	95.4	%	86,996	28.48
Other Properties (5)	7	477	57.3	%	6,691	24.45
Total Portfolio	177	18,053	91.6	%	$488,662	$29.55

(1) This percentage is based upon all rentable square feet under lease terms that were in effect as of December 31, 2015.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2015 (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, 2015. 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, was $29.37 for our total office portfolio, $31.26 for Fort Meade/BW Corridor (our largest Defense/IT Location subsector) and $28.29 for our Regional Office portfolio.

(4) Includes 13 properties classified as held for sale as of December 31, 2015.

(5) Includes two properties classified as held for sale as of December 31, 2015.

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, 2015 (dollars and square feet 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							
Fort Meade/Baltimore/Washington Corridor:							
310 Sentinel Way	National	191	0	%	1Q 2016	$38,838	$15,514
Annapolis Junction, Maryland	Business Park						
7880 Milestone Parkway	Arundel	120	74	%	3Q 2016	29,356	2,179
Hanover, Maryland	Preserve						
540 National Business Parkway	National	145	49	%	4Q 2017	12,636	31,076
Annapolis Junction, Maryland	Business Park						
Subtotal / Average		456	35	%		80,830	48,769
Data Center Shells:							
Patriot Point - DC 15	Ashburn	149	100	%	1Q 2016	19,482	10,268
Ashburn, Virginia	Crossing						
Patriot Point - DC 16	Ashburn	149	100	%	2Q 2016	16,478	13,362
Ashburn, Virginia	Crossing						
Patriot Point - DC 17 (2)	Ashburn	149	100	%	3Q 2016	6,550	16,120
Ashburn, Virginia	Crossing						
Subtotal / Average		447	100	%		42,510	39,750
Northern Virginia Defense/IT:							
NOVA Office B	Other	161	0	%	2Q 2016	30,336	11,164
Northern Virginia	Virginia						
NOVA Office D	Other	240	100	%	1Q 2018	8,473	38,052
Northern Virginia	Virginia						
Subtotal / Average		401	60	%		38,809	49,216
Redstone Arsenal:							
2100 Redstone Gateway	Redstone	19	58	%	2Q 2017	2,677	2,356
Huntsville, Alabama	Gateway						
Total Under Construction		1,323	65	%		$164,826	$140,091
Under Redevelopment							
Fort Meade/Baltimore/Washington Corridor:							
6708 Alexander Bell Drive	Howard County	52	0	%	1Q 2016	$7,918	$3,390
Columbia, MD	Perimeter						
7134 Columbia Gateway Drive	Howard County	22	0	%	1Q 2017	1,923	2,226
Columbia, MD	Perimeter						

1201 Winterson Road (AS 13)	Airport	68	0	%	1Q 2017	10,100	5,751
Linthicum, MD	Square						
Airport Landing - Retail Buildings	Airport	14	56	%	3Q 2017	1,488	4,895
Linthicum, MD	Square						
Airport Landing - Pad Site	Airport	N/A	100	%	4Q 2016	259	405
Linthicum, MD	Square						
Total Under Redevelopment		156	8	%		$21,688	$16,667

(1) Includes land, construction, leasing costs and allocated portion of structured parking and other shared infrastructure, if applicable.
(2) This property became 100% leased on January 8, 2016.

The following table provides certain information about our land held or under pre-construction as of December 31, 2015, including properties under ground lease to us (square feet in thousands):

Segment	Acres	Estimated Developable Square Feet
Defense IT Locations:		
Fort Meade/BW Corridor:		
National Business Park	233	1,956
Howard County	27	590
Other	143	1,629
Total Fort Meade/BW Corridor	403	4,175
NoVA Defense/IT	64	1,614
Lackland AFB	68	1,033
Navy Support Locations	44	109
Redstone Arsenal (1)	428	4,084
Total Defense/IT Locations	1,007	11,015
Regional Office	52	1,613
Total land owned/controlled for future development	1,059	12,628
Other land owned/controlled	282	3,278
Land held for sale	98	1,675
Total land owned/controlled	1,439	17,581

(1) This land is owned by the Unites 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.

The following table provides certain information about our wholesale data center property as of December 31, 2015 (square feet in thousands):

Property and Location	Year Built	Critical Load (in megawatts)	Megawatts Leased
9651 Hornbaker Road - Manassas, VA	2010	19.25	17.81

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, 2015, 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 209,000 square feet executed but yet to commence as of December 31, 2015 (dollars and square feet in thousands, except per square foot amounts):

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)			
2016	105	1,368	8.3	%	$40,830	8.4	%	$29.86
2017	85	1,858	11.2	%	57,284	11.7	%	30.83
2018	98	2,361	14.3	%	73,200	15.0	%	31.00
2019	94	2,221	13.4	%	69,194	14.2	%	31.15
2020	100	2,395	14.5	%	71,797	14.7	%	29.98
2021	51	1,198	7.2	%	34,950	7.1	%	29.18
2022	24	989	6.0	%	31,004	6.3	%	31.34
2023	27	884	5.3	%	19,810	4.0	%	22.41
2024	16	772	4.7	%	17,879	3.6	%	23.15
2025	26	1,752	10.6	%	53,571	11.0	%	30.58
2026	9	379	2.3	%	9,660	2.0	%	25.46
2027	1	32	0.2	%	900	0.2	%	27.78
2028	1	127	0.8	%	3,765	0.8	%	29.70
2030	3	199	1.2	%	4,818	1.0	%	24.22
Total/Weighted Average	640	16,535	100.0	%	$488,662	100.0	%	$29.55

With regard to leases expiring in 2016, we believe that the weighted average annualized rental revenue per occupied square foot for such leases as of December 31, 2015 was, on average, approximately 2% to 3% 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, 2015 (dollars and square feet in thousands):

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)
2016	2	22	4.00	2.00	$4,320
2018	2	1	0.26	0.26	527
2019	1	6	1.00	1.00	2,228
2020	2	19	11.55	13.38	13,343
2022	1	6	1.00	1.00	1,521
Total/Weighted Average	8	54	17.81	17.64	$21,939

(1) The leasing statistics set forth above assume no exercise of any existing early termination rights. Most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms; 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.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2015 multiplied by 12, plus the 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
2014	Low	High	Per Share
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

	Price Range		Dividends
2015	Low	High	Per Share
First Quarter	$28.26	$30.94	$0.2750
Second Quarter	$23.47	$29.87	$0.2750
Third Quarter	$20.13	$24.81	$0.2750
Fourth Quarter	$20.82	$23.96	$0.2750

The number of holders of record of COPT's common shares was 489 as of December 31, 2015. 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, 2015, there were 36 holders of record of COPLP's common units.

COPT's Common Shares Performance Graph

The graph and the table set forth below assume $100 was invested on December 31, 2010 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"):

	Period Ended					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Corporate Office Properties Trust	$100.00	$64.79	$79.78	$79.07	$98.59	$79.45
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75
NAREIT All Equity REIT Index	100.00	108.28	129.62	133.32	170.68	175.51

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, 2011 through 2015. 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)

	2015	2014	2013	2012	2011
Revenues					
Revenues from real estate operations (1)	$519,064	$479,725	$460,997	$434,299	$408,611
Construction contract and other service revenues	106,402	106,748	62,363	73,836	84,345
Total revenues	625,466	586,473	523,360	508,135	492,956
Expenses					
Property operating expenses (1)	194,494	179,934	167,199	159,206	154,375
Depreciation and amortization associated with real estate operations (1)	140,025	136,086	113,214	107,998	107,003
Construction contract and other service expenses	102,696	100,058	58,875	70,576	81,639
Impairment losses (1)	23,289	1,416	5,857	43,678	83,213
General, administrative and leasing expenses (1)	31,361	31,794	30,869	31,900	30,306
Business development expenses and land carry costs	13,507	5,573	5,436	5,711	6,122
Total operating expenses	505,372	454,861	381,450	419,069	462,658
Operating income	120,094	131,612	141,910	89,066	30,298
Interest expense (1)	(89,074)	(92,393)	(82,010)	(86,401)	(90,037)
Interest and other income	4,517	4,923	3,834	7,172	5,603
Gain (loss) on early extinguishment of debt	85,275	(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	120,812	34,590	36,704	8,894	(85,580)
Equity in income (loss) of unconsolidated entities	62	229	2,110	(546)	(331)
Income tax (expense) benefit	(199)	(310)	(1,978)	(381)	6,710
Income (loss) from continuing operations	120,675	34,509	36,836	7,967	(79,201)
Discontinued operations (1)(2)	156	26	55,692	12,353	(51,107)
Income (loss) before gain on sales of real estate	120,831	34,535	92,528	20,320	(130,308)
Gain on sales of real estate, net of income taxes (3)	68,047	10,671	9,016	21	2,732
Net income (loss)	188,878	45,206	101,544	20,341	(127,576)
Net (income) loss attributable to noncontrolling interests	(10,578)	(4,951)	(7,837)	636	8,148
Net income (loss) attributable to COPT	178,300	40,255	93,707	20,977	(119,428)
Preferred share dividends	(14,210)	(15,939)	(19,971)	(20,844)	(16,102)
Issuance costs associated with redeemed preferred shares (4)	—	(1,769)	(2,904)	(1,827)	—
Net income (loss) attributable to COPT common shareholders	$164,090	$22,547	$70,832	$(1,694)	$(135,530)
Basic earnings per common share (5)					

Income (loss) from continuing operations	$1.74	$0.25	$0.21	$(0.19)	$(1.28)
Net income (loss)	$1.74	$0.25	$0.83	$(0.03)	$(1.97)
Diluted earnings per common share (5)					
Income (loss) from continuing operations	$1.74	$0.25	$0.21	$(0.19)	$(1.28)
Net income (loss)	$1.74	$0.25	$0.83	$(0.03)	$(1.97)
Weighted average common shares outstanding – basic	93,914	88,092	85,167	73,454	69,382
Weighted average common shares outstanding – diluted	97,667	88,263	85,224	73,454	69,382

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	2015	2014	2013	2012	2011
Balance Sheet Data (as of year end):					
Total properties, net	$3,349,748	$3,296,914	$3,214,301	$3,163,044	$3,352,975
Total assets (6)	$3,909,312	$3,664,236	$3,621,251	$3,641,935	$3,850,133
Debt (6)	$2,077,752	$1,914,036	$1,919,002	$2,007,344	$2,412,881
Total liabilities (6)	$2,273,530	$2,124,935	$2,106,244	$2,195,138	$2,635,326
Redeemable noncontrolling interests	$19,218	$18,417	$17,758	$10,298	$8,908
Total equity	$1,616,564	$1,520,884	$1,497,249	$1,436,499	$1,205,899
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$204,008	$193,885	$158,979	$191,838	$152,143
Investing activities	$(307,532)	$(209,689)	$(119,790)	$13,744	$(260,387)
Financing activities	$157,757	$(32,492)	$4,590	$(200,547)	$103,701
Numerator for diluted EPS	$169,787	$22,115	$70,418	$(2,163)	$(136,567)
Diluted funds from operations (7)	$249,454	$155,296	$214,149	$165,720	$53,062
Diluted funds from operations per share (7)	$2.55	$1.69	$2.40	$2.13	$0.72
Cash dividends declared per common share	$1.10	$1.10	$1.10	$1.10	$1.65
Property Data (as of year end):					
Number of properties owned (8)	177	173	183	208	238
Total rentable square feet owned (8)	18,053	16,790	17,370	18,831	20,514

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

(2) Includes income derived from 23 operating properties disposed in 2011, 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013 (see Note 18 to our consolidated financial statements).

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

(4) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs 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) Prior period amounts include retrospective adjustments to reclassify net deferred financing costs in connection with recent accounting guidance adopted in 2015.

(7) 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."

(8) Amounts reported reflect only operating office properties.

Corporate Office Properties, L.P. and Subsidiaries
(in thousands, except per share data and number of properties)

	2015	2014	2013	2012	2011
Revenues					
Revenues from real estate operations (1)	$519,064	$479,725	$460,997	$434,299	$408,611
Construction contract and other service revenues	106,402	106,748	62,363	73,836	84,345
Total revenues	625,466	586,473	523,360	508,135	492,956
Expenses					
Property operating expenses (1)	194,494	179,934	167,199	159,206	154,375
Depreciation and amortization associated with real estate operations (1)	140,025	136,086	113,214	107,998	107,003
Construction contract and other service expenses	102,696	100,058	58,875	70,576	81,639
Impairment losses (1)	23,289	1,416	5,857	43,678	83,213
General, administrative and leasing expenses (1)	31,361	31,794	30,869	31,900	30,300
Business development expenses and land carry costs	13,507	5,573	5,436	5,711	6,122
Total operating expenses	505,372	454,861	381,450	419,069	462,652
Operating income	120,094	131,612	141,910	89,066	30,304
Interest expense (1)	(89,074)	(92,393)	(82,010)	(86,401)	(90,037)
Interest and other income	4,517	4,923	3,834	7,172	5,603
Gain (loss) on early extinguishment of debt	85,275	(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	120,812	34,590	36,704	8,894	(85,574)
Equity in income (loss) of unconsolidated entities	62	229	2,110	(546)	(331)
Income tax (expense) benefit	(199)	(310)	(1,978)	(381)	6,710
Income (loss) from continuing operations	120,675	34,509	36,836	7,967	(79,195)
Discontinued operations (1)(2)	156	26	55,692	12,353	(51,107)
Income (loss) before gain on sales of real estate	120,831	34,535	92,528	20,320	(130,302)
Gain on sales of real estate, net of income taxes (3)	68,047	10,671	9,016	21	2,732
Net income (loss)	188,878	45,206	101,544	20,341	(127,570)
Net (income) loss attributable to noncontrolling interests	(3,520)	(3,276)	(3,907)	507	244
Net income (loss) attributable to COPLP	185,358	41,930	97,637	20,848	(127,326)
Preferred unit distributions	(14,870)	(16,599)	(20,631)	(21,504)	(16,762)
Issuance costs associated with redeemed preferred units (4)	—	(1,769)	(2,904)	(1,827)	—
Net income (loss) attributable to COPLP common unitholders	$170,488	$23,562	$74,102	$(2,483)	$(144,088)
Basic earnings per common unit (5)					
Income (loss) from continuing operations	$1.74	$0.25	$0.21	$(0.19)	$(1.29)
Net income (loss)	$1.74	$0.25	$0.83	$(0.04)	$(2.00)
Diluted earnings per common unit (5)					
Income (loss) from continuing operations	$1.74	$0.25	$0.21	$(0.19)	$(1.29)
Net income (loss)	$1.74	$0.25	$0.83	$(0.04)	$(2.00)
Weighted average common units outstanding – basic	97,606	91,989	89,036	77,689	72,564
Weighted average common units outstanding – diluted	97,667	92,160	89,093	77,689	72,564

	2015	2014	2013	2012	2011
Balance Sheet Data (as of year end):					
Total properties, net	$3,349,748	$3,296,914	$3,214,301	$3,163,044	$3,352,975
Total assets (6)	$3,903,549	$3,658,354	$3,613,784	$3,635,159	$3,842,545
Debt (6)	$2,077,752	$1,914,036	$1,919,002	$2,007,344	$2,412,881
Total liabilities (6)	$2,267,767	$2,119,053	$2,098,777	$2,188,362	$2,627,738
Redeemable noncontrolling interests	$19,218	$18,417	$17,758	$10,298	$8,908
Total equity	$1,616,564	$1,520,884	$1,497,249	$1,436,499	$1,205,899
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$204,008	$193,885	$158,979	$191,838	$152,149
Investing activities	$(307,532)	$(209,689)	$(119,790)	$13,744	$(260,387)
Financing activities	$157,757	$(32,492)	$4,590	$(200,547)	$103,695
Numerator for diluted EPU	$169,782	$23,130	$73,688	$(2,952)	$(145,125)
Cash distributions declared per common unit	$1.10	$1.10	$1.10	$1.10	$1.65
Property Data (as of year end):					
Number of properties owned (7)	177	173	183	208	238
Total rentable square feet owned (7)	18,053	16,790	17,370	18,831	20,514

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

(2) Includes income derived from 23 operating properties disposed in 2011, 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013 (see Note 18 to our consolidated financial statements).

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

(4) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs 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) Prior period amounts include retrospective adjustments to reclassify net deferred financing costs in connection with recent accounting guidance adopted in 2015.

(7) 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.

Due to our Defense/IT Locations strategy, a large concentration of our revenue is derived from several large tenants. As of December 31, 2015, 63.8% of our annualized rental revenue (as defined below) from office properties was from our 20 largest tenants, 41.9% from our four largest tenants and 29.0% from our largest tenant, the United States Government. In addition, 80.8% of the total annualized rental revenue of our office properties was from Defense/IT Locations properties.

In 2015, we believe that we improved both the strategic focus and quality of our property portfolio through development, acquisition and disposition activities. For our Defense/IT Locations, we

- placed into service an aggregate of 897,000 square feet in seven newly constructed properties that were 100.0% leased as of December 31, 2015, including three data center shells totaling 421,000 square feet; and

- acquired 2600 Park Tower Drive, a 237,000 square foot property in a transportation-served, urban-like submarket of Northern Virginia that was 100% leased, for $80.5 million on April 15, 2015 primarily using borrowings from our Revolving Credit Facility.

For our Regional Office portfolio, we:

- acquired the following properties in the heart of Baltimore City's central business district:
250 W. Pratt Street, a 367,000 square foot property that was 96.2% leased, for $61.8 million on March 19, 2015 primarily using borrowings from our Revolving Credit Facility; and
100 Light Street, a 558,000 square foot office property in Baltimore, Maryland that was 93.5% leased, and its structured parking garage, 30 Light Street, for $121.2 million on August 7, 2015. In connection with that acquisition, we assumed a $55.0 million mortgage loan, and funded the balance primarily using borrowings from our Revolving Credit Facility; and
- sold seven suburban office properties (five in Baltimore County, Maryland and two in Northern Virginia) totaling 932,000 square feet that were 100% leased upon disposition and land for $198.5 million. The office properties were not located in transportation-served, urban or urban-like locations, and therefore were not deemed to be as strategic as the properties we acquired. While most of the proceeds from these sales were used to repay borrowings under our Revolving Credit Facilty and for general corporate purposes, we also held $57.2 million in cash from these sales as of December 31, 2015 that we expect to use in 2016 to fund development activities.

Our capital activities in 2015 focused on funding our development and acquisition activities and extending our debt maturities by:

- completing the property sales discussed above;
- issuing $300.0 million of 5.000% Senior Notes, which are unsecured and guaranteed by COPT, on June 29, 2015 at an initial offering price of 99.510% of their face value. The proceeds from the offering, after deducting underwriting discounts but before other offering expenses, were approximately $296.6 million. We used the net proceeds of the offering to repay borrowings under our Revolving Credit Facility;
- entering into an unsecured term loan agreement with an initial commitment of $250.0 million, of which we borrowed $100.0 million. We used the proceeds to repay term loan debt previously scheduled to mature in 2016. We have until September 2016 to draw the remaining $150.0 million of the initial commitment, which we expect to use to repay most of our debt maturing in 2016;
- disposing of two office properties in Northern Virgina totaling 665,000 square feet that secured a $150.0 million nonrecourse mortgage loan. On August 28, 2015, ownership in these properties was transferred to the mortgage lender and we removed the debt obligation and accrued interest from our balance sheet; and
- issuing 890,241 COPT common shares at a weighted average price of $30.29 per share under its at-the-market stock offering program established in October 2012. Net proceeds from the shares issued totaled $26.6 million. The net proceeds from the shares issued were contributed to COPLP in exchange for 890,241 common units, and used by COPLP for general corporate purposes.

Our outstanding debt increased in 2015 from year-end 2014 due to the funding requirements of our development and acquisition activities exceeding the effects of the above capital activities. We improved the timing of our debt maturities in 2015 by ending the year with a weighted average debt maturity of 6.1 years, a one-year increase over year-end 2014, and minimal cash or new financing required for scheduled debt maturities through 2018. In addition, the fixed-rate portion of our debt was 90.5% by year-end 2015 (including the effect of variable rate loans subject to interest rate), virtually unchanged from year end 2014.

In the second half of 2015, we determined that we were unwilling to issue common shares at current pricing levels to reduce debt and fund development costs. We concluded instead that sales of selected operating properties and land were our best source of capital. In the preparation of our business plan, we determined that we expect to sell at least $400 million of operating properties and $40 million of land in 2016. In the fourth quarter of 2015, we identified some of these properties that we will attempt to sell, including some land parcels. We also determined that we will not likely develop additional properties on land parcels not proximate to our Defense/IT Locations. As a result of those decisions, we recognized approximately $20 million of impairment losses in the fourth quarter of 2015. As we identify additional properties for sale, we may recognize additional impairment losses.

For an extended number of years, our ability to lease Defense/IT Locations was adversely effected by continuing delays in Federal budget approvals and uncertainty regarding the potential for future reductions in government spending targeting defense. This served to disrupt the Government's process for awarding contracts to prospective tenants, causing significant contraction in the defense contractor sector. In January 2014, the 2014 Consolidated Appropriations Act (the “2014 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 Budget Control Act of 2011. With the passage of the 2014 Act, defense spending levels were essentially flat in 2014 through September 30, 2015. In November 2015, the Bipartisan Budget Act of 2015 (the “2015 Act”) was passed, adding further clarity for the next two fiscal years, including increases in defense funding. The passage of the 2014 Act enabled the Federal Government to resume a more normalized process for awarding contracts by mid-2014, which served to improve leasing activity for our Defense/IT Locations in 2015, and we believe that the passage of the 2015 Act could serve to continue this trend. We believe that the knowledge-based activities of most of our tenants will continue to be a priority in defense budgets as such activities are considered increasingly critical to our national security.

Occupancy for our Regional Office properties as of December 31, 2015 was 95.4% (including properties held for sale), a 0.3% increase from year-end 2014. Our Regional Office properties tend to be more subject to general market conditions than our Defense/IT Locations. Of the 24 Regional Office properties owned by us as of December 31, 2015, 13 were held for sale; the remaining properties were 97.1% occupied as of December 31, 2015.

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 (totaling 665,000 square feet) that served as collateral for debt in default; effective April 1, 2014, all cash flows from such properties belonged to the lender. On August 28, 2015, ownership in these properties was transferred to the mortgage lender and we removed the debt obligation and accrued interest from our balance sheet. These properties were 25.1% occupied as of the date we transferred ownership.

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 estimated 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.

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, 2015		2014		2013	
United States of America	29.0	%	27.6	%	24.8	%
Northrop Grumman Corporation (1)	4.6	%	5.0	%	6.1	%
The Boeing Company (1)	4.5	%	3.8	%	2.6	%
General Dynamics Corporation (1)	3.9	%	4.2	%	4.0	%
Computer Sciences Corporation (1)	2.2	%	2.4	%	4.4	%
Vadata Inc.	2.2	%	1.3	%	N/A	
CareFirst, Inc.	2.1	%	2.2	%	2.0	%
Booz Allen Hamilton, Inc.	2.0	%	5.4	%	5.8	%
Wells Fargo & Company (1)	1.7	%	1.7	%	1.6	%
Harris Corporation	1.3	%	N/A		N/A	
AT&T Corporation (1)	1.2	%	1.3	%	1.3	%
KEYW Corporation	1.2	%	0.8	%	0.8	%
Raytheon Company (1)	1.2	%	0.9	%	0.9	%
Science Applications International Corporation (1)	1.1	%	1.0	%	1.0	%
L-3 Communications Holdings, Inc. (1)	1.1	%	1.2	%	1.3	%
Miles & Stockbridge, PC	1.0	%	N/A		N/A	
Transamerica Life Insurance Company	0.9	%	N/A		N/A	
University of Maryland	0.9	%	N/A		N/A	
Engility Holdings, Inc.	0.9	%	N/A		N/A	
Kratos Defense & Security Solution, Inc. (1)	0.9	%	1.0	%	0.9	%
The MITRE Corporation	N/A		2.1	%	2.0	%
TASC Inc.	N/A		0.9	%	0.9	%
ITT Exelis (1)	N/A		0.9	%	1.2	%
The Johns Hopkins Institutions (1)	N/A		0.8	%	0.9	%
Unisys Corporation	N/A		0.8	%	0.8	%
The Aerospace Corporation (1)	N/A		N/A		1.8	%
Subtotal of 20 largest tenants	63.8	%	65.3	%	65.1	%
All remaining tenants	36.2	%	34.7	%	34.9	%
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 dispositions of properties in which it was not a tenant and its occupancy of newly-constructed square feet placed into service.

Concentration of Property Operations by Segment

The table below sets forth the segment 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, 2015	2014	2013	Number of Office Properties as of December 31, 2015	2014	2013
Defense/IT Locations:						
Fort Meade/BW Corridor	49.6 %	51.7 %	49.0 %	90	90	91
Northern Virginia Defense/IT	10.3 %	7.7 %	12.4 %	13	11	13
Lackland Air Force Base	8.3 %	7.6 %	6.6 %	7	6	6
Navy Support Locations	5.2 %	6.2 %	6.5 %	21	20	21
Redstone Arsenal	2.7 %	2.2 %	1.9 %	6	5	4
Data Center Shells	4.7 %	4.0 %	3.1 %	9	6	4
Total Defense/IT Locations	80.8 %	79.4 %	79.5 %	146	138	139
Regional Office	17.8 %	19.0 %	19.1 %	24	28	37
Other	1.4 %	1.6 %	1.4 %	7	7	7
	100.0 %	100.0 %	100.0 %	177	173	183

The increases in the Lackland Air Force Base, Redstone Arsenal and Data Center Shells segments were due to newly constructed properties placed in service. The decrease in Regional Office was due primarily to property dispositions.

Occupancy and Leasing

Office Properties

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

	December 31, 2015	2014	2013
Occupancy rates at period end			
Total	91.6 %	90.9 %	89.1 %
Defense/IT Locations:			
Fort Meade/BW Corridor	94.5 %	93.3 %	91.6 %
Northern Virginia Defense/IT	81.9 %	75.7 %	85.1 %
Lackland Air Force Base	100.0 %	100.0 %	100.0 %
Navy Support Locations	72.1 %	86.0 %	86.0 %
Redstone Arsenal	97.0 %	80.8 %	80.7 %
Data Center Shells	100.0 %	100.0 %	100.0 %
Regional Office	95.4 %	95.1 %	88.4 %
Other	57.3 %	61.1 %	55.6 %
Average contractual annual rental rate per square foot at year end (1)	$29.55	$29.27	$28.99

(1) Includes estimated expense reimbursements.

	Rentable Square Feet (in thousands)	Occupied Square Feet
December 31, 2014	16,790	15,255
Square feet vacated upon lease expiration (1)	—	(530)
Occupancy of previously vacated space in connection with new leases (2)	—	484
Square feet constructed or redeveloped	1,067	1,138
Acquisitions	1,162	1,123
Dispositions	(932)	(932)
Square feet removed from operations for redevelopment	(22)	—
Other changes	(12)	(3)
December 31, 2015	18,053	16,535

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

Please refer to the section above entitled "Overview" for discussion regarding our leasing activity in 2015 and our expectations regarding the future outlook. As the table above reflects, the increase in our total occupancy from December 31, 2014 to December 31, 2015 was attributable primarily to high occupancy rates in newly constructed or redeveloped space placed into service and properties acquired during the year. Occupancy of our Same Office Properties was 90.9% at December 31, 2015, up slightly from 90.6% at December 31, 2014. With regard to our segment occupancy trends, including changes from December 31, 2014 to December 31, 2015:

- Fort Meade/BW Corridor: Occupancy increased due in large part to a fully-occupied, newly constructed property placed into service and occupancy of previously vacated space in connection with new leases. We renewed 77.1% of the square footage of our scheduled lease expirations for the year in this segment. Fort Meade continues to be among the strongest demand drivers of our Defense/IT Locations;
- Northern Virginia: Occupancy increased due primarily to a property acquired and a newly constructed property placed in service, each of which were fully occupied. Certain of our submarkets in this segment are experiencing weak market conditions, including surplus supply for space. While ten of our 13 properties in this segment had a weighted average occupancy rate of 98.0% as of December 31, 2015, the other three properties' weighted average occupancy rate was 43.5%. However, only 73,000, or 4%, of the segment's square feet had scheduled lease expirations in 2016;
- Navy Support Locations: Occupancy decreased due primarily to our renewal of 58.7% of the square footage of our scheduled lease expirations for the year and placing into service a vacant redeveloped building. As in Northern Virginia, we are also experiencing weak demand in each of our three submarkets comprising this segment, which is creating downward pressure on rental rates. In addition, 208,000, or 16.5%, of the segment's square feet had scheduled lease expirations in 2016; and
- Redstone Arsenal: Occupancy increased due primarily to occupancy commencing on a previously vacant 62,000 square foot property and a fully-occupied, newly constructed property placed into service.

In 2015, we completed 2.5 million square feet of leasing, including 735,000 square feet of construction and redevelopment space. Our construction and redevelopment leasing was highlighted by four data center shells leased in Northern Virginia totaling 597,000 square feet and 71,000 square feet leased in a property in the Fort Meade/BW Corridor segment. As of December 31, 2015, we had 1.3 million square feet under construction that were 65% leased and 156,000 under redevelopment that were 8% leased.

In 2015, we renewed leases on 1.3 million square feet, representing 70.6% of the square footage of our lease expirations (including the effect of early renewals). The annualized rents of these renewals (totaling $26.72 per square foot) decreased on average by approximately 2.6% and the revenue under GAAP (totaling $27.06 per square foot) increased on average by approximately 6.5% relative to the leases previously in place for the space. The renewed leases had a weighted average lease term of approximately 4.3 years and the average estimated tenant improvements and lease costs associated with completing the leasing was approximately $12.58 per square foot.

In 2015, we also completed 515,000 square feet in other leasing, consisting primarily of space previously leased by us to tenants that was subsequently vacated (also referred to as re-tenanted space). The annualized rents of this other leasing totaled $25.38 per square foot and the revenue under GAAP totaled $25.86 per square foot; these leases had a weighted average lease term of approximately 6.3 years and the average estimated tenant improvements and lease costs associated with completing this leasing was approximately $43.49 per square foot.

Our weighted average lease term for office properties at December 31, 2015 was approximately 4.9 years. The table below sets forth as of December 31, 2015 our scheduled lease expirations of office properties by region in terms of percentage of annualized rental revenue:

	Expiration of Annualized Rental Revenue of Office Properties						
	2016	2017	2018	2019	2020	Thereafter	Total
Defense/ IT Locations							
Fort Meade/BW Corridor	5.9 %	8.7 %	6.9 %	9.5 %	7.8 %	10.8 %	49.6 %
Northern Virginia Defense/IT	0.3 %	1.5 %	2.2 %	2.6 %	0.7 %	3.0 %	10.3 %
Lackland Air Force Base	0.0 %	0.0 %	0.0 %	0.0 %	1.9 %	6.4 %	8.3 %
Navy Support Locations	1.0 %	0.3 %	1.0 %	0.2 %	1.4 %	1.3 %	5.2 %
Redstone Arsenal	0.0 %	0.0 %	1.3 %	0.3 %	0.6 %	0.5 %	2.7 %
Data Center Shells	0.0 %	0.0 %	0.5 %	0.0 %	0.0 %	4.2 %	4.7 %
Regional Office	1.1 %	1.1 %	2.9 %	1.3 %	2.0 %	9.4 %	17.8 %
Other	0.1 %	0.1 %	0.1 %	0.3 %	0.3 %	0.5 %	1.4 %
Total	8.4 %	11.7 %	14.9 %	14.2 %	14.7 %	36.1 %	100.0 %

With regard to leases expiring in 2016, we believe that the weighted average annualized rental revenue per occupied square foot for such leases at December 31, 2015 was, on average, approximately 2% to 3% higher than estimated current market rents for the related space, with specific results varying by segment.

The leasing statistics set forth above assume no exercise of any early termination rights. Most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms; 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.

Wholesale Data Center Property

We completed development of our 19.25 megawatt wholesale data center in 2015 and, in February 2015, leased 11.25 megawatts with occupancy that commenced in stages. The center became 100% operational during the period. As of December 31, 2015, 17.8 of the center's megawatts were leased to tenants with further expansion rights of up to a combined 18.9 megawatts.

Results of Operations

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

- office properties owned and 100% operational throughout the two years being compared, excluding properties held for future disposition. We define these as changes from "Same Office Properties." For further discussion of the concept of "operational," you should refer to the section of Note 2 of the consolidated financial statements entitled "Properties";
- office properties acquired during the two years being compared;
- constructed or redeveloped office properties placed into service that were not 100% operational throughout the two years being compared;
- our wholesale data center;
- properties held for sale as of December 31, 2015; and
- property dispositions.

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

We believe that operating income, as reported on our consolidated statements of operations, is the most directly comparable GAAP measure for both NOI from real estate operations and NOI from service operations. Since both of these measures exclude certain items includable in operating income, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures.

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

	For the Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
NOI from real estate operations	$324,580	$299,912	$317,929
NOI from service operations	3,706	6,690	3,488
NOI from discontinued operations	(10)	(121)	(24,131)
Depreciation and amortization associated with real estate operations	(140,025)	(136,086)	(113,214)
Impairment losses	(23,289)	(1,416)	(5,857)
General, administrative and leasing expenses	(31,361)	(31,794)	(30,869)
Business development expenses and land carry costs	(13,507)	(5,573)	(5,436)
Operating income	$120,094	$131,612	$141,910

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

	For the Years Ended December 31,		
	2015	2014	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	$519,064	$479,725	$39,339
Construction contract and other service revenues	106,402	106,748	(346)
Total revenues	625,466	586,473	38,993
Expenses			
Property operating expenses	194,494	179,934	14,560
Depreciation and amortization associated with real estate operations	140,025	136,086	3,939
Construction contract and other service expenses	102,696	100,058	2,638
Impairment losses	23,289	1,416	21,873
General, administrative and leasing expenses	31,361	31,794	(433)
Business development expenses and land carry costs	13,507	5,573	7,934
Total operating expenses	505,372	454,861	50,511
Operating income	120,094	131,612	(11,518)
Interest expense	(89,074)	(92,393)	3,319
Interest and other income	4,517	4,923	(406)
Gain (loss) on early extinguishment of debt	85,275	(9,552)	94,827
Equity in income of unconsolidated entities	62	229	(167)
Income tax expense	(199)	(310)	111
Income from continuing operations	120,675	34,509	86,166
Discontinued operations	156	26	130
Gain on sales of real estate, net of income taxes	68,047	10,671	57,376
Net income	$188,878	$45,206	$143,672

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NOI from Real Estate Operations

	For the Years Ended December 31,		
	2015	2014	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	$321,803	$321,606	$197
Lease termination revenue	2,366	1,618	748
Tenant recoveries and other real estate operations revenue	85,003	83,936	1,067
Same Office Properties total revenues	409,172	407,160	2,012
Constructed and redeveloped properties placed in service	31,553	9,967	21,586
Acquired office properties	20,176	—	20,176
Wholesale data center	19,032	10,430	8,602
Properties held for sale	12,692	12,022	670
Dispositions	25,763	38,851	(13,088)
Other	680	1,281	(601)
	519,068	479,711	39,357
Property operating expenses			
Same Office Properties	152,571	149,417	3,154
Constructed and redeveloped properties placed in service	7,662	2,357	5,305
Acquired office properties	8,219	—	8,219
Wholesale data center	10,402	7,286	3,116
Properties held for sale	5,011	4,633	378
Dispositions	10,501	14,397	(3,896)
Other	122	1,709	(1,587)
	194,488	179,799	14,689
NOI from real estate operations			
Same Office Properties	256,601	257,743	(1,142)
Constructed and redeveloped properties placed in service	23,891	7,610	16,281
Acquired office properties	11,957	—	11,957
Wholesale data center	8,630	3,144	5,486
Properties held for sale	7,681	7,389	292
Dispositions	15,262	24,454	(9,192)
Other	558	(428)	986
	$324,580	$299,912	$24,668
Same Office Properties rent statistics			
Average occupancy rate	90.6%	91.1%	-0.5%
Average straight-line rent per occupied square foot (1)	$24.51	$24.36	$0.15

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

Our Same Office Properties pool consisted of 145 office properties, comprising 80.3% of our operating office square footage as of December 31, 2015. This pool of properties included the following changes from the pool used for purposes of comparing 2014 and 2013 in our 2014 Annual Report on Form 10-K: the addition of eight properties placed in service and 100% operational by January 1, 2014; and the removal of 15 properties reclassified to held for sale in 2015, seven properties disposed of and one property reclassified as redevelopment in 2015.

Our NOI from constructed and redeveloped office properties placed in service included 14 properties placed in service in 2014 and 2015, and our NOI from acquired office properties included our acquisitions of 250 W. Pratt Street, 2600 Park Tower Drive and 100 and 30 Light Street.

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

Depreciation and Amortization Expense

The increase in depreciation and amortization expense was attributable primarily to:

- additional expense in 2015 of $10.7 million from our office property acquisitions, $4.4 million from properties placed in service and $3.1 million from our shortening the useful lives of properties that were removed from service for redevelopment; offset in part by
- additional expense in 2014 of $12.9 million from our shortening the useful life of a property that was removed from service for redevelopment.

Impairment Losses

The increase in impairment losses was attributable primarily to the following losses recognized in 2015:

- $12.8 million on land in Colorado Springs, Colorado. We classified some of this land as held for sale in the fourth quarter of 2015, at which time we adjusted the land to its estimated fair value less costs to sell. Due to the impairment loss on the land held for sale, we updated our estimates of fair value for other land owned in Colorado Springs and determined that the carrying value of some of this land exceeded such land’s estimated fair value, which resulted in recognition of an additional impairment loss; and
- $6.6 million on land in Aberdeen, Maryland. After concluding in 2015 that we no longer expected to develop operating properties on the land, we determined that the carrying amount of the land would not likely be recovered from the sale of this property over the likely remaining holding period. Accordingly, we adjusted the land to its estimated fair value;

General, Administrative and Leasing Expenses

We capitalize compensation and indirect costs associated with properties, or portions thereof, undergoing construction, development and redevelopment activities, and also capitalize such costs associated with internal-use software development. We also capitalize compensation costs associated with obtaining new tenant leases or extending existing tenants. Capitalized compensation and indirect costs were as follows:

	For the Years Ended December 31,	
	2015	2014
	(in thousands)	
Construction, development, redevelopment, capital and tenant improvements	$7,615	$7,893
Leasing	1,331	1,461
Total	$8,946	$9,354

Business Development Expenses and Land Carry Costs

The increase in business development expenses and land carry costs was due primarily to additional expense in 2015 of $4.1 million in acquisition costs expensed in connection with operating property acquisitions and $1.4 million in demolition costs on properties undergoing redevelopment.

Interest Expense

The table below sets forth the components of our interest expense included in continuing operations:

	For the Years Ended December 31,		
	2015	2014	Variance
	(in thousands)		
Interest on Unsecured Senior Notes	$45,525	$33,302	$12,223
Interest on mortgage and other secured loans			
Interest, excluding default rate on debt to be extinguished	22,644	37,857	(15,213)
Interest under default rate on debt extinguished via property conveyance	5,270	5,806	(536)
Interest on unsecured term loans	9,469	10,282	(813)
Amortization of deferred financing costs	4,466	4,666	(200)
Interest expense recognized on interest rate swaps	3,599	2,990	609
Interest on Revolving Credit Facility	1,771	232	1,539
Other interest	3,481	3,323	158
Capitalized interest	(7,151)	(6,065)	(1,086)
Interest expense included in continuing operations	$89,074	$92,393	$(3,319)

Our average outstanding debt increased from $2.0 billion in 2014 to $2.1 billion in 2015, while our weighted average effective interest rate on debt under generally accepted accounting principles decreased from 4.6% in 2014 to 4.3% in 2015 (or from 4.3% in 2014 to 4.0% in 2015 excluding the effect of the default interest on the debt that we extinguished via property conveyance). The overall decrease in interest expense was due primarily to our fixed rate mortgage loans extinguished in 2014 and 2015 having higher interest rates than our newer debt issuances and borrowings. The changes reflected in the table above also reflect our increased emphasis on unsecured borrowing over mortgage and other secured borrowings. Interest expense for Unsecured Senior Notes increased due to our initial note issuances in May 2014 and June 2015. Capitalized interest increased due primarily to increased volume in active construction and development projects.

Gain (Loss) on Early Extinguishment of Debt

We recognized a gain on early extinguishment of debt of $85.7 million in the current year primarily in connection with our transfer of ownership in two properties serving as collateral for a $150.0 million nonrecourse mortgage loan to the mortgage lender and the removal of the debt obligation and accrued interest from our balance sheet. The loss on early extinguishment of debt in the prior year was attributable primarily to a $9.1 million loss recognized in connection with the defeasance of, and full satisfaction of our obligations with respect to, two secured nonrecourse mortgage loans with a $211.5 million aggregate principal amount.

Gain on Sales of Real Estate, Net

We recognized gain on sales of real estate in 2015 of $64.1 million in connection with office properties dispositions and $4.0 million in connection with land sales. We recognized gain on sales of real estate in 2014 of $5.6 million in connection with a land sale and $5.1 million in connection with dispositions of operating properties.

Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013

	For the Years Ended December 31,		
	2014	2013	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	$479,725	$460,997	$18,728
Construction contract and other service revenues	106,748	62,363	44,385
Total revenues	586,473	523,360	63,113
Expenses			
Property operating expenses	179,934	167,199	12,735
Depreciation and amortization associated with real estate operations	136,086	113,214	22,872
Construction contract and other service expenses	100,058	58,875	41,183
Impairment losses	1,416	5,857	(4,441)
General, administrative and leasing expense	31,794	30,869	925
Business development expenses and land carry costs	5,573	5,436	137
Total operating expenses	454,861	381,450	73,411
Operating income	131,612	141,910	(10,298)
Interest expense	(92,393)	(82,010)	(10,383)
Interest and other income	4,923	3,834	1,089
Loss on early extinguishment of debt	(9,552)	(27,030)	17,478
Equity in income of unconsolidated entities	229	2,110	(1,881)
Income tax expense	(310)	(1,978)	1,668
Income from continuing operations	34,509	36,836	(2,327)
Discontinued operations	26	55,692	(55,666)
Gain on sales of real estate, net of income taxes	10,671	9,016	1,655
Net income	$45,206	$101,544	$(56,338)

NOI from Real Estate Operations

	For the Years Ended December 31,		
	2014	2013	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	$304,667	$302,343	$2,324
Lease termination revenue	1,618	2,270	(652)
Tenant recoveries and other real estate operations revenue	82,165	73,804	8,361
Same Office Properties	388,450	378,417	10,033
Constructed and redeveloped properties placed in service	28,677	9,890	18,787
Wholesale data center	10,430	7,271	3,159
Properties held for sale	12,022	11,394	628
Dispositions	38,852	86,562	(47,710)
Other	1,280	5,099	(3,819)
Other	479,711	498,633	(18,922)
Property operating expenses			
Same Office Properties	143,998	136,023	7,975
Constructed and redeveloped properties placed in service	7,725	2,543	5,182
Wholesale data center	7,286	6,360	926
Properties held for sale	4,633	4,002	631
Dispositions	14,397	30,107	(15,710)
Other	1,760	1,669	91
	179,799	180,704	(905)
NOI from real estate operations			
Same Office Properties	244,452	242,394	2,058
Constructed and redeveloped properties placed in service	20,952	7,347	13,605
Wholesale data center	3,144	911	2,233
Properties held for sale	7,389	7,392	(3)
Dispositions	24,455	56,455	(32,000)
Other	(480)	3,430	(3,910)
	$299,912	$317,929	$(18,017)
Same Office Properties rent statistics			
Average occupancy rate	91.7%	90.4%	1.3%
Average straight-line rent per occupied square foot (1)	$24.80	$24.90	$(0.10)

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

The increases in tenant recoveries and other real estate operations revenue and property operating expenses from our Same Office Properties were primarily due to increases in expenses resulting mostly from higher than normal snowfall and lower than normal temperatures in the Mid-Atlantic region in 2014 and an increase in certain other directly reimbursable expenses.

Our Same Office Properties pool consisted of 137 office properties, comprising 79.8% of our operating office square footage as of December 31, 2014. This pool of properties changed from the pool used for purposes of comparing 2014 and 2013 in our 2014 Annual Report on Form 10-K due to the removal of 15 properties reclassified to held for sale in 2015, seven property disposed of and one property reclassified as redevelopment in 2015.

Our NOI from constructed office properties placed in service included 13 properties placed in service in 2013 and 2014.

Depreciation and Amortization Expense

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

NOI from Service Operations

	For the Years Ended December 31,		
	2014	2013	Variance
	(in thousands)		
Construction contract and other service revenues	$106,748	$62,363	$44,385
Construction contract and other service expenses	100,058	58,875	41,183
NOI from service operations	$6,690	$3,488	$3,202

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

Impairment Losses

We recognized the impairment losses described below in 2014 and 2013:

- $1.4 million in 2014 primarily in connection with certain of our operating properties in White Marsh, Maryland (included in our Regional Office segment) that we decided to sell and whose carrying amounts exceeded the cash flows from the operations and sales of the properties over the shortened period. These properties were subsequently disposed during the year;
- for certain of our operating properties that served as collateral for a nonrecourse loan, we expected that the cash flows to be generated by the properties would be insufficient to fund debt service requirements on the loan. While we sought to negotiate various alternatives with the lender, on December 23, 2013, we conveyed the properties to the lender to extinguish the loan. We recognized non-cash impairment losses of $11.0 million (all classified as discontinued operations and including $560,000 in exit costs) on these properties in 2013 resulting primarily from the carrying amount of certain of these properties located in Colorado Springs, Colorado (included in our Regional Office and Colorado Defense/IT Locations segments) exceeding their fair value;
- $15.2 million in 2013 (all classified as discontinued operations and including $419,000 in exit costs) in connection with properties and land no longer aligned with our strategy that we sold, mostly in Colorado Springs (operating properties included primarily in our Regional Office and Colorado Defense/IT Locations segments); and
- $5.9 million in 2013 on two properties in White Marsh, Maryland (included in our Regional Office segment) that we concluded no longer met our investment criteria during the year and whose carrying amounts exceeded the cash flows from the operations and sales of the properties over the shortened period.

General, Administrative and Leasing Expenses

Capitalized compensation and indirect costs were as follows:

	For the Years Ended December 31,	
	2014	2013
	(in thousands)	
Construction, development, redevelopment, capital and tenant improvements	$7,893	$8,189
Leasing	1,461	1,408
Total	$9,354	$9,597

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Interest Expense

The table below sets forth the components of our interest expense included in continuing operations:

	For the Years Ended December 31,		
	2014	2013	Variance
	(in thousands)		
Interest on mortgage and other secured loans			
Interest, excluding default rate on debt to be extinguished	$37,857	$55,105	$(17,248)
Interest under default rate on debt extinguished via property conveyance	5,806	—	5,806
Interest on Unsecured Senior Notes	33,302	12,294	21,008
Interest on unsecured term loans	10,282	13,633	(3,351)
Amortization of deferred financing costs	4,666	5,451	(785)
Interest expense recognized on interest rate swaps	2,990	2,741	249
Interest on Revolving Credit Facility	232	968	(736)
Interest on Exchangeable Senior Notes	34	5,824	(5,790)
Other interest	3,289	3,000	289
Capitalized interest	(6,065)	(8,785)	2,720
Total interest expense, net of capitalized interest	92,393	90,231	2,162
Interest expense reclassified to discontinued operations	—	(8,221)	8,221
Interest expense included in continuing operations	$92,393	$82,010	$10,383

Aside from the incremental additional interest expense associated with the default rate on debt that was extinguished via property conveyance, most of the changes in interest expense reflected above are the result of our emphasis on improving our capital position primarily through the repayment of existing borrowings using proceeds from the property sales, public offerings of equity and new unsecured borrowings. Interest expense for Unsecured Senior Notes increased due to our initial note issuances in May and September 2013 and an additional issuance in May 2014. Interest expense for Exchangeable Senior Notes decreased due to our repayment of almost all of these notes during 2013. Capitalized interest decreased due primarily to our completion of significant construction and development projects that were not immediately offset by new projects.

Loss on Early Extinguishment of Debt

The loss on early extinguishment of debt in 2014 was attributable primarily to a $9.1 million loss recognized in connection with the defeasance of, and full satisfaction of our obligations with respect to, two secured nonrecourse mortgage loans with a $211.5 million aggregate principal amount. The loss on early extinguishment of debt in 2013 was attributable primarily to a $25.9 million loss recognized on our repayment of a $239.4 million principal amount of our 4.25% Exchangeable Senior Notes.

Discontinued Operations

The decrease in discontinued operations was due to a $67.8 million gain on early extinguishment of debt recognized on our conveyance of properties to the lender of a non recourse loan to extinguish the loan in December 2013.

Gain on Sales of Real Estate, Net

In 2014, we recognized gain on sales of real estate of $5.6 million in connection with the disposition of a non-operating property and $5.1 million in connection with dispositions of operating properties in White Marsh, Maryland. For 2013, our gain on sales of real estate, net (excluding amounts in discontinued operations) included a

$6.3 million gain on the substantive disposition of our investment in an unconsolidated real estate joint venture and a $2.7 million gain from our disposition of land parcels in White Marsh, Maryland.

Adjusted EBITDA Interest Coverage Ratio and Adjusted EBITDA Fixed Charge Coverage Ratio

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is net income adjusted for the effects of interest expense, depreciation and amortization, impairment losses, gain on sales of properties, gain or loss on early extinguishment of debt, net gain on unconsolidated entities, operating property acquisition costs, loss on interest rate derivatives, income taxes, business development expenses, demolition costs on redevelopment properties and executive transition costs, and excluding the effect of properties serving as collateral for debt which is in default that we extinguished via conveyance of such properties. The adjustment for the effect of properties that served as collateral for debt in default that we extinguished via conveyance of such properties pertains to the periods subsequent to our default on the loan’s payment terms, which was the result of our decision to not support payments on the loan since the estimated fair value of the properties was less than the loan balance. While we continued as the legal owner of the properties during this period up until the transfer ownership, all cash flows produced by them went directly to the lender and we did not fund any debt service shortfalls. In 2015, we changed our methodology for reporting Adjusted EBITDA to exclude the effect of business development expenses since such expenses pertain to the pursuit of new business opportunities rather than normal operations; Adjusted EBITDA for prior periods has been revised to conform with the change in methodology. We believe that Adjusted EBITDA is a useful supplemental measure for assessing our un-levered performance. We believe that net income, as reported on our consolidated statements of operations, is the most directly comparable GAAP measure to Adjusted EBITDA. Adjusted EBITDA excludes items that are included in net income, including some that require cash outlays; we compensate for this limitation by using the measure simply as a supplemental measure that is considered alongside other GAAP and non-GAAP measures. It should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service.

We use Adjusted EBITDA to calculate Adjusted EBITDA Interest Coverage Ratio and Adjusted EBITDA Fixed Charge Coverage Ratio. We calculate Adjusted EBITDA interest coverage by dividing Adjusted EBITDA by interest expense on continuing and discontinued operations (excluding amortization of deferred financing costs and amortization of debt discounts and premiums, net of amounts capitalized, gains or losses on interest rate derivatives and interest expense on debt in default which we have extinguished, or expect to extinguish, via conveyance of properties). We calculate Adjusted EBITDA fixed charge coverage ratio by dividing Adjusted EBITDA by the sum of: (1) interest expense on continuing and discontinued operations (excluding amortization of deferred financing costs and amortization of debt discounts and premiums, net of amounts capitalized, gains or losses on interest rate derivatives and interest expense on debt in default to be extinguished via conveyance of properties); (2) scheduled principal amortization on mortgage loans; (3) capitalized interest; (4) dividends on preferred shares; and (5) distributions on preferred units in the Operating Partnership not owned by COPT.

The tables below set forth the computation of Adjusted EBITDA interest and fixed charge coverage ratios of COPT and subsidiaries and reconciliations of Adjusted EBITDA to net income reported on the COPT's consolidated statements of operations:

	For the Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Net income	$188,878	$45,206	$101,544
Interest expense (1)	89,074	92,393	90,231
Income tax expense (2)	199	310	1,978
Depreciation and amortization (1)	142,231	138,490	119,773
Impairment losses (1)	23,523	1,419	32,047
(Gain) loss on early extinguishment of debt (1)	(85,655)	9,668	(40,780)
Gain on sales of operating properties	(64,062)	(5,117)	(9,004)
Gain on sales of non-operating properties	(3,985)	(5,578)	(2,683)
Net loss on investments in unconsolidated entities included in interest and other income	127	291	206
Business development expenses	4,775	2,680	2,688
Operating property acquisition costs	4,134	—	—
EBITDA from properties conveyed to extinguish debt in default	(768)	(2,091)	—
Demolition costs on redevelopment properties	1,396	—	—
Executive transition costs	—	1,056	—
Adjusted EBITDA	$299,867	$278,727	$296,000
Interest expense (1)	$89,074	$92,393	$90,231
Less: Amortization of deferred financing costs	(4,466)	(4,666)	(5,451)
Less: Amortization of net debt discounts and premiums, net of amounts capitalized	(1,166)	(920)	(1,015)
Less: Loss on interest rate derivatives	(386)	—	—
Less: Interest expense on debt in default extinguished via conveyance of properties	(11,224)	(12,684)	—
Denominator for Adjusted EBITDA interest coverage ratio	$71,832	$74,123	$83,765
Scheduled principal amortization	6,728	6,517	9,481
Capitalized interest	7,151	6,065	8,785
Preferred share dividends	14,210	15,939	19,971
Preferred unit distributions	660	660	660
Denominator for Adjusted EBITDA fixed charge coverage ratio	$100,581	$103,304	$122,662
Adjusted EBITDA interest coverage ratio	4.2x	3.8x	3.5x
Adjusted EBITDA fixed charge coverage ratio	3.0x	2.7x	2.4x

(1) Includes amounts included in continuing operations and discontinued operations.
(2) Includes income taxes on continuing operations and gains on sales of real estate.

Funds from Operations

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

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

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

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

Diluted FFO available to common share and common unit holders, as adjusted for comparability is defined as Diluted FFO adjusted to exclude: operating property acquisition costs; gains on sales of, and impairment losses on, properties other than previously depreciated operating properties, net of associated income tax; gain or loss on early extinguishment of debt; FFO associated with properties securing non-recourse debt on which we have defaulted and which we have extinguished, or expect to extinguish, via conveyance of such properties, including property NOI and interest expense (discussed further below); loss on interest rate derivatives; demolition costs on redevelopment properties; executive transition costs; and issuance costs associated with redeemed preferred shares. We believe that the excluded items are not reflective of normal operations and, as a result, we believe that a measure that excludes these items is a useful supplemental measure in evaluating our operating performance. The adjustment for FFO associated with properties securing non-recourse debt on which we have defaulted pertains to the periods subsequent to our default on one loan’s payment terms, which was the result of our decision to not support payments on the loan since the estimated fair value of the properties was less than the loan balance. While we continued as the legal owner of the properties during this period up until the transfer ownership, all cash flows produced by them went directly to the lender and we did not fund any debt service shortfalls, which included incremental additional interest under the default rate of $5.3 million in 2015 and $5.8 million in 2014. We believe that the numerator to diluted EPS is the most directly comparable GAAP measure to this non-GAAP measure. This measure has essentially the same limitations as Diluted FFO, as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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

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

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

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

The tables appearing below and on the following page sets forth the computation of the above stated measures for the years ended December 31, 2011 through 2015 and provides reconciliations to the GAAP measures of COPT and subsidiaries associated with such measures:

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars and shares in thousands, except per share data)				
Net income (loss)	$188,878	$45,206	$101,544	$20,341	$(127,576)
Add: Real estate-related depreciation and amortization	140,025	136,086	117,719	121,937	134,131
Add: Depreciation and amortization on unconsolidated real estate entities allocable to COPT	—	—	—	346	492
Add: Impairment losses on previously depreciated operating properties	4,110	1,370	32,047	70,263	70,512
Less: Gain on sales of previously depreciated operating properties, net of income taxes	(64,062)	(5,117)	(9,004)	(20,928)	(4,811)
FFO	268,951	177,545	242,306	191,959	72,748
Less: Noncontrolling interests-preferred units in the Operating Partnership	(660)	(660)	(660)	(660)	(660)
Less: FFO allocable to other noncontrolling interests	(3,586)	(3,216)	(3,710)	(1,989)	(1,887)
Less: Preferred share dividends	(14,210)	(15,939)	(19,971)	(20,844)	(16,102)
Less: Issuance costs associated with redeemed preferred shares	—	(1,769)	(2,904)	(1,827)	—
Basic and diluted FFO allocable to share-based compensation awards	(1,041)	(665)	(912)	(919)	(1,037)
Basic and diluted FFO available to common shares and common unit holders	$249,454	$155,296	$214,149	$165,720	$53,062
Operating property acquisition costs	4,134	—	—	229	156
Gain on sales of non-operating properties, net of income taxes	(3,985)	(5,578)	(2,683)	(33)	(2,717)
Impairment losses (recoveries) on other properties	19,413	49	—	(3,353)	80,509
Income tax expense (benefit) on impairments on other properties	—	—	—	673	(4,775)
Valuation allowance on tax asset associated with FFO comparability adjustments	—	—	1,855	—	—
Loss on interest rate derivatives	386	—	—	—	29,805
(Gain) loss on early extinguishment of debt	(85,655)	9,668	(40,780)	(793)	2,023
Issuance costs associated with redeemed preferred shares	—	1,769	2,904	1,827	—
Demolition costs on redevelopment properties	1,396	—	—	—	—
Executive transition costs	—	1,056	—	2,157	—
Add: Negative FFO of properties conveyed to extinguish debt in default	10,456	10,928	—	—	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	225	(78)	168	—	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	$195,824	$173,110	$175,613	$166,427	$158,063
Weighted average common shares	93,914	88,092	85,167	73,454	69,382
Conversion of weighted average common units	3,692	3,897	3,869	4,235	4,355
Weighted average common shares/units - Basic FFO	97,606	91,989	89,036	77,689	73,737
Dilutive effect of share-based compensation awards	61	171	57	53	111

Weighted average common shares/units - Diluted FFO	97,667	92,160	89,093	77,742	73,848
Diluted FFO per share	$2.55	$1.69	$2.40	$2.13	$0.72
Diluted FFO per share, as adjusted for comparability	$2.01	$1.88	$1.97	$2.14	$2.14

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars and shares in thousands, except per share data)				
Numerator for diluted EPS	$169,787	$22,115	$70,418	$(2,163)	$(136,567)
Add: Income allocable to noncontrolling interests-common units in the Operating Partnership	—	1,006	3,283	(87)	(8,439)
Add: Real estate-related depreciation and amortization	140,025	136,086	117,719	121,937	134,131
Add: Depreciation and amortization of unconsolidated real estate entities	—	—	—	346	492
Add: Impairment losses on previously depreciated operating properties	4,110	1,370	32,047	70,263	70,512
Add: Numerator for diluted EPS allocable to share-based compensation awards	706	432	414	469	1,037
Less: Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(750)	(725)	(927)	(633)	(849)
Less: Decrease in noncontrolling interests unrelated to earnings	679	794	1,111	(2,565)	(1,407)
Less: Basic and diluted FFO allocable to share-based compensation awards	(1,041)	(665)	(912)	(919)	(1,037)
Less: Gain on sales of previously depreciated operating properties, net of income taxes	(64,062)	(5,117)	(9,004)	(20,928)	(4,811)
Basic and diluted FFO available to common share and common unit holders	$249,454	$155,296	$214,149	$165,720	$53,062
Operating property acquisition costs	4,134	—	—	229	156
Gain on sales of non-operating properties, net of income taxes	(3,985)	(5,578)	(2,683)	(33)	(2,717)
Impairment losses (recoveries) on other properties	19,413	49	—	(3,353)	80,509
Income tax expense (benefit) on impairments on other properties	—	—	—	673	(4,775)
Valuation allowance on tax asset associated with FFO comparability adjustments	—	—	1,855	—	—
Loss on interest rate derivatives	386	—	—	—	29,805
(Gain) loss on early extinguishment of debt	(85,655)	9,668	(40,780)	(793)	2,023
Issuance costs associated with redeemed preferred shares	—	1,769	2,904	1,827	—
Demolition costs on redevelopment properties	1,396	—	—	—	—
Executive transition costs	—	1,056	—	2,157	—
Add: Negative FFO of properties conveyed to extinguish debt in default	10,456	10,928	—	—	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	225	(78)	168	—	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	$195,824	$173,110	$175,613	$166,427	$158,063
Denominator for diluted EPS	97,667	88,263	85,224	73,454	69,382
Weighted average common units	—	3,897	3,869	4,235	4,355
	—	—	—	53	111

Anti-dilutive EPS effect of share-based compensation awards					
Denominator for diluted FFO per share measures	97,667	92,160	89,093	77,742	73,848
Dividends on common shares	$103,998	$97,944	$95,246	$81,720	$116,717
Common unit distributions	4,046	4,270	4,280	4,617	7,173
Numerator for diluted FFO payout ratio, adjusted for comparability	$108,044	$102,214	$99,526	$86,337	$123,890
FFO payout ratio	40.2 %	57.6 %	41.1 %	45.0 %	170.3 %
Diluted FFO payout ratio	43.3 %	65.8 %	46.5 %	52.1 %	233.5 %
Diluted FFO payout ratio, as adjusted for comparability	55.2 %	59.0 %	56.7 %	51.9 %	78.4 %

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Property Additions

The table below sets forth the major components of our additions to properties for 2015 and 2014:

	For the Years Ended December 31,		
	2015	2014	Variance
	(in thousands)		
Construction, development and redevelopment	$219,469	$206,583	$12,886
Acquisition of operating properties (1)	194,617	—	194,617
Tenant improvements on operating properties (2)	24,999	25,674	(675)
Capital improvements on operating properties	29,293	22,611	6,682
	$468,378	$254,868	$213,510

(1) Excludes intangible assets and liabilities associated with acquisitions.
(2) Tenant improvement costs incurred on newly-constructed properties are classified in this table as construction, development and redevelopment.

Cash Flows

Net cash flow provided by operating activities increased $10.1 million from 2014 to 2015 due primarily to:

- a $10.7 million increase in cash flow from real estate operations due primarily to properties acquired and placed in service since the prior period;
- a $13.3 million decrease in interest expense paid from 2014 to 2015 due in large part to: a $6.4 million decrease in interest paid on the $150.0 million nonrecourse loan that was in default (as discussed above) since we did not support payments on the loan in 2015; and a $6.0 million decrease due to a change in the timing of interest payments resulting from new debt requiring interest payments semi-annually rather than monthly; and
- an $8.6 million decrease in payments to early extinguish debt due primarily to our defeasance of mortgage loans in 2014; offset in part by
- a $17.3 million decrease in cash flow from construction contract and other services from 2014 to 2015 due in large part to the timing of cash payments and collections on third party construction projects.

Net cash flow used in investing activities increased $97.8 million from 2014 to 2015 due primarily to operating property acquisitions in 2015, offset in part by increased proceeds from sales of properties in 2015.

Net cash flow provided by financing activities in 2015 was $157.8 million and included the following:

- net proceeds from debt borrowings of $259.0 million; and
- net proceeds from the issuance of common shares (or units) of $28.6 million; offset in part by
- dividends and/or distributions to shareholders and/or unitholders of $122.6 million.

Net cash flow used in financing activities in 2014 was $32.5 million and included the following:

- net proceeds from the issuance of common shares (or units) of $150.2 million; offset in part by
- net repayments of borrowings of $9.3 million;
- redemption of preferred shares (or units) of $50.0 million; and
- dividends and/or distributions to shareholders and/or unitholders of $118.1 million.

Liquidity and Capital Resources of COPT

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

As of December 31, 2015, COPT owned 96.3% of the outstanding common units and 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT has the full, exclusive and complete responsibility for COPLP's day-to-day management and control.

The liquidity of COPT is dependent on COPLP's ability to make sufficient distributions to COPT. The primary cash requirement of COPT is its payment of dividends to its shareholders. COPT also guarantees some of the Operating Partnership's debt, as discussed further in Note 10 of the notes to consolidated financial statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger COPT's guarantee obligations, then COPT will be required to fulfill its cash payment commitments under such guarantees. However, COPT's only significant asset is its investment in COPLP.

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

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

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

Liquidity and Capital Resources of COPLP

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions. We expect to continue to use cash flow provided by operations as the primary source to meet our short-term capital needs, including property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, distributions to our security holders and improvements to existing properties. As of December 31, 2015, we had $60.3 million in cash and cash equivalents; most of this balance was attributable to $57.2 million in cash held from dispositions as of December 31, 2015 that we expect to use in 2016 to fund development activities.

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

We use our Revolving Credit Facility to initially finance much of our investing activities. We subsequently pay down the facility using proceeds from long-term borrowings, equity issuances and property sales. The lenders' aggregate commitment under the facility is $800.0 million, with the ability for us to increase the lenders' aggregate commitment to $1.3 billion, provided that there is no default under the facility and subject to the approval of the lenders. Amounts available under the facility are computed based on 60% of our unencumbered asset value, as defined in the loan agreement. The Revolving Credit Facility matures in May 2019, and may be extended by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.075% of the total availability of the facility. As of December 31, 2015, the maximum borrowing capacity under this facility totaled $800.0 million, of which $741.7 million was available.

We believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements without necessitating property sales. We do, however, expect to raise at least $440 million from sales of properties in

2016 and use the proceeds to repay borrowings and fund development costs.

The following table summarizes our contractual obligations as of December 31, 2015 (in thousands):

	For the Years Ending December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
Contractual obligations (1)							
Debt (2)							
Balloon payments due upon maturity	$201,713	$—	$—	$163,500	$312,132	$1,391,229	$2,068,574
Scheduled principal payments	6,396	3,252	3,400	3,514	3,120	8,974	28,656
Interest on debt (3)	77,100	67,611	67,470	65,673	60,294	157,263	495,411
New construction and redevelopment obligations (4)(5)	69,785	17,225	788	—	—	—	87,798
Third-party construction and development obligations (5)(6)	10,691	—	—	—	—	—	10,691
Capital expenditures for operating properties (5)(7)	32,394	9,028	6,459	—	—	—	47,881
Operating leases (8)	1,189	1,117	1,071	1,049	1,067	86,798	92,291
Other purchase obligations	1,779	938	479	342	94	5	3,637
Total contractual cash obligations	$401,047	$99,171	$79,667	$234,078	$376,707	$1,644,269	$2,834,939

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

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes a net debt discounts and deferred financing costs of $19.5 million. We expect to repay most of our debt maturing in 2016 using proceeds from a term loan with $150.0 million in available capacity that we entered into in December 2015. As of December 31, 2015, maturities include $43.5 million in 2019 that may be extended to 2020, subject to certain conditions.

(3) Represents interest costs for our outstanding debt as of December 31, 2015 for the terms of such debt. For variable rate debt, the amounts reflected above used December 31, 2015 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new development and redevelopment activities, including land acquisitions.

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

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

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

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

We expect to spend approximately $250.0 million on construction and development costs and approximately $60.0 million on improvements to operating properties (including the commitments set forth in the table above) in 2016. We expect to fund the construction and development costs using primarily cash on hand and borrowings under our Revolving Credit Facility. We expect to use proceeds from the disposition of properties to repay borrowings under our Revolving Credit Facility. We expect to fund improvements to existing operating properties using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of December 31, 2015, we were in compliance with these financial covenants.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements during 2015.

Inflation

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this guidance for our annual and interim periods beginning January 1, 2018 using one of two methods: retrospective restatement for each reporting period presented at the time of adoption, or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In January 2015, the FASB issued guidance regarding the presentation of extraordinary and unusual items in statements of operations. This guidance eliminates the concept of extraordinary items. However, the presentation and disclosure requirements for items that are either unusual in nature or infrequent in occurrence remain and will be expanded to include items that are both unusual in nature and infrequent in occurrence. This guidance is effective for periods beginning after December 15, 2015. We expect that the application of this guidance will have no effect on our reported consolidated financial statements.

In February 2015, the FASB issued guidance regarding amendments to the consolidation analysis. This guidance amends the criteria for determining which entities are considered variable interest entities ("VIE"), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In April 2015, the FASB issued guidance that changes the presentation of debt issuance costs in financial statements. This guidance requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance was further updated in August 2015 with respect to debt issuance costs of line-of-credit arrangements to note that it will be permissible for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of a line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We early adopted this guidance in December 2015 and it was applied retrospectively to each prior period presented. The application of this guidance did not materially affect our consolidated financial statements.

In September 2015, the FASB issued guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the statement of operations or disclosed in the notes. This guidance is effective for annual reporting periods beginning after December 15, 2015. This guidance will be applied prospectively for measurement period adjustments that occur after the effective date. We expect that the application of this guidance will not materially affect our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

The following table sets forth as of December 31, 2015 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

	For the Years Ending December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
Debt:							
Fixed rate debt (1)	$171,728	$2,883	$3,017	$3,118	$2,814	$1,300,203	$1,483,763
Weighted average interest rate	7.19 %	4.49 %	4.52 %	4.51 %	4.01 %	4.31 %	4.65 %
Variable rate debt (2)	$36,381	$369	$383	$163,896	$312,438	$100,000	$613,467
Weighted average interest rate (3)	2.24 %	2.09 %	2.09 %	2.14 %	1.67 %	2.23 %	1.92 %

(1) Represents principal maturities only and therefore excludes net debt discounts and deferred financing costs of $19.5 million.
(2) As of December 31, 2015, maturities include $43.5 million in 2019 that may be extended to 2020, subject to certain conditions.
(3) The amounts reflected above used December 31, 2015 interest rates on variable rate debt.

The fair value of our debt was $2.1 billion as of December 31, 2015 and $1.9 billion as of December 31, 2014. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately $112 million as of December 31, 2015 and $86 million as of December 31, 2014.

The following table sets forth information pertaining to interest rate swap contracts in place as of December 31, 2015 and 2014 and their respective fair values (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at December 31, 2015	2014
$100,000	0.8055 %	One-Month LIBOR	9/2/2014	9/1/2016	$(148)	$(317)
100,000	0.8100 %	One-Month LIBOR	9/2/2014	9/1/2016	(151)	(324)
100,000	1.6730 %	One-Month LIBOR	9/1/2015	8/1/2019	(1,217)	239
100,000	1.7300 %	One-Month LIBOR	9/1/2015	8/1/2019	(1,429)	35
13,941 (1)	1.3900 %	One-Month LIBOR	10/13/2015	10/1/2020	53	—
100,000	1.9013 %	One-Month LIBOR	9/1/2016	12/1/2022	(138)	—
100,000	1.9050 %	One-Month LIBOR	9/1/2016	12/1/2022	(45)	—
50,000	1.9079 %	One-Month LIBOR	9/1/2016	12/1/2022	(32)	—
36,200	3.8300 %	One-Month LIBOR + 2.25%	11/2/2010	11/2/2015	—	(400)
100,000	0.8320 %	One-Month LIBOR	1/3/2012	9/1/2015	—	(407)
100,000	0.8320 %	One-Month LIBOR	1/3/2012	9/1/2015	—	(407)
					$(3,107)	$(1,581)

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

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by $2.5 million in 2015 and $1.9 million in 2014 if short-term interest rates were 1% higher. Interest expense in 2015 was more sensitive to a change in interest rates than 2014 due primarily to our having a higher average variable-rate debt balance in 2015.

Item 8. Financial Statements and Supplementary Data

This item is included in a separate section at the end of this report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2015 were functioning effectively to provide reasonable assurance that

the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

I. Internal Control Over Financial Reporting

COPT
(a) Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is included in a separate section at the end of this report on page F-2.

(b) Report of Independent Registered Public Accounting Firm

The Report of Independent Registered Public Accounting Firm is included in a separate section at the end of this report on page F-4.

(c) Change in Internal Control over Financial Reporting

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

COPLP
(a) Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is included in a separate section at the end of this report on page F-3.

(b) Report of Independent Registered Public Accounting Firm

The Report of Independent Registered Public Accounting Firm is included in a separate section at the end of this report on page F-5.

(c) Change in Internal Control over Financial Reporting

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

Item 9B. Other Information
None.

PART III

Items 10, 11, 12, 13 & 14. Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; and Principal Accountant Fees and Services

For the information required by Item 10, Item 11, Item 12, Item 13 and Item 14, you should refer to COPT's definitive proxy statement relating to the 2015 Annual Meeting of COPT's Shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as exhibits to this Form 10-K:

1. Financial Statements. See "Index to consolidated financial statements" on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedules. See "Index to consolidated financial statements" on page F-1 of this Annual Report on Form 10-K.

3. See section below entitled "Exhibits."

(b) Exhibits. Refer to the Exhibit Index that follows. Unless otherwise noted, the file number of all documents incorporated by reference is 1-14023.

EXHIBIT NO.	DESCRIPTION
3.1.1	Amended and Restated Declaration of Trust of Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.1.2	Articles of Amendment of Amended and Restated Declaration of Trust (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
3.1.3	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K on December 29, 2004 and incorporated herein by reference).
3.1.4	Articles Supplementary of Corporate Office Properties Trust relating to the Series G Cumulative Redeemable Preferred Shares, dated August 6, 2003 (filed with the Registrant's Registration Statement on Form 8-A on August 7, 2003 and incorporated herein by reference).
3.1.5	Articles Supplementary of Corporate Office Properties Trust relating to the Series H Cumulative Redeemable Preferred Shares, dated December 11, 2003 (filed with the Company's Current Report on Form 8-K on December 12, 2003 and incorporated herein by reference).
3.1.6	Articles Supplementary of Corporate Office Properties Trust relating to the Series J Cumulative Redeemable Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated July 19, 2006 and incorporated herein by reference).
3.1.7	Articles Supplementary of Corporate Office Properties Trust relating to the Series K Cumulative Redeemable Convertible Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated January 16, 2007 and incorporated herein by reference).
3.1.8	Articles Supplementary of Corporate Office Properties Trust relating to the Series L Cumulative Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated June 25, 2012 and incorporated herein by reference).
3.1.9	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated May 28, 2008 and incorporated herein by reference).

3.1.10	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated May 19, 2010 and incorporated herein by reference).
3.1.11	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated June 19, 2012 and incorporated herein by reference).
3.1.12	Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland on September 22, 2014 (filed with the Company's Current Report on Form 8-K dated September 24, 2014 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
3.2.1	Bylaws of the Registrant, as amended and restated on December 3, 2009 (filed with the Company’s Current Report on Form 8-K dated December 9, 2009 and incorporated herein by reference).
3.2.2	First Amendment to Amended and Restated Bylaws (filed with the Company’s Current Report on Form 8-K dated December 18, 2012 and incorporated herein by reference).
3.3	Form of certificate for the Registrant's Common Shares of Beneficial Interest, $0.01 par value per share (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.1.1	Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 7, 1999 (filed on March 16, 2000 with the Company’s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.1.2	First Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed on March 16, 2000 with the Company’s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.1.3	Second Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed with the Company’s Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.4	Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 29, 2000 (filed with the Company’s Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.5	Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated November 27, 2000 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.6	Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated January 25, 2001 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.7	Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated April 3, 2001 (filed with the Company’s Current Report on Form 8-K dated April 4, 2001 and incorporated herein by reference).
10.1.8	Seventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated August 30, 2001 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.9	Eighth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 14, 2001 (filed with the Company’s Amended Current Report on Form 8-K dated September 14, 2001 and incorporated herein by reference).
10.1.10	Ninth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated October 16, 2001 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.11	Tenth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 29, 2001 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.12	Eleventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 15, 2002 (filed on March 27, 2003 with the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.13	Twelfth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 2, 2003 (filed on August 12, 2003 with the Registrant’s Quarterly

	Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
10.1.14	Thirteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated August 11, 2003 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.15	Fourteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated December 18, 2003 (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.1.16	Fifteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 31, 2004 (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.1.17	Sixteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2004 (filed on May 7, 2004 with the Company’s Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
10.1.18	Seventeenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 23, 2004 (filed with the Company’s Current Report on Form 8-K dated September 23, 2004 and incorporated herein by reference).
10.1.19	Eighteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 18, 2005 (filed with the Company’s Form 8-K on April 22, 2005 and incorporated herein by reference).
10.1.20	Nineteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 8, 2005 (filed with the Company’s Current Report on Form 8-K on July 14, 2005 and incorporated herein by reference).
10.1.21	Twentieth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 29, 2006 (filed with the Company’s Current Report on Form 8-K dated July 6, 2006 and incorporated herein by reference).
10.1.22	Twenty-First Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 20, 2006 (filed with the Company’s Current Report on Form 8-K dated July 26, 2006 and incorporated herein by reference).
10.1.23	Twenty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 9, 2007 (filed with the Company’s Current Report on Form 8-K dated January 16, 2007 and incorporated herein by reference).
10.1.24	Twenty-Third Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 6, 2007 (filed with the Company’s Current Report on Form 8-K dated April 12, 2007 and incorporated herein by reference).
10.1.25	Twenty-Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated November 2, 2007 (filed with the Company’s Current Report on Form 8-K dated November 5, 2007 and incorporated herein by reference).
10.1.26	Twenty-Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated December 31, 2008 (filed with the Company’s Current Report on Form 8-K dated January 5, 2009 and incorporated herein by reference).
10.1.27	Twenty-Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated March 4, 2010 (filed with the Company’s Current Report on Form 8-K dated March 10, 2010 and incorporated herein by reference).
10.1.28	Twenty-Seventh Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated February 3, 2011 (filed with the Company’s Current Report on Form 8-K dated February 3, 2011 and incorporated herein by reference).
10.1.29	Twenty-Eighth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 15, 2011 (filed with the Company’s Current Report on Form 8-K dated September 16, 2011 and incorporated herein by reference).
10.1.30	Twenty-Ninth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 27, 2012 (filed with the Company’s Current Report on Form 8-K dated June 27, 2012 and incorporated herein by reference).
10.1.31	Thirtieth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 16, 2013 (filed with the Company’s Current Report on Form 8-K dated July 19, 2013 and incorporated herein by reference).
10.1.32	Thirty-First Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 17, 2013 (filed with the Company’s Current Report on Form 8-K

	dated September 19, 2013 and incorporated herein by reference).
10.1.33	Thirty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2015 (filed with the Company's Current Report on Form 8-K dated April 21, 2015 and incorporated herein by reference).
10.2.1*	Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.2.2*	Amendment No. 1 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed on August 13, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.2.3*	Amendment No. 2 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
10.3*	Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan (filed with the Registrant's Registration Statement on Form S-8 (Commission File No. 333-87384) and incorporated herein by reference).
10.4*	Separation Agreement and Release, dated February 3, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Stephen E. Riffee (filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference).
10.5.1*	Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan (filed with the Company's Current Report on Form 8-K dated December 10, 2008 and incorporated herein by reference).
10.5.2*	First Amendment to the Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan dated December 4, 2008 (filed with the Company's Current Report on Form 8-K dated December 10, 2008 and incorporated herein by reference).
10.6.1*	Corporate Office Properties Trust 2008 Omnibus Equity and Incentive Plan (included in Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2008 and incorporated herein by reference).
10.6.2*	Corporate Office Properties Trust Amended and Restated 2008 Omnibus Equity and Incentive Plan (included in Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 30, 2010 and incorporated herein by reference).
10.7*	Corporate Office Properties Trust and Corporate Office Properties, L.P. Executive Change in Control and Severance Plan (filed with the Company's Current Report on Form 8-K dated March 13, 2013 and incorporated herein by reference).
10.8*	Letter Agreement, dated March 8, 2013, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Roger A. Waesche, Jr. (filed with the Company's Current Report on Form 8-K dated March 13, 2013 and incorporated herein by reference).
10.9*	Letter Agreement, dated August 28, 2014, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Wayne H. Lingafelter (filed with the Company's Current Report on Form 8-K dated September 3, 2014 and incorporated herein by reference).
10.10*	Letter Agreement, dated September 26, 2014, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Stephen E. Budorick (filed with the Company's Current Report on Form 8-K dated October 1, 2014 and incorporated herein by reference).
10.11*	Letter Agreement, dated January 19, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Anthony Mifsud (filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference).
10.12*	Letter Agreement, dated June 2, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Karen M. Singer (filed with the Company's Current Report on Form 8-K dated June 5, 2015 and incorporated herein by reference).
10.13	Amended and Restated Registration Rights Agreement, dated March 16, 1998, for the benefit of certain shareholders of the Company (filed on August 12, 1998 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
10.14	Amended, Restated and Consolidated Credit Agreement, dated as of May 6, 2015, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; KeyBank National Association; KeyBanc Capital Markets, Inc.; J.P. Morgan Securities LLC; JPMorgan Chase Bank, N.A.; Bank of America, N.A.; PNC Bank, National Association; Royal Bank of Canada; Wells Fargo Bank, National Association; Barclays Bank PLC; Regions Bank; Citizens Bank of Pennsylvania; and Citibank, N.A.

	(filed with the Company's Current Report on Form 8-K dated May 12, 2015 and incorporated herein by reference).
10.15	Indenture, dated as of May 6, 2013, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated May 7, 2013 and incorporated herein by reference).
10.16	Registration Rights Agreement, dated May 6, 2013, among Corporate Office Properties, L.P., Corporate Office Properties Trust, J.P. Morgan Securities LLC and Wells Fargo Securities, LLC (filed with the Company's Current Report on Form 8-K dated May 7, 2013 and incorporated herein by reference).
10.17	Indenture, dated as of September 16, 2013, by and among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated September 19, 2013 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.18	First Supplemental Indenture, dated September 16, 2013, by and among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated September 19, 2013 and incorporated herein by reference).
10.19	Second Supplemental Indenture, dated as of May 14, 2014, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee. (filed with the Company's Current Report on Form 8-K dated May 14, 2014 and incorporated herein by reference).
10.20	Third Supplemental Indenture, dated as of June 29, 2015, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated July 1, 2015 and incorporated herein by reference).
10.21	Term Loan Agreement, dated as of December 17, 2015, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; Capital One, National Association, PNC Capital Markets LLC and Regions Capital Markets, a division of Regions Bank, PNC Bank, National Association and Regions Bank (filed herewith).
12.1	COPT's Statement regarding Computation of Earnings to Combined Fixed Charges and Preferred Share Dividends (filed herewith).
12.2	COPLP's Statement regarding Computation of Consolidated Ratio of Earnings to Fixed Charges (filed herewith).
21.1	Subsidiaries of COPT (filed herewith).
21.2	Subsidiaries of COPLP (filed herewith).
23.1	COPT's Consent of Independent Registered Public Accounting Firm (filed herewith).
23.2	COPLP's Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.3	Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.4	Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
32.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith).
32.3	Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or

	otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
32.4	Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).

EXHIBIT NO.	DESCRIPTION
101.LAB	XBRL Extension Labels Linkbase (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).

* - Indicates a compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		CORPORATE OFFICE PROPERTIES TRUST
Date: February 25, 2016	By:	/s/ Roger A. Waesche, Jr. Roger A. Waesche, Jr. President and Chief Executive Officer
Date: February 25, 2016	By:	/s/ Anthony Mifsud Anthony Mifsud Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Thomas F. Brady (Thomas F. Brady)	Chairman of the Board and Trustee	February 25, 2016
/s/ Roger A. Waesche, Jr. (Roger A. Waesche, Jr.)	President and Chief Executive Officer and Trustee	February 25, 2016
/s/ Anthony Mifsud (Anthony Mifsud)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 25, 2016
/s/ Gregory J. Thor (Gregory J. Thor)	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 25, 2016
/s/ Robert L. Denton (Robert L. Denton)	Trustee	February 25, 2016
/s/ Philip L. Hawkins (Philip L. Hawkins)	Trustee	February 25, 2016
/s/ Elizabeth A. Hight (Elizabeth A. Hight)	Trustee	February 25, 2016
/s/ David M. Jacobstein (David M. Jacobstein)	Trustee	February 25, 2016
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	February 25, 2016
/s/ C. Taylor Pickett (C. Taylor Pickett)	Trustee	February 25, 2016
/s/ Richard Szafranski (Richard Szafranski)	Trustee	February 25, 2016

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		CORPORATE OFFICE PROPERTIES, L.P. By: Corporate Office Properties Trust, its General Partner
Date: February 25, 2016	By:	/s/ Roger A. Waesche, Jr. Roger A. Waesche, Jr. President and Chief Executive Officer
Date: February 25, 2016	By:	/s/ Anthony Mifsud Anthony Mifsud Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Thomas F. Brady (Thomas F. Brady)	Chairman of the Board and Trustee	February 25, 2016
/s/ Roger A. Waesche, Jr. (Roger A. Waesche, Jr.)	President and Chief Executive Officer and Trustee	February 25, 2016
/s/ Anthony Mifsud (Anthony Mifsud)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 25, 2016
/s/ Gregory J. Thor (Gregory J. Thor)	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 25, 2016
/s/ Robert L. Denton (Robert L. Denton)	Trustee	February 25, 2016
/s/ Philip L. Hawkins (Philip L. Hawkins)	Trustee	February 25, 2016
/s/ Elizabeth A. Hight (Elizabeth A. Hight)	Trustee	February 25, 2016
/s/ David M. Jacobstein (David M. Jacobstein)	Trustee	February 25, 2016
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	February 25, 2016
/s/ C. Taylor Pickett (C. Taylor Pickett)	Trustee	February 25, 2016
/s/ Richard Szafranski (Richard Szafranski)	Trustee	February 25, 2016

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Corporate Office Properties Trust Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based upon criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2015 based on the criteria in Internal Control-Integrated Framework (2013) issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Corporate Office Properties, L.P. Management’s Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based upon criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2015 based on the criteria in Internal Control-Integrated Framework (2013) issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Corporate Office Properties Trust:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corporate Office Properties Trust and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management's Report on Internal Control over Financial Reporting”. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 2 to the consolidated financial statements, the Company adopted accounting standards update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changed the criteria for reporting discontinued operations in 2014.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
February 25, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Unitholders of Corporate Office Properties, L.P.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corporate Office Properties, L.P. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management's Report on Internal Control over Financial Reporting”. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 2 to the consolidated financial statements, the Company adopted accounting standards update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changed the criteria for reporting discontinued operations in 2014.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
February 25, 2016

Corporate Office Properties Trust and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	December 31,	
	2015	2014
Assets		
Properties, net:		
Operating properties, net	$2,920,529	$2,751,488
Projects in development or held for future development	429,219	545,426
Total properties, net	3,349,748	3,296,914
Assets held for sale, net	96,782	14,339
Cash and cash equivalents	60,310	6,077
Restricted cash and marketable securities	7,716	9,069
Accounts receivable (net of allowance for doubtful accounts of $1,525 and $717, respectively)	29,167	30,698
Deferred rent receivable (net of allowance of $1,962 and $1,418, respectively)	105,484	95,910
Intangible assets on real estate acquisitions, net	98,338	43,854
Deferred leasing costs (net of accumulated amortization of $66,364 and $69,998, respectively)	53,868	53,927
Investing receivables	47,875	52,147
Prepaid expenses and other assets, net	60,024	61,301
Total assets	$3,909,312	$3,664,236
Liabilities and equity		
Liabilities:		
Debt, net	$2,077,752	$1,914,036
Accounts payable and accrued expenses	91,755	123,035
Rents received in advance and security deposits	37,148	31,011
Dividends and distributions payable	30,178	29,862
Deferred revenue associated with operating leases	19,758	13,031
Interest rate derivatives	3,160	1,855
Other liabilities	13,779	12,105
Total liabilities	2,273,530	2,124,935
Commitments and contingencies (Note 20)		
Redeemable noncontrolling interests	19,218	18,417
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference	199,083	199,083
Common Shares of beneficial interest ($0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 94,531,512 at December 31, 2015 and 93,255,284 at December 31, 2014)	945	933
Additional paid-in capital	2,004,507	1,969,968
Cumulative distributions in excess of net income	(657,172)	(717,264)
Accumulated other comprehensive loss	(2,838)	(1,297)
Total Corporate Office Properties Trust's shareholders' equity	1,544,525	1,451,423
Noncontrolling interests in subsidiaries:		
Common units in COPLP	52,359	51,534
Preferred units in COPLP	8,800	8,800
Other consolidated entities	10,880	9,127

Noncontrolling interests in subsidiaries	72,039	69,461
Total equity	1,616,564	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	$ 3,909,312	$ 3,664,236

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Revenues			
Rental revenue	$420,340	$386,396	$377,611
Tenant recoveries and other real estate operations revenue	98,724	93,329	83,386
Construction contract and other service revenues	106,402	106,748	62,363
Total revenues	625,466	586,473	523,360
Expenses			
Property operating expenses	194,494	179,934	167,199
Depreciation and amortization associated with real estate operations	140,025	136,086	113,214
Construction contract and other service expenses	102,696	100,058	58,875
Impairment losses	23,289	1,416	5,857
General, administrative and leasing expenses	31,361	31,794	30,869
Business development expenses and land carry costs	13,507	5,573	5,436
Total operating expenses	505,372	454,861	381,450
Operating income	120,094	131,612	141,910
Interest expense	(89,074)	(92,393)	(82,010)
Interest and other income	4,517	4,923	3,834
Gain (loss) on early extinguishment of debt	85,275	(9,552)	(27,030)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	120,812	34,590	36,704
Equity in income of unconsolidated entities	62	229	2,110
Income tax expense	(199)	(310)	(1,978)
Income from continuing operations	120,675	34,509	36,836
Discontinued operations	156	26	55,692
Income before gain on sales of real estate	120,831	34,535	92,528
Gain on sales of real estate, net of income taxes	68,047	10,671	9,016
Net income	188,878	45,206	101,544
Net income attributable to noncontrolling interests:			
Common units in COPLP	(6,403)	(1,006)	(3,283)
Preferred units in COPLP	(660)	(660)	(660)
Other consolidated entities	(3,515)	(3,285)	(3,894)
Net income attributable to COPT	178,300	40,255	93,707
Preferred share dividends	(14,210)	(15,939)	(19,971)
Issuance costs associated with redeemed preferred shares	—	(1,769)	(2,904)
Net income attributable to COPT common shareholders	$164,090	$22,547	$70,832
Net income attributable to COPT:			
Income from continuing operations	$178,147	$40,225	$41,366
Discontinued operations, net	153	30	52,341
Net income attributable to COPT	$178,300	$40,255	$93,707
Basic earnings per common share (1)			
Income from continuing operations	$1.74	$0.25	$0.21
Discontinued operations	—	—	0.62
Net income attributable to COPT common shareholders	$1.74	$0.25	$0.83
Diluted earnings per common share (1)			
Income from continuing operations	$1.74	$0.25	$0.21

Discontinued operations	—	—	0.62
Net income attributable to COPT common shareholders	$1.74	$0.25	$0.83

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

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Net income	$188,878	$45,206	$101,544
Other comprehensive (loss) income			
Unrealized (losses) gains on interest rate derivatives	(4,739)	(7,799)	6,791
Losses on interest rate derivatives included in interest expense	3,599	2,990	2,740
Losses on interest rate derivatives included in loss on early extinguishment of debt	—	38	—
Unrealized equity in other comprehensive (loss) income of equity method investee	(264)	—	1,070
Realized equity in other comprehensive income of equity method investee	—	—	(1,070)
Other comprehensive (loss) income	(1,404)	(4,771)	9,531
Comprehensive income	187,474	40,435	111,075
Comprehensive income attributable to noncontrolling interests	(10,715)	(4,957)	(8,453)
Comprehensive income attributable to COPT	$176,759	$35,478	$102,622

See accompanying notes to consolidated financial statements.

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

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2012 (80,952,986 common shares outstanding)	$333,833	$ 809	$1,653,672	$ (617,455)	$ (5,435)	$ 71,075	$1,436,499
Redemption of preferred shares (3,390,000 shares)	(84,750)	—	2,904	(2,904)	—	—	(84,750)
Conversion of common units to common shares (311,343 shares)	—	3	3,994	—	—	(3,997)	—
Common shares issued to the public (4,485,000 shares)	—	45	117,916	—	—	—	117,961
Common shares issued under at-the-market program (1,500,000 shares)	—	15	38,432	—	—	—	38,447
Acquisition of property and noncontrolling interest in other consolidated entity for COPLP common units	—	—	(1,296)	—	—	2,665	1,369
Exercise of share options (39,331 shares)	—	—	779	—	—	—	779
Share-based compensation (105,852 shares issued, net of redemptions)	—	2	7,603	—	—	—	7,605
Redemption of vested equity awards	—	—	(2,002)	—	—	—	(2,002)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(744)	—	—	744	—
Comprehensive income	—	—	—	93,707	8,915	7,077	109,699
Dividends	—	—	—	(115,216)	—	—	(115,216)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,940)	(4,940)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	86	86
Distributions to noncontrolling interest in other consolidated entities	—	—	—	—	—	(1,045)	(1,045)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(7,121)	—	—	—	(7,121)

Tax loss from share-based compensation	—	—	(122)	—	—	—	(122)
Balance at December 31, 2013 (87,394,512 common shares outstanding)	249,083	874	1,814,015	(641,868)	3,480	71,665	1,497,249
Redemption of preferred shares (2,000,000 shares)	(50,000)	—	1,769	(1,769)	—	—	(50,000)
Conversion of common units to common shares (140,149 shares)	—	2	1,841	—	—	(1,843)	—
Common shares issued to the public (5,520,000 shares)	—	55	148,611	—	—	—	148,666
Exercise of share options (62,888 shares)	—	—	1,489	—	—	—	1,489
Share-based compensation (137,735 shares issued, net of redemptions)	—	2	7,048	—	—	—	7,050
Redemption of vested equity awards	—	—	(1,554)	—	—	—	(1,554)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(3,382)	—	—	3,382	—
Comprehensive income	—	—	—	40,255	(4,777)	2,796	38,274
Dividends	—	—	—	(113,882)	—	—	(113,882)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,929)	(4,929)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	3	3
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(1,613)	(1,613)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	134	—	—	—	134
Tax loss from share-based compensation	—	—	(3)	—	—	—	(3)
Balance at December 31, 2014 (93,255,284 common shares outstanding)	199,083	933	1,969,968	(717,264)	(1,297)	69,461	1,520,884
Conversion of common units to common shares (160,160 shares)	—	2	2,149	—	—	(2,151)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (76,474 shares)	—	—	2,008	—	—	—	2,008
	—	1	7,397	—	—	—	7,398

Share-based compensation (149,353 shares issued, net of redemptions)							
Redemption of vested equity awards	—	—	(2,462)	—	—	—	(2,462)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(682)	—	—	682	—
Comprehensive income	—	—	—	178,300	(1,541)	8,488	185,247
Dividends	—	—	—	(118,208)	—	—	(118,208)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,706)	(4,706)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	300	300
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(35)	(35)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	116	—	—	—	116
Tax loss from share-based compensation	—	—	(513)	—	—	—	(513)
Balance at December 31, 2015 (94,531,512 common shares outstanding)	$199,083	$ 945	$2,004,507	$ (657,172)	$ (2,838)	$ 72,039	$1,616,564

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Revenues from real estate operations received	$501,779	$479,605	$482,763
Construction contract and other service revenues received	117,107	89,180	63,647
Property operating expenses paid	(190,281)	(178,803)	(176,243)
Construction contract and other service expenses paid	(124,481)	(79,271)	(63,853)
General, administrative, leasing, business development and land carry costs paid	(38,113)	(29,521)	(28,022)
Interest expense paid	(65,816)	(79,095)	(81,575)
Previously accreted interest expense paid	—	—	(11,116)
Exit costs on property dispositions	—	—	(979)
Payments in connection with early extinguishment of debt	(373)	(9,017)	(27,909)
Interest and other income received	4,194	607	2,260
Income taxes (paid) refunded	(8)	200	6
Net cash provided by operating activities	204,008	193,885	158,979
Cash flows from investing activities			
Acquisitions of operating properties and related intangible assets	(202,866)	—	—
Construction, development and redevelopment	(234,346)	(200,385)	(201,808)
Tenant improvements on operating properties	(29,413)	(27,037)	(21,950)
Other capital improvements on operating properties	(23,147)	(28,720)	(23,940)
Proceeds from dispositions of properties	193,735	57,782	148,569
Investing receivables funded	(22)	(3,731)	(14,077)
Investing receivables payments received	5,114	10,279	144
Leasing costs paid	(13,710)	(16,234)	(14,429)
Decrease in restricted cash associated with investing activities	1,455	1,137	8,178
Other	(4,332)	(2,780)	(477)
Net cash used in investing activities	(307,532)	(209,689)	(119,790)
Cash flows from financing activities			
Proceeds from debt			
Revolving Credit Facility	522,000	232,000	504,000
Unsecured senior notes	296,580	297,342	592,413
Other debt proceeds	164,000	11,569	94,049
Repayments of debt			
Revolving Credit Facility	(561,500)	(149,000)	(504,000)
Scheduled principal amortization	(6,728)	(6,517)	(9,481)
Other debt repayments	(155,307)	(394,653)	(612,093)
Deferred financing costs paid	(7,522)	(708)	(9,361)
Net proceeds from issuance of common shares	28,567	150,174	157,444
Redemption of preferred shares	—	(50,000)	(84,750)
Common share dividends paid	(103,638)	(96,330)	(93,474)
Preferred share dividends paid	(14,210)	(16,731)	(21,335)
Distributions paid to noncontrolling interests in COPLP	(4,752)	(5,008)	(4,958)
Redemption of vested equity awards	(2,462)	(1,554)	(2,002)
Other	2,729	(3,076)	(1,862)
Net cash provided by (used in) financing activities	157,757	(32,492)	4,590

Net increase (decrease) in cash and cash equivalents	54,233	(48,296)	43,779
Cash and cash equivalents			
Beginning of period	6,077	54,373	10,594
End of period	$60,310	$6,077	$54,373

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Reconciliation of net income to net cash provided by operating activities:			
Net income	$188,878	$45,206	$101,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and other amortization	142,231	138,490	119,773
Impairment losses	23,523	1,419	31,068
Settlement of previously accreted interest expense	—	—	(11,116)
Amortization of deferred financing costs	4,466	4,666	5,451
Increase in deferred rent receivable	(14,969)	(3,520)	(5,196)
Amortization of net debt discounts	1,122	921	1,159
Gain on sales of real estate	(68,047)	(10,695)	(11,687)
Share-based compensation	6,574	6,164	6,530
(Gain) loss on early extinguishment of debt	(86,028)	651	(68,689)
Other	528	(3,242)	(3,093)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	1,331	(2,011)	(11,698)
(Increase) decrease in restricted cash and marketable securities	(1,241)	1,352	576
Decrease (increase) in prepaid expenses and other assets, net	2,853	(10,126)	(3,764)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,620)	25,091	3,960
Increase (decrease) in rents received in advance and security deposits	6,407	(481)	4,161
Net cash provided by operating activities	$204,008	$193,885	$158,979
Supplemental schedule of non-cash investing and financing activities:			
(Decrease) increase in accrued capital improvements, leasing and other investing activity costs	$(14,797)	$(3,779)	$2,947
Debt assumed on acquisition of operating property	$55,490	$—	$—
Other liabilities assumed on acquisition of operating properties	$5,179	$—	$—
Decrease in property in connection with transfer of property in settlement of debt	$(82,738)	$—	$(73,780)
Decrease in debt in connection with transfer of property in settlement of debt	$(150,000)	$—	$(146,500)
Increase in property and redeemable noncontrolling interests in connection with property contribution by a redeemable noncontrolling interest in a joint venture	$1,415	$—	$—
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests	$(1,140)	$(4,866)	$9,470
Equity in other comprehensive loss of an equity method investee	$(264)	$—	$—
Dividends/distribution payable	$30,178	$29,862	$29,080
COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity	$—	$—	$5,194
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	$2,151	$1,843	$3,997
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	$682	$3,382	$744
(Decrease) increase in redeemable noncontrolling interest and (increase) decrease in equity to carry redeemable noncontrolling interests at fair value	$(116)	$(134)	$7,121

See accompanying notes to consolidated financial statements.

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

	December 31,	
	2015	2014
Assets		
Properties, net:		
Operating properties, net	$ 2,920,529	$ 2,751,488
Projects in development or held for future development	429,219	545,426
Total properties, net	3,349,748	3,296,914
Assets held for sale, net	96,782	14,339
Cash and cash equivalents	60,310	6,077
Restricted cash and marketable securities	1,953	3,187
Accounts receivable (net of allowance for doubtful accounts of $1,525 and $717, respectively)	29,167	30,698
Deferred rent receivable (net of allowance of $1,962 and $1,418, respectively)	105,484	95,910
Intangible assets on real estate acquisitions, net	98,338	43,854
Deferred leasing costs (net of accumulated amortization of $66,364 and $69,998, respectively)	53,868	53,927
Investing receivables	47,875	52,147
Prepaid expenses and other assets, net	60,024	61,301
Total assets	$ 3,903,549	$ 3,658,354
Liabilities and equity		
Liabilities:		
Debt, net	$ 2,077,752	$ 1,914,036
Accounts payable and accrued expenses	91,755	123,035
Rents received in advance and security deposits	37,148	31,011
Distributions payable	30,178	29,862
Deferred revenue associated with operating leases	19,758	13,031
Interest rate derivatives	3,160	1,855
Other liabilities	8,016	6,223
Total liabilities	2,267,767	2,119,053
Commitments and contingencies (Note 20)		
Redeemable noncontrolling interests	19,218	18,417
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at December 31, 2015 and 2014	199,083	199,083
Limited partner, 352,000 preferred units outstanding at December 31, 2015 and 2014	8,800	8,800
Common units, 94,531,512 and 93,255,284 held by the general partner and 3,677,391 and 3,837,551 held by limited partners at December 31, 2015 and 2014, respectively	1,400,745	1,305,219
Accumulated other comprehensive loss	(2,985)	(1,381)
Total Corporate Office Properties, L.P.'s equity	1,605,643	1,511,721
Noncontrolling interests in subsidiaries	10,921	9,163
Total equity	1,616,564	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	$ 3,903,549	$ 3,658,354

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Revenues			
Rental revenue	$420,340	$386,396	$377,611
Tenant recoveries and other real estate operations revenue	98,724	93,329	83,386
Construction contract and other service revenues	106,402	106,748	62,363
Total revenues	625,466	586,473	523,360
Expenses			
Property operating expenses	194,494	179,934	167,199
Depreciation and amortization associated with real estate operations	140,025	136,086	113,214
Construction contract and other service expenses	102,696	100,058	58,875
Impairment losses	23,289	1,416	5,857
General, administrative and leasing expenses	31,361	31,794	30,869
Business development expenses and land carry costs	13,507	5,573	5,436
Total operating expenses	505,372	454,861	381,450
Operating income	120,094	131,612	141,910
Interest expense	(89,074)	(92,393)	(82,010)
Interest and other income	4,517	4,923	3,834
Gain (loss) on early extinguishment of debt	85,275	(9,552)	(27,030)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	120,812	34,590	36,704
Equity in income of unconsolidated entities	62	229	2,110
Income tax expense	(199)	(310)	(1,978)
Income from continuing operations	120,675	34,509	36,836
Discontinued operations	156	26	55,692
Income before gain on sales of real estate	120,831	34,535	92,528
Gain on sales of real estate, net of income taxes	68,047	10,671	9,016
Net income	188,878	45,206	101,544
Net income attributable to noncontrolling interests in consolidated entities	(3,520)	(3,276)	(3,907)
Net income attributable to COPLP	185,358	41,930	97,637
Preferred unit distributions	(14,870)	(16,599)	(20,631)
Issuance costs associated with redeemed preferred units	—	(1,769)	(2,904)
Net income attributable to COPLP common unitholders	$170,488	$23,562	$74,102
Net income attributable to COPLP:			
Income from continuing operations	$185,199	$41,899	$42,875
Discontinued operations, net	159	31	54,762
Net income attributable to COPLP	$185,358	$41,930	$97,637
Basic earnings per common unit (1)			
Income from continuing operations	$1.74	$0.25	$0.21
Discontinued operations	—	—	0.62
Net income attributable to COPLP common unitholders	$1.74	$0.25	$0.83
Diluted earnings per common unit (1)			
Income from continuing operations	$1.74	$0.25	$0.21
Discontinued operations	—	—	0.62
Net income attributable to COPLP common unitholders	$1.74	$0.25	$0.83

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Net income	$188,878	$45,206	$101,544
Other comprehensive (loss) income			
Unrealized (losses) gains on interest rate derivatives	(4,739)	(7,799)	6,791
Losses on interest rate derivatives included in interest expense	3,599	2,990	2,740
Losses on interest rate derivatives included in loss on early extinguishment of debt	—	38	—
Unrealized equity in other comprehensive (loss) income of equity method investee	(264)	—	1,070
Realized equity in other comprehensive income of equity method investee	—	—	(1,070)
Other comprehensive (loss) income	(1,404)	(4,771)	9,531
Comprehensive income	187,474	40,435	111,075
Comprehensive income attributable to noncontrolling interests	(3,720)	(3,492)	(4,125)
Comprehensive income attributable to COPLP	$183,754	$36,943	$106,950

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2012	352,000	$8,800	12,821,667	$333,833	85,020,528	$1,089,391	$(5,708)	$10,183	$1,436,499
Redemption of preferred units resulting from redemption of preferred shares	—	—	(3,390,000)	(84,750)	—	—	—	—	(84,750)
Issuance of common units resulting from public issuance of common shares	—	—	—	—	4,485,000	117,961	—	—	117,961
Issuance of common units resulting from common shares issued under COPT at-the-market program	—	—	—	—	1,500,000	38,447	—	—	38,447
Acquisition of property and noncontrolling interest in subsidiary for COPLP common units	—	—		—	221,501	3,899	—	(2,530)	1,369
Issuance of common units resulting from exercise of share options	—	—	—	—	39,331	779	—	—	779
Share-based compensation (units net of redemption)	—	—	—	—	105,852	7,605	—	—	7,605
Redemptions of vested equity	—	—	—	—	—	(2,002)	—	—	(2,002)

awards									
Comprehensive income	—	660	—	19,971	—	77,006	9,313	2,749	109,699
Distributions to owners of common and preferred units	—	(660)	—	(19,971)	—	(99,525)	—	—	(120,156)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	86	86
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(1,045)	(1,045)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(7,121)	—	—	(7,121)
Tax loss from share-based compensation	—	—	—	—	—	(122)	—	—	(122)
Balance at December 31, 2013	352,000	8,800	9,431,667	249,083	91,372,212	1,226,318	3,605	9,443	1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000)	(50,000)	—	—	—	—	(50,000)
Issuance of common units resulting from public issuance of common shares	—	—	—	—	5,520,000	148,666	—	—	148,666
Issuance of common units resulting from exercise of share options	—	—	—	—	62,888	1,489	—	—	1,489
Share-based compensation (units net of redemption)	—	—	—	—	137,735	7,050	—	—	7,050
Redemptions of vested equity	—	—	—	—	—	(1,554)	—	—	(1,554)

awards									
Comprehensive income	—	660	—	15,939	—	25,331	(4,986)	1,330	38,274
Distributions to owners of common and preferred units	—	(660)	—	(15,939)	—	(102,212)	—	—	(118,811)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	3	3
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(1,613)	(1,613)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	134	—	—	134
Tax loss from share-based compensation	—	—	—	—	—	(3)	—	—	(3)
Balance at December 31, 2014	352,000	8,800	7,431,667	199,083	97,092,835	1,305,219	(1,381)	9,163	1,520,884
Issuance of common units resulting from common shares issued under COPT at-the-market program	—	—	—	—	890,241	26,535	—	—	26,535
Issuance of common units resulting from exercise of share options	—	—	—	—	76,474	2,008	—	—	2,008
Share-based compensation (units net of redemption)	—	—	—	—	149,353	7,398	—	—	7,398
Redemptions of vested equity awards	—	—	—	—	—	(2,462)	—	—	(2,462)
Comprehensive income	—	660	—	14,210	—	170,488	(1,604)	1,493	185,247
	—	(660)	—	(14,210)	—	(108,044)	—	—	(122,914)

Distributions to owners of common and preferred units									
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	300	300
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(35)	(35)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	—	—	—	116	—	—	116
Tax loss from share-based compensation	—	—	—	—	—	(513)	—	—	(513)
Balance at December 31, 2015	352,000	$8,800	7,431,667	$199,083	98,208,903	$1,400,745	$(2,985)	$10,921	$1,616,564

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Revenues from real estate operations received	$501,779	$479,605	$482,763
Construction contract and other service revenues received	117,107	89,180	63,647
Property operating expenses paid	(190,281)	(178,803)	(176,243)
Construction contract and other service expenses paid	(124,481)	(79,271)	(63,853)
General, administrative, leasing, business development and land carry costs paid	(38,113)	(29,521)	(28,022)
Interest expense paid	(65,816)	(79,095)	(81,575)
Previously accreted interest expense paid	—	—	(11,116)
Exit costs on property dispositions	—	—	(979)
Payments in connection with early extinguishment of debt	(373)	(9,017)	(27,909)
Interest and other income received	4,194	607	2,260
Income taxes (paid) refunded	(8)	200	6
Net cash provided by operating activities	204,008	193,885	158,979
Cash flows from investing activities			
Acquisitions of operating properties and related intangible assets	(202,866)	—	—
Construction, development and redevelopment	(234,346)	(200,385)	(201,808)
Tenant improvements on operating properties	(29,413)	(27,037)	(21,950)
Other capital improvements on operating properties	(23,147)	(28,720)	(23,940)
Proceeds from dispositions of properties	193,735	57,782	148,569
Investing receivables funded	(22)	(3,731)	(14,077)
Investing receivables payments received	5,114	10,279	144
Leasing costs paid	(13,710)	(16,234)	(14,429)
Decrease in restricted cash associated with investing activities	1,455	1,137	8,178
Other	(4,332)	(2,780)	(477)
Net cash used in investing activities	(307,532)	(209,689)	(119,790)
Cash flows from financing activities			
Proceeds from debt			
Revolving Credit Facility	522,000	232,000	504,000
Unsecured senior notes	296,580	297,342	592,413
Other debt proceeds	164,000	11,569	94,049
Repayments of debt			
Revolving Credit Facility	(561,500)	(149,000)	(504,000)
Scheduled principal amortization	(6,728)	(6,517)	(9,481)
Other debt repayments	(155,307)	(394,653)	(612,093)
Deferred financing costs paid	(7,522)	(708)	(9,361)
Net proceeds from issuance of common units	28,567	150,174	157,444
Redemption of preferred units	—	(50,000)	(84,750)
Common unit distributions paid	(107,730)	(100,678)	(97,772)
Preferred unit distributions paid	(14,870)	(17,391)	(21,995)
Redemption of vested equity awards	(2,462)	(1,554)	(2,002)
Other	2,729	(3,076)	(1,862)
Net cash provided by (used in) financing activities	157,757	(32,492)	4,590
Net increase (decrease) in cash and cash equivalents	54,233	(48,296)	43,779

Cash and cash equivalents			
Beginning of period	6,077	54,373	10,594
End of period	$60,310	$6,077	$54,373

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
Reconciliation of net income to net cash provided by operating activities:			
Net income	$188,878	$45,206	$101,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and other amortization	142,231	138,490	119,773
Impairment losses	23,523	1,419	31,068
Settlement of previously accreted interest expense	—	—	(11,116)
Amortization of deferred financing costs	4,466	4,666	5,451
Increase in deferred rent receivable	(14,969)	(3,520)	(5,196)
Amortization of net debt discounts	1,122	921	1,159
Gain on sales of real estate	(68,047)	(10,695)	(11,687)
Share-based compensation	6,574	6,164	6,530
(Gain) loss on early extinguishment of debt	(86,028)	651	(68,689)
Other	528	(3,242)	(3,093)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	1,331	(2,011)	(11,698)
(Increase) decrease in restricted cash and marketable securities	(1,360)	(234)	1,267
Decrease (increase) in prepaid expenses and other assets, net	2,853	(10,126)	(3,764)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,501)	26,677	3,269
Increase (decrease) in rents received in advance and security deposits	6,407	(481)	4,161
Net cash provided by operating activities	$204,008	$193,885	$158,979
Supplemental schedule of non-cash investing and financing activities:			
(Decrease) increase in accrued capital improvements, leasing and other investing activity costs	$(14,797)	$(3,779)	$2,947
Debt assumed on acquisition of operating property	$55,490	$—	$—
Other liabilities assumed on acquisition of operating properties	$5,179	$—	$—
Decrease in property in connection with transfer of property in settlement of debt	$(82,738)	$—	$(73,780)
Decrease in debt in connection with transfer of property in settlement of debt	$(150,000)	$—	$(146,500)
Increase in property and redeemable noncontrolling interests in connection with property contribution by a redeemable noncontrolling interest in a joint venture	$1,415	$—	$—
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests	$(1,140)	$(4,866)	$9,470
Equity in other comprehensive loss of an equity method investee	$(264)	$—	$—
Distributions payable	$30,178	$29,862	$29,080
COPLP common units issued to acquire property and noncontrolling interest in other consolidated entity	$—	$—	$5,194
(Decrease) increase in redeemable noncontrolling interest and (increase) decrease in equity to carry redeemable noncontrolling interests at fair value	$(116)	$(134)	$7,121

See accompanying notes to consolidated financial statements.

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

1. Organization

Corporate Office Properties Trust ("COPT") and subsidiaries (collectively, the "Company") is a fully-integrated and self-managed real estate investment trust ("REIT"). Corporate Office Properties, L.P. ("COPLP") and subsidiaries (collectively, the "Operating Partnership") is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, "we", "us" and "our" as used herein refer to each of the Company and the Operating Partnership. We own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support United States Government agencies and their contractors, most of whom are engaged in national security, defense and information technology ("IT") related activities servicing what we believe are growing, durable priority missions ("Defense/IT Locations"). We also own a complementary portfolio of traditional office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics, as well as other properties supporting general commercial office tenants ("Regional Office"). As of December 31, 2015, our properties included the following (all references to number of properties, square footage, acres and megawatts are unaudited):

- 177 operating office properties totaling 18.1 million square feet, including nine triple-net leased, single-tenant data center properties;
- 13 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.5 million square feet upon completion, including one partially operational property included above;
- 1,439 acres of land we control that we believe are potentially developable into approximately 17.6 million square feet; and
- a wholesale data center with a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of December 31, 2015, COPT owned 96.3% of the outstanding COPLP common units ("common units") and 95.5% of the outstanding COPLP preferred units ("preferred units"); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest ("common shares") of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest ("preferred shares") in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT's common shares are publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "OFC".

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

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

Reclassification

We reclassified certain amounts from prior periods to conform to the current period presentation of our consolidated financial statements, including amounts related to our adoption of guidance regarding the presentation of deferred debt issuance costs (discussed below) and our change in reportable segments (discussed in Note 17), with no effect on previously reported net income or equity.

Use of Estimates in the Preparation of Financial Statements

We make estimates and assumptions when preparing financial statements under generally accepted accounting principles ("GAAP"). These estimates and assumptions affect various matters, including:

- the reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;
- the disclosure of contingent assets and liabilities at the dates of the financial statements; and
- the reported amounts of revenues and expenses in our consolidated statements of operations during the reporting periods.

Significant estimates are inherent in the presentation of our financial statements in a number of areas, including the evaluation of the collectability of accounts and deferred rent receivable, the allocation of property acquisition costs, the determination of estimated useful lives of assets, the determination of lease terms, the evaluation of impairment of long-lived assets, the amount of impairment losses recognized, the amount of revenue recognized relating to tenant improvements, the level of expense recognized in connection with share-based compensation and the determination of accounting method for investments. Actual results could differ from these and other estimates.

Acquisitions of Properties

Upon completion of property acquisitions, we allocate the purchase price to tangible and intangible assets and liabilities associated with such acquisitions based on our estimates of their fair values. We determine these fair values by using market data and independent appraisals available to us and making numerous estimates and assumptions. We allocate property acquisitions to the following components:

- properties based on a valuation performed under the assumption that the property is vacant upon acquisition (the "if-vacant value"). The if-vacant value is allocated between land and buildings or, in the case of properties under development, construction in progress. We also allocate additional amounts to properties for in-place tenant improvements based on our estimate of improvements per square foot provided under market leases that would be attributable to the remaining non-cancelable terms of the respective leases;
- above- and below-market lease intangible assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between: (1) the contractual amounts to be received pursuant to the in-place leases; and (2) our estimate of fair market lease rates for the corresponding space, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above- and

below-market lease values are amortized as adjustments to rental revenue over the remaining lease terms of the respective leases, and to renewal periods in the case of below-market leases;

- in-place lease value based on our estimates of: (1) the present value of additional income to be realized as a result of leases being in place on the acquired properties; and (2) costs to execute similar leases. Our estimate of additional income to be realized includes carrying costs, such as real estate taxes, insurance and other operating expenses, and revenues during the expected lease-up periods considering current market conditions. Our estimate of costs to execute similar leases includes leasing commissions, legal and other related costs;
- tenant relationship value based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. Characteristics we consider in determining these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors; and

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

above- and below- market cost arrangements (such as real estate tax treaties or above- or below- market ground leases) based on the present value of the expected benefit from any such arrangements in place on the property at the time of acquisition.

Intangible Assets and Deferred Revenue on Real Estate Acquisitions

We amortize the intangible assets and deferred revenue on real estate acquisitions discussed above as follows:

Asset Type	Amortization Period
Above- and below-market leases	Related lease terms
In-place lease value	Related lease terms
Tenant relationship value	Estimated period of time that tenant will lease space in property
Above- and below-market cost arrangements	Term of arrangements

We recognize the amortization of acquired above-market and below-market leases as adjustments to rental revenue. We recognize the amortization of above- and below- market cost arrangements as adjustments to property operating expenses. We recognize the amortization of other intangible assets on property acquisitions as amortization expense.

Properties

We report properties to be developed or held and used in operations at our depreciated cost, reduced for impairment losses. The preconstruction stage of the development or redevelopment of an operating property includes efforts and related costs to secure land control and zoning, evaluate feasibility and complete other initial tasks which are essential to development.

We capitalize interest expense, real estate taxes and direct and indirect project costs (including related compensation and other indirect costs) associated with properties, or portions thereof, undergoing construction, development and redevelopment activities. In capitalizing interest expense, if there is a specific borrowing for the property undergoing construction, development and redevelopment activities, we apply the interest rate of that borrowing to the average accumulated expenditures that do not exceed such borrowing; for the portion of expenditures exceeding any such specific borrowing, we apply our weighted average interest rate on other borrowings to the expenditures. We continue to capitalize costs while construction, development or redevelopment activities are underway until a property becomes “operational,” which occurs when lease terms commence (generally when the tenant has control of the leased space and we have delivered the premises to the tenant as required under the terms of such lease), but no later than one year after the cessation of major construction activities. When leases commence on portions of a newly-constructed or redeveloped property in the period prior to one year from the cessation of major construction activities, we consider that property to be “partially operational.” When a property is partially operational, we allocate the costs associated with the property between the portion that is operational and the portion under construction. We start depreciating newly-constructed and redeveloped properties as they become operational.

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 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. In determining whether improvements constitute landlord or tenant assets, we consider numerous factors, 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.

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

We depreciate our fixed assets using the straight-line method over their estimated useful lives as follows:

	Estimated Useful Lives
Buildings and building improvements	10-40 years
Land improvements	10-20 years
Tenant improvements on operating properties	Related lease term
Equipment and personal property	3-10 years

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 recovery 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. Changes in holding periods may require us to recognize significant impairment losses.

Fair values are estimated based on contract prices, indicative bids, discounted cash flow analyses, yield analyses or sales comparison approach. 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 factors 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 factors are influenced by market data obtained from real estate leasing and brokerage firms and our direct experience with the properties and their markets.

When we determine that a property is held for sale, we stop depreciating the property and estimate the property’s fair value, net of selling costs; if we then determine that the estimated fair value, net of selling costs, is less than the net book value of the property, we recognize an impairment loss equal to the difference and reduce the net book value of the property. For periods in which a property is classified as held for sale, we classify the assets of the property as held for sale on our consolidated balance sheet for such periods.

For dispositions of operating properties occurring prior to June 30, 2014 in which we had no significant continuing involvement, or for operating properties held for sale prior to June 30, 2014, we classify the results of operations for such properties as discontinued operations; interest expense that is specifically identifiable to properties included in discontinued operations is used in the computation of interest expense attributable to discontinued operations. We adopted guidance issued by the Financial Accounting Standards Board (“FASB”) related to the reporting of discontinued operations and disclosures of disposals of components of an entity effective for the quarterly period ended June 30, 2014. This guidance defines a discontinued operation as a component or group of components disposed or classified as held for sale that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results; the guidance states that a strategic shift could include a disposal of a major geographical area of operations, a major line of business, a major equity method investment or other major parts of an entity. We have had no properties newly classified as discontinued operations subsequent to our adoption of this guidance.

Sales of Interests in Real Estate

We recognize gains from sales of interests in real estate using the full accrual method, provided that various criteria relating to the terms of sale and any subsequent involvement by us with the real estate sold are met.

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments that mature three months or less from when they are purchased. Cash equivalents are reported at cost, which approximates fair value. We maintain our cash in bank accounts in amounts that may exceed Federally insured limits at times. We have not experienced any losses in these accounts in the past and believe that we are not exposed to significant credit risk because our accounts are deposited with major financial institutions.

Investments in Marketable Securities

We classify marketable securities as trading securities when we have the intent to sell such securities in the near term, and classify other marketable securities as available-for-sale securities. We determine the appropriate classification of investments in marketable securities at the acquisition date and re-evaluate the classification at each balance sheet date. We report investments in marketable securities classified as trading securities at fair value, with unrealized gains and losses recognized through earnings; on our consolidated statements of cash flows, we classify cash flows from these securities as operating activities.

Accounts and Deferred Rents Receivable and Investing Receivables

We maintain allowances for estimated losses resulting from the failure of our customers or borrowers to satisfy their payment obligations. We use judgment in estimating these allowances based primarily upon the payment history and credit status of the entities associated with the individual receivables. We write off these receivables when we believe the facts and circumstances indicate that continued pursuit of collection is no longer warranted. When cash is received in connection with receivables for which we have established allowances, we reduce the amount of losses previously recognized.

We evaluate the collectibility of both interest and principal of loans whenever events or changes in circumstances indicate such amounts may not be recoverable. A loan is impaired when it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the present value of expected future cash flows discounted at the loan's effective interest rate and the value of any collateral under such loan.

Interest on impaired loans is recognized when received in cash.

Deferred Leasing and Financing Costs

We defer costs incurred to obtain new tenant leases or extend existing tenant leases, including related compensation costs. We amortize these costs evenly over the lease terms. When tenant leases are terminated early, we expense any unamortized deferred leasing costs associated with those leases over the shortened term of the lease.

We defer costs of financing arrangements and recognize these costs as interest expense over the related loan terms on a straight-line basis, which approximates the amortization that would occur under the effective interest method of amortization. We expense any unamortized loan costs when loans are retired early.

In April 2015, the FASB issued guidance that changes the presentation of deferred debt issuance costs in financial statements. This guidance requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. This guidance was further updated in August 2015 with respect to debt issuance costs of line-of-credit arrangements to note that it will be permissible for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of a line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We adopted this guidance effective for the quarterly period ended December 31, 2015 retrospectively to each prior period presented. The application of this guidance changed the balance sheet classification of most of our deferred financing costs but did not otherwise affect our consolidated financial statements. For costs of such arrangements attributable to line-of-credit arrangements and interest rate derivatives, we present such costs in the balance sheet in the line entitled prepaid and other assets.

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

Noncontrolling Interests

COPT's consolidated noncontrolling interests are comprised of interests in COPLP not owned by COPT (discussed further in Note 14) and consolidated real estate joint ventures (discussed further in Note 6). COPLP's consolidated noncontrolling interests are comprised primarily of interests in our consolidated real estate joint ventures. Also included in COPLP's consolidated noncontrolling interests are interests in several real estate entities owned directly by COPT, or a wholly owned subsidiary of COPT, that generally do not exceed 1% of interests in such entities. We evaluate whether noncontrolling interests are subject to redemption features outside of our control. For noncontrolling interests that are currently redeemable for cash at the option of the holders of such interests or deemed probable to eventually become redeemable, we classify such interests as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheets; we adjust these interests each period to the greater of their fair value or carrying amount (initial amount as adjusted for allocations of income and losses and contributions and distributions), with a corresponding offset to additional paid-in capital on COPT's consolidated balance sheets or common units on COPLP's balance sheet, and only recognize reductions in such interests to the extent of their carrying amount. Our other noncontrolling interests are reported in the equity section of our consolidated balance sheets. The amounts reported for noncontrolling interests on our consolidated statements of operations represent the portion of these entities' income or losses not attributable to us.

Revenue Recognition

We recognize minimum rents, net of abatements, on a straight-line basis over the term of tenant leases. A lease term generally commences when: (1) the tenant has control of the leased space (legal right to use the property); and (2) we have delivered the premises to the tenant as required under the terms of such lease. The term of a lease generally includes periods when a tenant: (1) may not terminate its lease obligation early; (2) may terminate its lease obligation early in exchange for a fee or penalty that we consider material enough such that termination would not be probable; (3) possesses renewal rights and the tenant's failure to exercise such rights imposes a penalty on the tenant material enough such that renewal appears reasonably assured; or (4) possesses bargain renewal options for such periods. We report the amount by which our minimum rental revenue recognized on a straight-line basis under leases exceeds the contractual rent billings associated with such leases as deferred rent receivable on our consolidated balance sheets. Amounts by which our minimum rental revenue recognized on a straight-line basis under leases are less than the contractual rent billings associated with such leases are included in deferred revenue associated with operating leases on our consolidated balance sheets.

In connection with a tenant's entry into, or modification of, a lease, if we make cash payments to, or on behalf of, the tenant for purposes other than funding the construction of landlord assets, we defer the amount of such payments as lease incentives. As discussed above, when we are required to provide improvements under the terms of a lease, we determine whether the improvements constitute landlord assets or tenant assets; if the improvements are tenant assets, we defer the cost of improvements funded by us as a lease incentive asset. We amortize lease incentives as a reduction of rental revenue over the term of the lease.

We recognize tenant recovery revenue in the same periods in which we incur the related expenses. Tenant recovery revenue includes payments from tenants as reimbursement for property taxes, utilities and other property operating expenses.

We recognize fees received for lease terminations as revenue and write off against such revenue any (1) deferred rents receivable, and (2) deferred revenue, lease incentives and intangible assets that are amortizable into rental revenue associated with the leases; the resulting net amount is the net revenue from the early termination of the leases. When a tenant's lease for space in a property is terminated early but the tenant continues to lease such space under a new or modified lease in the property, the net revenue from the early termination of the lease is recognized evenly over the remaining life of the new or modified lease in place on that property.

We recognize fees for services provided by us once services are rendered, fees are determinable and collectability is assured. We recognize revenue under construction contracts using the percentage of completion method when the revenue and costs for such contracts can be estimated with reasonable accuracy; when these criteria do not apply to a contract, we recognize revenue on that contract using the completed contract method. Under the percentage of completion method, we recognize a percentage of the total estimated revenue on a contract based on the cost of services provided on the contract as of a point in time relative to the total estimated costs on the contract.

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

Interest Rate Derivatives

Our primary objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for our making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Derivatives are used to hedge the cash flows associated with interest rates on existing debt as well as future debt. We recognize all derivatives as assets or liabilities on our consolidated balance sheet at fair value. We defer the effective portion of changes in fair value of the designated cash flow hedges to AOCI and reclassify such deferrals to interest expense as interest expense is recognized on the hedged forecasted transactions. We recognize the ineffective portion of the change in fair value of interest rate derivatives directly in interest expense. When an interest rate swap designated as a cash flow hedge no longer qualifies for hedge accounting, we recognize changes in fair value of the hedge previously deferred to AOCI, along with any changes in fair value occurring thereafter, through earnings. We do not use interest rate derivatives for trading or speculative purposes. We manage counter-party risk by only entering into contracts with major financial institutions based upon their credit ratings and other risk factors.

We use standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost in computing the fair value of derivatives at each balance sheet date. We made an accounting policy election to use an exception provided for in the applicable accounting guidance with respect to measuring counterparty credit risk for derivative instruments; this election enables us to measure the fair value of groups of assets and liabilities associated with derivative instruments consistently with how market participants would price the net risk exposure as of the measurement date.

Please refer to Note 11 for additional information pertaining to interest rate derivatives.

Expense Classification

We classify as property operations expense costs incurred for property taxes, ground rents, utilities, property management, insurance, repairs, exterior and interior maintenance and tenant revenue collection losses, as well as associated labor and indirect costs attributable to these costs.

We classify as general and administrative and leasing expenses costs incurred for corporate-level management, public company administration, asset management, leasing, investor relations, marketing and corporate-level insurance (including general business, director and officers and key man life) and leasing prospects, as well as associated labor and indirect costs attributable to these costs.

Share-Based Compensation

We issue three forms of share-based compensation: restricted COPT common shares (“restricted shares”), deferred share awards and performance share units (“PSUs”). We also issued options to purchase COPT common shares (“options”) in prior years. We account for share-based compensation in accordance with authoritative guidance provided by the FASB that establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, focusing primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The guidance requires us to measure the cost of employee services received in exchange for an award of equity instruments based generally on the fair value of the award on the grant date; such cost is then recognized over the period during which the employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The guidance also requires that share-based compensation be computed based on awards that are ultimately expected to vest; as a result, future forfeitures of awards are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. If an award is voluntarily cancelled by an employee, we recognize the previously unrecognized cost associated with the original award on the date of such cancellation. We capitalize costs associated with share-based compensation attributable to employees engaged in construction and development activities.

When we adopted the authoritative guidance on accounting for share-based compensation, we elected to adopt the alternative transition method for calculating the tax effects of share-based compensation. This method enabled us to use a simplified method to establishing the beginning balance of the additional paid-in capital pool related to the tax effects of

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

employee share-based compensation that was available to absorb tax deficiencies recognized subsequent to the adoption of this guidance.

We compute the fair value of restricted shares and deferred share awards based on the fair value of COPT common shares on the grant date.

We compute the fair value of options using the Black-Scholes option-pricing model. Under that model, the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected option life is based on our historical experience of employee exercise behavior. Expected volatility is based on historical volatility of COPT common shares. Expected dividend yield is based on the average historical dividend yield on our common shares over a period of time ending on the grant date of the options.

We compute the fair value of PSUs using a Monte Carlo model. Under that model, the baseline common share value is based on the market value on the grant date. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on historical volatility of COPT's common shares.

Income Taxes

COPT elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. To qualify as a REIT, COPT must meet a number of organizational and operational requirements, including a requirement that it distribute at least 90% of the Company's adjusted taxable income to its shareholders. As a REIT, COPT generally will not be subject to Federal income tax on taxable income that it distributes to its shareholders. If COPT fails to qualify as a REIT in any tax year, it will be subject to Federal income tax on its taxable income at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years.

COPLP is a limited partnership and is not subject to federal income tax. Its partners are required to report their respective share of the Operating Partnership's taxable income on their respective tax returns. COPT's share of the Operating Partnership's taxable income is reported on COPT's income tax return.

For Federal income tax purposes, dividends to shareholders may be characterized as ordinary income, capital gains or return of capital. The characterization of dividends paid on COPT's common and preferred shares during each of the last three years was as follows:

	Common Shares						Preferred Shares					
	For the Years Ended December 31,						For the Years Ended December 31,					
	2015		2014		2013		2015		2014		2013	
Ordinary income	38.3	%	64.5	%	71.8	%	38.3	%	90.9	%	76.2	%
Long-term capital gain	61.7	%	6.5	%	22.4	%	61.7	%	9.1	%	23.8	%
Return of capital	0.0	%	29.0	%	5.8	%	0.0	%	0.0	%	0.0	%

In addition, dividends paid on January 15, 2016 (with a record date of December 31, 2015) on COPT's common and preferred shares were allocated to 2015 for Federal income tax purposes and characterized based on the percentages set forth above for 2015.

We distributed all of COPT's REIT taxable income in 2015, 2014 and 2013 and, as a result, did not incur Federal income tax in those years.

The net basis of our consolidated assets and liabilities for tax reporting purposes was approximately $224 million lower than the amount reported on our consolidated balance sheet at December 31, 2015, which was primarily related to differences in basis for net properties, intangible assets on property acquisitions and deferred rent receivable.

We are subject to certain state and local income and franchise taxes. The expense associated with these state and local taxes is included in general and administrative expense and property operating expenses on our consolidated statements of operations. We did not separately state these amounts on our consolidated statements of operations because they are insignificant.

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Notes to Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this guidance for our annual and interim periods beginning January 1, 2018 using one of two methods: retrospective restatement for each reporting period presented at the time of adoption, or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In January 2015, the FASB issued guidance regarding the presentation of extraordinary and unusual items in statements of operations. This guidance eliminates the concept of extraordinary items. However, the presentation and disclosure requirements for items that are either unusual in nature or infrequent in occurrence remain and will be expanded to include items that are both unusual in nature and infrequent in occurrence. This guidance is effective for periods beginning after December 15, 2015. We expect that the application of this guidance will have no effect on our reported consolidated financial statements.

In February 2015, the FASB issued guidance regarding amendments to the consolidation analysis. This guidance amends the criteria for determining which entities are considered variable interest entities (“VIE”), amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

As discussed further above, we adopted guidance issued by the FASB effective for the quarterly period ended December 31, 2015 retrospectively to each prior period presented that requires an entity to present deferred debt issuance costs (other than costs of line-of-credit arrangements) in the balance sheet as a direct deduction from the related debt liability rather than as an asset.

In September 2015, the FASB issued guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the statement of operations or disclosed in the notes. This guidance is effective for annual reporting periods beginning after December 15, 2015. This guidance will be applied prospectively for measurement period adjustments that occur after the effective date. We expect that the application of this guidance will not materially affect our consolidated financial statements.

3. Fair Value Measurements

Accounting standards define fair value as the exit price, or the amount that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standards also establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy of these inputs is broken down into three levels: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs include (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets and (3) inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is most significant to the fair value measurement.

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

Recurring Fair Value Measurements

COPT has a non-qualified elective deferred compensation plan for certain members of our management team that permits participants to defer up to 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. The assets held in the plan (comprised primarily of mutual funds and equity securities) and the corresponding liability to the participants are measured at fair value on a recurring basis on COPT's consolidated balance sheet using quoted market prices, as are other marketable securities that we hold. The balance of the plan, which was fully funded, totaled $5.8 million as of December 31, 2015 and $5.9 million as of December 31, 2014, and is included in the accompanying COPT consolidated balance sheets in the line entitled restricted cash and marketable securities. The offsetting liability associated with the plan is adjusted to fair value at the end of each accounting period based on the fair value of the plan assets and reported in other liabilities on COPT's consolidated balance sheets. The assets of the plan and other marketable securities that we hold are classified in Level 1 of the fair value hierarchy. The liability associated with the plan is classified in Level 2 of the fair value hierarchy.

The fair values of our interest rate derivatives are determined using widely accepted valuation techniques, including a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate market data and implied volatilities in such interest rates. While we determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our interest rate derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. However, as of December 31, 2015, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivatives and determined that these adjustments are not significant. As a result, we determined that our interest rate derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

As discussed further in Note 6, our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC, have the right to require us to acquire their respective interests at fair value; accordingly, we classify the fair value of our partners' interests as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheet. We determine the fair value of the interests based on unobservable inputs after considering the assumptions that market participants would make in pricing the interest. We apply a discount rate to the estimated future cash flows allocable to our partners from the properties underlying the respective joint ventures. Estimated cash flows used in such analyses are based on our plans for the properties and our views of market and economic conditions, and consider items such as current and future rental rates, occupancies for the properties and comparable properties and estimated operating and capital expenditures.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. As discussed in Note 8, we estimated the fair values of our investing receivables based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of debt fair values in Note 10, we estimated the fair value of our unsecured senior notes and exchangeable senior notes based on quoted market rates for publicly-traded debt (categorized within Level 2 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

For additional fair value information, please refer to Note 8 for investing receivables, Note 10 for debt and Note 11 for interest rate derivatives.

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

COPT and Subsidiaries

The tables below set forth financial assets and liabilities of COPT and its subsidiaries that are accounted for at fair value on a recurring basis as of December 31, 2015 and 2014 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Other Observable Inputs(Level 2)	Significant Unobservable Inputs(Level 3)	Total
December 31, 2015:				
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	$ 5,658	$ —	$ —	$5,658
Other	105	—	—	105
Interest rate derivatives (2)	—	53	—	53
Total assets	$ 5,763	$ 53	$ —	$5,816
Liabilities:				
Deferred compensation plan liability (3)	$ —	$ 5,763	$ —	$5,763
Interest rate derivatives	—	3,160	—	3,160
Total liabilities	$ —	$ 8,923	$ —	$8,923
December 31, 2014:				
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	$ 5,756	$ —	$ —	$5,756
Other	126	—	—	126
Interest rate derivatives (2)	—	274	—	274
Total assets	$ 5,882	$ 274	$ —	$6,156
Liabilities:				
Deferred compensation plan liability (3)	$ —	$ 5,882	$ —	$5,882
Interest rate derivatives	—	1,855	—	1,855
Total liabilities	$ —	$ 7,737	$ —	$7,737

(1) Included in the line entitled “restricted cash and marketable securities” on COPT’s consolidated balance sheet.
(2) Included in the line entitled “prepaid expenses and other assets” on COPT’s consolidated balance sheet.
(3) Included in the line entitled “other liabilities” on COPT’s consolidated balance sheet.

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

COPLP and Subsidiaries

The tables below set forth financial assets and liabilities of COPLP and its subsidiaries that are accounted for at fair value on a recurring basis as of December 31, 2015 and 2014 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Other Observable Inputs(Level 2)	Significant Unobservable Inputs(Level 3)	Total
December 31, 2015:				
Assets:				
Interest rate derivatives (1)	$ —	$ 53	$ —	$53
Total Assets	$ —	$ 53	$ —	$53
Liabilities:				
Interest rate derivatives	$ —	$ 3,160	$ —	$3,160
December 31, 2014:				
Assets:				
Interest rate derivatives (1)	$ —	$ 274	$ —	$274
Total Assets	$ —	$ 274	$ —	$274
Liabilities:				
Interest rate derivatives	$ —	$ 1,855	$ —	$1,855

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

Nonrecurring Fair Value Measurements

In 2015, we recognized the following impairment losses resulting from nonrecurring fair value measurements:

- $12.8 million on land in Colorado Springs, Colorado (“Colorado Springs”). We classified some of this land as held for sale in the fourth quarter of 2015, at which time we adjusted the land to its estimated fair value less costs to sell. Due to the impairment loss on the land held for sale, we updated our estimates of fair value for other land owned in Colorado Springs and determined that the carrying value of some of this land exceeded such land’s estimated fair value, which resulted in recognition of an additional impairment loss;
- $6.6 million on land in Aberdeen, Maryland. After concluding during the fourth quarter that we no longer expected to develop operating properties on the land, we determined that the carrying amount of the land would not likely be recovered from the sale of this property over the likely remaining holding period. Accordingly, we adjusted the land to its estimated fair value;
- $2.6 million on operating properties in White Marsh, Maryland (included in our Regional Office segment) that we decided to sell and whose carrying amounts exceeded their estimated fair values less costs to sell. These properties were reclassified as held for sale during the year; and
- $1.3 million on an operating property in Northern Virginia (included in our Regional Office segment) that we sold on July 27, 2015 following receipt of an unsolicited offer. This property’s carrying value exceeded its fair value less costs to sell.

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

The table below sets forth the fair value hierarchy of the valuation technique we used to determine nonrecurring fair measurements of assets as of December 31, 2015 (dollars in thousands):

	Fair Values as of December 31, 2015			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Total properties, net (1)	$—	$—	$13,850	$13,850
Assets held for sale, net (2)	—	—	21,423	21,423

(1) Represents estimated fair values.
(2) Represents estimated fair values less costs to sell.

The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above as of December 31, 2015 (dollars in thousands):

Valuation Technique	Fair Values on Measurement Date	Unobservable Input	Range (Weighted Average) (1)
Bids for property indicative of value	$24,423	Indicative bids	N/A
Comparable sales analysis	10,850	Comparable sales prices	N/A

(1) Only one value applied for these unobservable inputs.

In 2014, we recognized impairment losses totaling $1.4 million primarily in connection with certain of our operating properties in White Marsh, Maryland (included in our Regional Office segment) that we decided to sell and whose carrying amounts exceeded the cash flows from the operations and sales of the properties over the shortened period. These properties were subsequently disposed during the year.

In 2013, we recognized the following impairment losses:

- for certain of our operating properties that served as collateral for a nonrecourse loan, we expected that the cash flows to be generated by the properties would be insufficient to fund debt service requirements on the loan. While we sought to negotiate various alternatives with the lender, on December 23, 2013, we conveyed the properties to the lender to extinguish the loan. We recognized non-cash impairment losses of $11.0 million (all classified as discontinued operations and including $560,000 in exit costs) on these properties in 2013 resulting primarily from the carrying amount of certain of these properties located in Colorado Springs (included in our Regional Office and Colorado Defense/IT Locations segments) exceeding their fair value;
- $15.2 million (all classified as discontinued operations and including $419,000 in exit costs) in connection with properties and land no longer aligned with our strategy that we sold, mostly in Colorado Springs (operating properties included primarily in our Regional Office and Colorado Defense/IT Locations segments); and
- $5.9 million on two properties in White Marsh, Maryland (included in our Regional Office segment) that we concluded no longer met our investment criteria during the year and whose carrying amounts exceeded the cash flows from the operations and sales of the properties over the shortened period.

4. Concentration of Revenue

A large concentration of our revenue from real estate operations was earned from our largest tenant, the United States Government, including 20% of our rental revenue in 2015, 18% in 2014 and 18% in 2013 (continuing and discontinued operations, and excluding tenant recoveries and other real estate operations revenue). Our rental revenue from the United States Government was earned primarily from properties in the Fort Meade/Baltimore Washington Corridor, Lackland Air Force Base, Navy Support Locations and Redstone Arsenal business subsegments (see Note 17). No other individual tenants accounted for 10% or more of our revenue from real estate operations. In addition, we also derived in excess of 90% of our construction contract revenue from the United States Government in each of the years set forth on the consolidated statements of operations.

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Notes to Consolidated Financial Statements (Continued)

In addition, we derived large concentrations of our revenue from real estate operations from certain business segments as set forth in Note 17.

5. Properties, net

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

	December 31,	
	2015	2014
Land	$463,305	$439,355
Buildings and improvements	3,157,587	3,015,216
Less: accumulated depreciation	(700,363)	(703,083)
Operating properties, net	$2,920,529	$2,751,488

In 2014, we recognized $12.9 million in additional depreciation expense resulting from our shortening of the useful life of a property in Greater Philadelphia, Pennsylvania (included in our Regional Office segment) that was removed from service for redevelopment.

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

	December 31,	
	2015	2014
Land	$207,774	$214,977
Development in progress, excluding land	221,445	330,449
Projects in development or held for future development	$429,219	$545,426

As of December 31, 2015, we had 13 operating properties in White Marsh, Maryland (included in our Regional Office segment), two operating properties in San Antonio (included in our Other segment) and land in Northern Virginia and Colorado Springs classified as held for sale. The table below sets forth the components of assets held for sale on our consolidated balance sheet for these properties (in thousands):

	December 31, 2015
Properties, net	$90,188
Deferred rent receivable	2,891
Intangible assets on real estate acquisitions, net	1,591
Deferred leasing costs, net	1,391
Lease incentives, net	721
Assets held for sale, net	$96,782

As of December 31, 2014, we had two land parcels in White Marsh, Maryland classified as held for sale with aggregate carrying amounts of $14.3 million that were sold in 2015.

2015 Acquisitions

In 2015, we acquired the following operating properties:

•

- 250 W. Pratt Street, a 367,000 square foot office property in Baltimore, Maryland that was 96.2% leased, for $61.8 million on March 19, 2015;
- 2600 Park Tower Drive, a 237,000 square foot office property in Vienna, Virginia that was 100% leased, for $80.5 million on April 15, 2015; and
- 100 Light Street, a 558,000 square foot office property in Baltimore, Maryland that was 93.5% leased, and its structured parking garage, 30 Light Street, for $121.2 million on August 7, 2015. In connection with that acquisition, we assumed a $55.0 million mortgage loan with a fair value at assumption of $55.5 million.

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Notes to Consolidated Financial Statements (Continued)

The table below sets forth the allocation of the aggregate purchase price of these properties to the value of the acquired assets and liabilities (in thousands):

Land, operating properties	$55,076
Building and improvements	139,540
Intangible assets on real estate acquisitions	75,729
Total assets	270,345
Below-market leases	(6,808)
Total acquisition cost	$263,537

Intangible assets recorded in connection with these acquisitions included the following (dollars in thousands):

		Weighted Average Amortization Period (in Years)
Tenant relationship value	$31,183	12
In-place lease value	35,139	7
Above-market leases	6,720	4
Below-market cost arrangements	2,687	40
	$75,729	10

These properties contributed revenues of $20.2 million and net income from continuing operations of $1.2 million in 2015. We expensed operating property acquisition costs of $4.1 million in 2015 that are included in business development expenses and land carry costs on our consolidated statements of operations.

We accounted for these acquisitions as business combinations. We included the results of operations for the acquisitions in our consolidated statements of operations from their respective purchase dates through December 31, 2015. The following table presents pro forma information for COPT and subsidiaries as if these acquisitions had occurred on January 1, 2014. This pro forma information also includes adjustments to reclassify the operating property acquisition costs disclosed above from the 2015 periods in which they were incurred to the year ended December 31, 2014. The pro forma financial information was prepared for comparative purposes only and is not necessarily indicative of what would have occurred had these acquisitions been made at that time or of results which may occur in the future (in thousands, except per shares amounts).

	For the Year Ended December 31,	
	2015	2014
	(Unaudited)	
Pro forma total revenues	$641,982	$623,013
Pro forma net income attributable to COPT common shareholders	$167,079	$20,796
Pro forma EPS:		
Basic	$1.77	$0.23
Diluted	$1.77	$0.23

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

2015 Dispositions

In 2015, we completed dispositions of the following operating properties (dollars in thousands):

Project Name	City, State	Segment	Date of Disposition	Number of Buildings	Total Rentable Square Feet	Transaction Value (1)	Gain on Disposition
1550 Westbranch Drive	McLean, VA	Regional Office	7/27/2015	1	160,000	$ 27,800	$ —
15000 and 15010 Conference Center Drive	Chantilly, VA	Northern VA Defense/IT	8/28/2015	2	665,000	167,335	—
13200 Woodland Park Road	Herndon, VA	Regional Office	10/27/2015	1	397,000	84,000	42,515
9900, 9910 and 9920 Franklin Square Drive	White Marsh, MD	Regional Office	11/9/2015	3	135,000	24,150	6,468
9690 Deereco Road and 375 W. Padonia Road	Timonium, MD	Regional Office	12/17/2015	2	240,000	44,500	15,050
				9	1,597,000	$ 347,785	$ 64,033

(1) Each of these properties were sold except for 15000 and 15010 Conference Center Drive, the disposition of which was completed in connection with a debt extinguishment, as discussed further below.

We also sold land in 2015 for $18.1 million and recognized gains of $4.0 million on the sales.

On August 28, 2015, ownership in 15000 and 15010 Conference Center Drive was transferred to the mortgage lender on a $150.0 million nonrecourse mortgage loan that was secured by the properties and we removed the debt obligation and accrued interest from our balance sheet. Upon completion of this transfer, we recognized a gain on early extinguishment of debt of $84.8 million, representing the difference between the mortgage loan and accrued interest payable extinguished over the carrying value of the properties transferred as of the transfer date and related closing costs.

2015 Construction Activities

In 2015, we placed into service an aggregate of 897,000 square feet in seven newly constructed office properties and 170,000 square feet in two redeveloped properties. As of December 31, 2015, we had nine office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.3 million square feet upon completion and four office properties under redevelopment that we estimate will total 156,000 square feet upon completion.

2014 Dispositions

In 2014, we completed dispositions of the following operating properties (dollars in thousands):

Project Name	City, State	Segment	Date of Sale	Number of Buildings	Total Rentable Square Feet	Transaction Value	Gain on Disposition

4969 and 4979 Mercantile Road	White Marsh, MD	Regional Office	7/14/2014	2	96,721	$ 5,960	$ 2,124
9930 and 9940 Franklin Square	White Marsh, MD	Regional Office	7/30/2014	2	71,992	10,475	2,303
5020, 5022, 5024 and 5026 Campbell Boulevard	White Marsh, MD	Regional Office	8/4/2014	4	134,245	12,400	666
				8	302,958	$ 28,835	$ 5,093

We also sold land in 2014 for $28.3 million and recognized gains of $5.6 million on the sales.

2014 Construction Activities

In 2014, we placed into service an aggregate of 692,000 square feet in five newly constructed office properties.

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Notes to Consolidated Financial Statements (Continued)

2013 Dispositions

In 2013, we completed dispositions of the following operating properties (dollars in thousands):

Project Name	City, State	Segment	Date of Sale	Number of Buildings	Total Rentable Square Feet	Transaction Value (1)	Gain on Disposition
920 Elkridge Landing Road	Linthicum, MD	Fort Meade/BW Corridor	6/25/2013	1	103,000	$ 6,900	$ —
4230 Forbes Boulevard	Lanham, MD	Regional Office	12/11/2013	1	56,000	5,600	1,507
December 2013 Colorado Springs Portfolio Disposition	Colorado Springs, CO	Colorado Defense/IT and Regional Office	12/12/2013	15	1,165,000	133,925	1,164
December 2013 Portfolio Conveyance	Colorado Springs, CO and Linthicum, MD	Various (2)	12/23/2013	14	1,021,000	146,876	—
				31	2,345,000	$ 293,301	$ 2,671

(1) Each of these properties were sold except for the December 2013 Portfolio Conveyance, the disposition of which was completed in connection with a debt extinguishment, as described further below.
(2) Included properties in our Fort Meade/BW Corridor, Colorado Defense/IT and Regional Office segments.

We also disposed of a non-operating property in 2013 for an aggregate transaction value of $3.5 million. In addition to the gains on dispositions reflected above, we recognized impairment losses on certain of these assets that are disclosed in Note 3.

On December 23, 2013, the mortgage lender on a $146.5 million nonrecourse mortgage loan that was secured by the December 2013 Portfolio Conveyance accepted a deed in lieu of foreclosure on the properties. As a result, we transferred title to the properties to the mortgage lender and we were relieved of the debt obligation plus accrued interest. Upon completion of this transfer, we recognized a gain on extinguishment of debt of $67.8 million, representing the excess of the mortgage loan and interest payable extinguished over the carrying values of the properties transferred as of the transfer date (which included the effect of previous impairment losses) and related closing costs.

2013 Construction Activities

In 2013, we placed into service an aggregate of 812,000 square feet in eight newly constructed office properties.

6. Real Estate Joint Ventures

Consolidated Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of December 31, 2015 (dollars in thousands):

	Date Acquired	Nominal Ownership % as of 12/31/2015	Nature of Activity	December 31, 2015 Total Assets	Encumbered Assets	(1) Total Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Development and operation of real estate (2)	$ 147,612	$ 82,721	$ 54,022
M Square Associates, LLC	6/26/2007	50%	Development and operation of real estate (3)	56,455	48,245	37,568
Stevens Investors, LLC	8/11/2015	95%	Development of real estate (4)	5,284	—	393
				$ 209,351	$ 130,966	$ 91,983

(1) Excludes amounts eliminated in consolidation.
(2) This joint venture's property is in Huntsville, Alabama.
(3) This joint venture's properties are in College Park, Maryland.
(4) This joint venture's property is in Washington, DC.

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Notes to Consolidated Financial Statements (Continued)

With regard to our consolidated joint ventures:

- For LW Redstone, LLC, we anticipate funding certain infrastructure costs (up to a maximum of $76.0 million excluding accrued interest thereon) due to be reimbursed by the City of Huntsville as discussed further in Note 8; as of December 31, 2015, we had advanced $37.2 million to the City to fund such costs (excluding accrued interest; the aggregate amount outstanding under these notes, including accrued interest, was $44.9 million as of December 31, 2015 and is included in investing receivables on our consolidated balance sheets). We also expect to fund additional development and construction costs through equity contributions to the extent that third party financing is not obtained. Our partner was credited with a $9.0 million capital account upon formation and is not required to make any future equity contributions. While net cash flow distributions to the partners vary depending on the source of the funds distributed, cash flows are generally distributed as follows:
- cumulative preferred returns on capital invested to fund the project's infrastructure costs on a pro rata basis to us and our partner;
- cumulative preferred returns on our capital invested to fund the project's vertical construction;
- return of our invested capital;
- return of our partner's capital;
- any remaining residual 85% to us and 15% to our partner.

Our partner has the right to require us to acquire its interest for fair value beginning in March 2020; accordingly, we classify the fair value of our partner's interest as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheet. We have the right to purchase our partner's interest at fair value upon the earlier of five years following the project's achievement of a construction commencement threshold of 4.4 million square feet or March 2040; the project had achieved 594,000 square feet of construction commencement through December 31, 2015;

- For M Square Associates, LLC, net cash flows of this entity will be distributed to the partners as follows: (1) member loans and accrued interest; (2) our preferred return and capital contributions used to fund infrastructure costs; (3) the partners' preferred returns and capital contributions used to fund all other costs, including the base land value credit, in proportion to the accrued returns and capital accounts; and (4) residual amounts distributed 50% to each member.
- For Stevens Investors, LLC, net cash flows of this entity will be distributed to the partners as follows: (1) member loans and accrued interest; (2) pro rata return of the partners' capital; (3) pro rata return of the partners' respective unpaid preferred returns; and (4) varying splits of 85% to 60% to us and the balance to our partners as we reach specified return hurdles. Our partners have the right to require us to acquire some or all of their interests for fair value for a defined period of time following the construction completion and stabilization (as defined in the operating agreement) of the joint venture's office property; accordingly, we classify the fair value of our partners' interest as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheet. Our partners have the right to receive some or all of the consideration for the acquisition of their interests in the form of common units in COPLP.

We disclose the activity of our redeemable noncontrolling interests in Note 12.

The ventures discussed above include only ones in which parties other than COPLP and COPT own interests.

During the periods included herein, we also owned investments in the following consolidated real estate joint ventures:

- Arundel Preserve #5, LLC, a joint venture owning property in Hanover, Maryland (in the Baltimore/Washington Corridor) and in which we had a 50% nominal ownership interest. On September 17, 2013, we acquired our partner's noncontrolling interest, along with incremental additional land value in the venture, in exchange for 221,501 common units in COPLP valued at $5.2 million;

- MOR Forbes 2 LLC, a joint venture owning property in Lanham, Maryland (in the Baltimore/Washington Corridor) and in which we had a 50% nominal ownership interest. On December 11, 2013, the joint venture sold the property, after which the proceeds were distributed to the partners and there was substantially no remaining business operations or property; and
- COPT-FD Indian Head, LLC, a joint venture owning property in Charles County, Maryland (in our “Other” region). On August 7, 2014, the joint venture’s property was repurchased by Charles County under the terms of a development agreement for $6.4 million, after which the proceeds were distributed to the partners and there was no remaining business operations or assets.

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We consolidate the real estate joint ventures described above because we have: (1) the power to direct the matters that most significantly impact the activities of the joint ventures, including development, leasing and management of the properties constructed by the VIEs; and (2) the right to receive returns on our fundings and, in many cases, the obligation to fund the activities of the ventures to the extent that third-party financing is not obtained, both of which could be potentially significant to the VIEs.

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 20.

Unconsolidated Real Estate Joint Venture

We had a 20% ownership interest in an unconsolidated real estate joint venture that operated 16 operating properties, and in which we had a negative investment balance of $6.4 million as of December 31, 2012. We accounted for the investment in the joint venture using the equity method of accounting. On December 6, 2013, the holder of mortgage debt encumbering all of the joint venture’s properties foreclosed on the properties. As a result, title to the properties was transferred to the mortgage lender and the joint venture was relieved of the debt obligation. We recognized a gain on the substantive disposition of our investment in the joint venture in 2013 of $6.3 million, which is included in the line entitled “gain on sales of real estate, net of income taxes” on our consolidated statements of operations.

7. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following (in thousands):

	December 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease value	$134,664	$ 89,540	$45,124	$123,759	$ 101,040	$22,719
Tenant relationship value	62,172	23,468	38,704	42,301	28,492	13,809
Below-market cost arrangements	15,102	6,692	8,410	12,415	5,984	6,431
Above-market leases	14,210	8,491	5,719	8,659	8,159	500
Other	1,333	952	381	1,333	938	395
	$227,481	$ 129,143	$98,338	$188,467	$ 144,613	$43,854

Amortization of the intangible asset categories set forth above totaled $18.5 million in 2015, $15.2 million in 2014 and $16.2 million in 2013. The approximate weighted average amortization periods of the categories set forth above follow: in-place lease value: six years; tenant relationship value: 11 years; below-market cost arrangements: 35 years; above-market leases: four years; and other: 27 years. The approximate weighted average amortization period for all of the categories combined is eleven years. The estimated amortization (to amortization associated with real estate operations, rental revenue and property operating expenses) associated with the intangible asset categories set forth above for the next five years is: $18.8 million for 2016; $16.3 million for 2017; $11.6 million for 2018; $8.8 million for 2019; and $7.0 million for 2020.

8. Investing Receivables

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

	December 31, 2015	2014
Notes receivable from City of Huntsville	$44,875	$49,147
Other investing loans receivable	3,000	3,000
	$47,875	$52,147

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 6) and carry an interest rate of 9.95%. These notes and the accrued and unpaid interest thereon, which is compounded annually on March 1st, will be repaid using the real estate taxes generated by the properties constructed by the joint venture. When these tax revenues are sufficient to cover the debt service on a certain increment of municipal

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bonds, the City of Huntsville will be required to issue bonds to repay the notes receivable and the accrued and unpaid interest thereon. Each note has a maturity date of the earlier of 30 years from the date issued or the expiration of the tax increment district comprising the constructed properties in 2045.

We did not have an allowance for credit losses in connection with our investing receivables as of December 31, 2015 or December 31, 2014. The fair value of these receivables approximated their carrying amounts as of December 31, 2015 and December 31, 2014.

9. Prepaid Expenses and Other Assets, Net

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

	December 31,	
	2015	2014
Prepaid expenses	$23,009	$20,570
Lease incentives	11,133	13,344
Furniture, fixtures and equipment, net	6,004	6,637
Deferred financing costs, net (1)	5,867	4,849
Deferred tax asset, net	3,467	4,002
Construction contract costs incurred in excess of billings	3,261	6,656
Equity method investments	1,636	2,368
Other assets	5,647	2,875
Prepaid expenses and other assets, net	$60,024	$61,301

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

Deferred tax asset, net reported above includes the following tax effects of temporary differences and carry forwards of our TRS (in thousands):

	December 31,	
	2015	2014
Operating loss carry forward	$5,065	$5,012
Share-based compensation	363	976
Accrued payroll	133	195
Property	(32)	(119)
Valuation allowance	(2,062)	(2,062)
Deferred tax asset, net	$3,467	$4,002

We recognize a valuation allowance on our deferred tax asset if we believe all or some portion of the asset may not be realized. An increase or decrease in the valuation allowance resulting from a change in circumstances that causes a change in our judgment about the realizability of our deferred tax asset is included in income. The deferred tax asset valuation allowance is due to a decrease in future projected operating income in our TRS resulting primarily from our dispositions of certain properties to which the TRS provided amenity services and our planned reduction in amenity services provided by the TRS at certain other properties. We believe it is more likely than not that the results of future operations in our TRS will generate sufficient taxable income to realize our December 31, 2015 net deferred tax asset.

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10. Debt

Debt Summary

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

	Carrying Value (1) as of			
	December 31, 2015	December 31, 2014	Stated Interest Rates as of December 31, 2015	Scheduled Maturity as of December 31, 2015
Mortgage and Other Secured Loans:				
Fixed rate mortgage loans (2)	$281,208	$ 385,769	3.96% - 7.87% (3)	2016-2024
Variable rate secured loans	49,792	36,698	LIBOR + 1.85% - 2.00% (4)	2016-2020
Total mortgage and other secured loans	331,000	422,467		
Revolving Credit Facility (5)	43,500	83,000	LIBOR + 0.875% to 1.60%	May 2019
Term Loan Facilities (6)	515,902	517,846	LIBOR + 0.90% to 2.60% (7)	2019-2022
Unsecured Senior Notes (5)				
3.600%, $350,000 aggregate principal	346,714	346,311	3.60% (8)	May 2023
5.250%, $250,000 aggregate principal	245,731	245,306	5.25% (9)	February 2024
3.700%, $300,000 aggregate principal	297,378	296,927	3.70% (10)	June 2021
5.000%, $300,000 aggregate principal	296,019	—	5.00% (10)	July 2025
Unsecured notes payable	1,508	1,607	0% (11)	2026
4.25% Exchangeable Senior Notes (12)	—	572	N/A	N/A
Total debt	$2,077,752	$ 1,914,036		

(1) The carrying values of our loans other than the Revolving Credit Facility reflect net deferred financing costs of $8.0 million as of December 31, 2015 and $6.0 million as of December 31, 2014.

(2) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net unamortized premiums totaling $514,000 as of December 31, 2015 and $42,000 as of December 31, 2014.

(3) The weighted average interest rate on our fixed rate mortgage loans was 6.08% as of December 31, 2015.

(4) The weighted average interest rate on our variable rate secured loans was 2.2% as of December 31, 2015.

(5) Refer to the paragraphs below for further disclosure.

(6) As discussed below, an additional $150.0 million in borrowings is available to be drawn under a term loan entered into in the current year. In addition, we have the ability to borrow an additional $430.0 million in the aggregate under these term loan facilities, provided that there is no default under the facilities and subject to the approval of the lenders.

(7) The weighted average interest rate on these loans was 1.92% as of December 31, 2015.

(8) The carrying value of these notes reflects an unamortized discount totaling $2.2 million as of December 31, 2015 and $2.5 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.

(9) The carrying value of these notes reflects an unamortized discount totaling $3.8 million as of December 31, 2015 and $4.2 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.

(10) Refer to the paragraphs below for further disclosure.

(11) These notes carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling $554,000 as of December 31, 2015 and $654,000 as of December 31, 2014.

(12) On April 20, 2015, we redeemed the remaining $575,000 principal amount of these notes at 100% of their principal amount. The carrying value of these notes as of December 31, 2014 included an unamortized discount totaling $3,000.

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

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. In addition, the terms of some of COPLP's debt may limit its ability to make certain types of payments and other distributions to COPT in the event of default or when such payments or distributions may prompt failure of debt covenants. As of December 31, 2015, we were within the compliance requirements of these financial covenants.

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Our debt matures on the following schedule (in thousands):

2016	$208,109	
2017	3,252	
2018	3,400	
2019	167,014	(1)
2020	315,252	
Thereafter	1,400,203	
Total	$2,097,230	(2)

(1) Includes $43.5 million in 2019 that may be extended to 2020 at our option, subject to certain conditions.
(2) Represents scheduled principal amortization and maturities only and therefore excludes net discounts and deferred financing costs of $19.5 million.

We capitalized interest costs of $7.2 million in 2015, $6.1 million in 2014 and $8.8 million in 2013.

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

	December 31, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	$1,185,842	$1,211,658	$888,544	$901,599
Other fixed-rate debt	282,716	291,991	387,948	356,377
Variable-rate debt	609,194	610,987	637,544	642,091
	$2,077,752	$2,114,636	$1,914,036	$1,900,067

Revolving Credit Facility

On May 6, 2015, we entered into a credit agreement with a group of lenders for which KeyBanc Capital Markets and J.P. Morgan Securities LLC acted as joint lead arrangers and joint book runners, KeyBank National Association acted as administrative agent and JPMorgan Chase Bank, N.A. acted as syndication agent (the “Consolidated Credit Agreement”) to amend, restate and consolidate the terms of our existing unsecured revolving credit facility (the “Revolving Credit Facility”) and one of our term loan facilities discussed below. The lenders’ aggregate commitment under the Revolving Credit Facility is $800.0 million, with the ability for us to increase the lenders’ aggregate commitment to $1.3 billion, provided that there is no default under the facility and subject to the approval of the lenders. Amounts available under the facility are computed based on 60% of our unencumbered asset value, as defined in the agreement. The facility matures on May 6, 2019, with the ability for us to further extend such maturity by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.075% of the total availability under the facility for each extension period. The interest rate on the facility is based on LIBOR (customarily the 30-day rate) plus 0.875% to 1.600%, as determined by the credit ratings assigned to COPLP by Standard & Poor’s Rating Services, Moody’s Investor Services, Inc. or Fitch Ratings Ltd. (collectively, the “Ratings Agencies”). The facility also carries a quarterly fee that is based on the lenders’ aggregate commitment under the facility multiplied by a per annum rate of 0.125% to 0.300%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies. As of December 31, 2015, the maximum borrowing capacity under this facility totaled $800.0 million, of which $741.7 million was available.

Weighted average borrowings under our Revolving Credit Facility totaled $125.0 million in 2015 and $15.9 million in 2014. The weighted average interest rate on our Revolving Credit Facility was 1.40% in 2015 and 1.47% in 2014.

Term Loan Facilities

Effective February 14, 2012, we entered into an unsecured term loan agreement under which we borrowed $250.0 million. In connection with our entry into the Consolidated Credit Agreement on May 6, 2015 discussed above, we increased the loan amount to $300.0 million, with a right for us to borrow up to an additional $200.0 million during the term for an aggregate maximum loan of $500.0 million, subject to certain conditions. The term loan matures on May 6, 2020. The variable interest rate on the loan is based on the LIBOR rate (customarily the 30-day rate) plus 0.90% to 1.85%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies.

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Effective August 3, 2012, we entered into an unsecured term loan agreement under which we borrowed $120.0 million, with the ability for us to borrow an additional $80.0 million, provided that there is no default under the loan and subject to the approval of the lenders. The term loan matures on August 2, 2019. The variable interest rate on the loan is based on the LIBOR rate (customarily the 30-day rate) plus 2.10% to 2.60%, as determined by our leverage levels.

Effective December 17, 2015, we entered into an unsecured term loan agreement with an initial commitment of $250.0 million, of which we borrowed $100.0 million. We have until September 2016 to draw the remaining initial commitment. We also have the ability to borrow $150.0 million above the initial commitment, provided that there is no default under the loan and subject to the approval of the lenders. The term loan matures on December 17, 2022. The variable interest rate on the loan is based on the LIBOR rate (customarily the 30-day rate) plus 1.40% to 2.35%, as determined by our leverage levels.

We also had an unsecured term loan agreement under which we borrowed $400.0 million in 2011. In 2013, we amended this term loan and repaid $150.0 million of the loan balance. We repaid the loan balance by an additional $100.0 million in 2014 and repaid the remaining balance in 2015.

Unsecured Senior Notes

We issued the following senior notes in 2014 and 2015:

- $300.0 million of 3.700% Senior Notes at an initial offering price of 99.739% of their face value on May 14, 2014, resulting in proceeds, after deducting underwriting discounts, but before other offering expenses, of $297.3 million. The carrying value of these notes reflects an unamortized discount totaling $2.1 million as of December 31, 2015 and $2.4 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%; and
- $300.0 million of 5.000% Senior Notes at an initial offering price of 99.510% of their face value on June 29, 2015, resulting in proceeds, after deducting underwriting discounts, but before other offering expenses of $296.6 million. The carrying value of these notes reflects an unamortized discount totaling $3.3 million at December 31, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.

We may redeem our unsecured senior notes, in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (1) the aggregate principal amount of the notes being redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to its present value, on a semi-annual basis at an adjusted treasury rate plus a spread (30 basis points for the 3.600% Senior Notes, 40 basis points for the 5.250% Senior Notes, 25 basis points for the 3.700% Senior Notes and 45 basis points for the 5.000% Senior Notes), plus, in each case, accrued and unpaid interest thereon to the date of redemption. However, in each case, if this redemption occurs on or after three months prior to the maturity date, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but not including, the applicable redemption date. These notes are unconditionally guaranteed by COPT.

Gains (Losses) on Early Extinguishment of Debt

Our gains (losses) on early extinguishment of debt in 2013, 2014 and 2015 included the following:

- a gain of $67.8 million on December 23, 2013 resulting from our transfer of title to properties to the lender on a $146.5 million nonrecourse mortgage loan and being relieved of the debt obligation plus accrued interest as discussed further in Note 5;
- a loss of $25.9 million in 2013 resulting from early repayment of $239.4 million principal amount of 4.25% Exchangeable Senior Notes;
- a loss of $9.1 million in December 2014, when we completed 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; and

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- a gain of $84.8 million on August 28, 2015 pertaining to the removal of a $150.0 million nonrecourse mortgage loan from our balance sheet as discussed further in Note 5.

11. Interest Rate Derivatives

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

Notional Amount		Fixed Rate		Floating Rate Index	Effective Date	Expiration Date	Fair Value at December 31, 2015		2014	
$100,000		0.8055	%	One-Month LIBOR	9/2/2014	9/1/2016	$(148	)	$(317	)
100,000		0.8100	%	One-Month LIBOR	9/2/2014	9/1/2016	(151	)	(324	)
100,000		1.6730	%	One-Month LIBOR	9/1/2015	8/1/2019	(1,217	)	239	
100,000		1.7300	%	One-Month LIBOR	9/1/2015	8/1/2019	(1,429	)	35	
13,941	(1)	1.3900	%	One-Month LIBOR	10/13/2015	10/1/2020	53		—	
100,000		1.9013	%	One-Month LIBOR	9/1/2016	12/1/2022	(138	)	—	
100,000		1.9050	%	One-Month LIBOR	9/1/2016	12/1/2022	(45	)	—	
50,000		1.9079	%	One-Month LIBOR	9/1/2016	12/1/2022	(32	)	—	
36,200	-1	3.8300	%	One-Month LIBOR + 2.25%	11/2/2010	11/2/2015	—		(400	)
100,000		0.8320	%	One-Month LIBOR	1/3/2012	9/1/2015	—		(407	)
100,000		0.8320	%	One-Month LIBOR	1/3/2012	9/1/2015	—		(407	)
							$(3,107	)	$(1,581	)

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

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

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

Derivatives	Balance Sheet Location	Fair Value at December 31, 2015		2014	
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets	$53		$274	
Interest rate swaps designated as cash flow hedges	Interest rate derivatives	(3,160	)	(1,855	)

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

	For the Years Ended December 31, 2015		2014		2013
Amount of (losses) gains recognized in accumulated other comprehensive income (loss) ("AOCI") (effective portion)	$(4,739	)	$(7,799	)	$6,791
Amount of losses reclassified from AOCI into interest expense (effective portion)	3,599		2,990		2,740
Amount of loss recognized in interest expense (ineffective portion)	386		—		—
	—		38		—

Amount of loss reclassified from AOCI into loss on early
extinguishment of debt

Over the next 12 months, we estimate that approximately $3.3 million of losses will be reclassified from AOCI as an increase to interest expense.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on

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our derivative obligations. These agreements also incorporate the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparties. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of December 31, 2015, the fair value of interest rate derivatives in a liability position related to these agreements was $3.2 million, excluding the effects of accrued interest and credit valuation adjustments. As of December 31, 2015, we had not posted any collateral related to these agreements. We are not in default with any of these provisions. If we breached any of these provisions, we could be required to settle our obligations under the agreements at their termination value of $3.6 million.

12. Redeemable Noncontrolling Interests

The table below sets forth the activity in redeemable noncontrolling interests in our LW Redstone, LLC and Stevens Investors, LLC joint ventures described in Note 6 (in thousands):

	For the Years Ended December 31,		
	2015	2014	2013
Beginning balance	$18,417	$17,758	$10,298
Contributions from noncontrolling interests	1,654	—	—
Distributions to noncontrolling interests	(2,964)	(1,369)	(1,037)
Net income attributable to noncontrolling interests	2,227	2,162	1,376
Adjustment to arrive at fair value of interests	(116)	(134)	7,121
Ending balance	$19,218	$18,417	$17,758

13. Equity - COPT and Subsidiaries

Preferred Shares

As of December 31, 2015, COPT had 25.0 million preferred shares authorized at $0.01 par value per share. The table below sets forth additional information pertaining to COPT's outstanding preferred shares (dollars in thousands, except per share data):

Series	# of Shares Issued	Aggregate Liquidation Preference	Month of Issuance	Annual Dividend Yield	Annual Dividend Per Share	Earliest Redemption Date
Series K	531,667	$26,583	January 2007	5.600%	$2.80000	1/9/2017
Series L	6,900,000	172,500	June 2012	7.375%	$1.84375	6/27/2017
	7,431,667	$199,083				

Each series of preferred shares is nonvoting and redeemable for cash in the amount of its liquidation preference at COPT's option on or after the earliest redemption date. The Series K Cumulative Redeemable Preferred Shares are also convertible, subject to certain conditions, into common shares on the basis of 0.8163 common shares for each preferred share. Holders of all preferred shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). In the case of each series of preferred shares, there is a series of COPLP preferred units owned by COPT that carries substantially the same terms.

COPT redeemed all of the outstanding shares of its 7.500% 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, and recognized a $1.8 million decrease to net income available to common shareholders pertaining to the shares' original issuance costs incurred at the time of the redemption.

Common Shares

COPT completed the public offering of 5.52 million common shares in November 2014 at an offering price of $27.30 per share for net proceeds of $148.9 million after underwriter discounts but before offering expenses. COPT contributed the net proceeds from this issuance to COPLP in exchange for an equal number of units in COPLP.

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In October 2012, COPT established an at-the-market ("ATM") stock offering program under which it may, from time to time, offer and sell common shares in "at the market" stock offerings having an aggregate gross sales price of up to $150.0 million. Through December 31, 2015, COPT issued the following common shares under the program:

- 1.5 million shares on July 15, 2013 at a weighted average price of $26.05 per share. Net proceeds from the shares issued totaled $38.5 million, after payment of $0.6 million in commissions to sales agents; and
- 890,241 common shares issued in 2015 at a weighted average price of $30.29 per share. Net proceeds from the shares issued totaled $26.6 million, after payment of $0.4 million in commissions to sales agents.

COPT contributed the net proceeds from these issuances to COPLP in exchange for an equal number of units in COPLP. COPT's remaining capacity under the ATM Plan is an aggregate gross sales price of $84.0 million in common share sales.

Holders of COPLP common units converted their units into COPT common shares on the basis of one common share for each common unit in the amount of 160,160 in 2015, 140,149 in 2014 and 311,343 in 2013.

COPT declared dividends per common share of $1.10 in 2015, 2014 and 2013.

See Note 15 for disclosure of common share activity pertaining to our share-based compensation plans.

14. Equity - COPLP and Subsidiaries

General Partner Preferred Units

The table below sets forth information pertaining to preferred units in COPLP held by COPT at December 31, 2015 (dollars in thousands, except per unit data):

Series	# of Units Issued	Aggregate Liquidation Preference	Month of Issuance	Annual Distribution Yield	Annual Distribution Per Unit	Earliest Redemption Date
Series K	531,667	$26,583	January 2007	5.600 %	$2.80000	1/9/2017
Series L	6,900,000	172,500	June 2012	7.375 %	$1.84375	6/27/2017
	7,431,667	$199,083				

In the case of each series of preferred units, COPT had preferred shares that carry substantially the same terms. Each series of preferred units are redeemable for cash in the amount of its liquidation preference at our option on or after the earliest redemption date. The Series K Preferred Units are also convertible, subject to certain conditions, into common units on the basis of 0.8163 common units for each preferred unit. COPT, as holder of these preferred units, is entitled to cumulative distributions, payable quarterly (as and if declared by the Board of Trustees).

COPLP redeemed all of the outstanding units of its 7.500% Series H Preferred Units held by COPT on June 16, 2014 at a price of $25.00 per unit, or $50.0 million in the aggregate, plus accrued and unpaid distributions thereon through the date of redemption, and recognized a $1.8 million decrease to net income available to common unitholders pertaining to the units' original issuance costs at the time of the redemption.

Limited Partner Preferred Units

COPLP has 352,000 Series I Preferred Units issued to an unrelated party that have an aggregate liquidation preference of $8.8 million ($25.00 per unit), plus any accrued and unpaid distributions of return thereon (as described below), and may be redeemed for cash by COPLP at COPLP's option any time after September 22, 2019. The owner of these units is entitled to a priority annual cumulative return equal to 7.5% of their liquidation preference through September 22, 2019; the annual cumulative preferred return increases for each subsequent five-year period, subject to certain maximum limits. These units are convertible into common units on the basis of 0.5 common units for each Series I Preferred Unit; the resulting common units would then be exchangeable for COPT common shares in accordance with the terms of COPLP's agreement of limited partnership.

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Common Units

COPT owned 96.3% of COPLP's common units as of December 31, 2015 and 96.0% as of December 31, 2014.

COPT acquired additional common units through the public offering of 5.52 million common shares in November 2014 at an offering 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 an equal number of common units in COPLP.

Through December 31, 2015, COPT issued the following common shares under the ATM program:

- 1.5 million common shares on July 15, 2013 at a weighted average price of $26.05 per share. Net proceeds from the shares issued totaled $38.5 million, after payment of $0.6 million in commissions to sales agents; and
- 890,241 common shares in 2015 at a weighted average price of $30.29 per share; net proceeds from the shares issued totaled $26.6 million, after payment of $0.4 million in commissions to sales agents.

COPT contributed the net proceeds from these issuances to COPLP in exchange for an equal number of units in COPLP.

Limited partners in COPLP holding common units have the right to require COPLP to redeem all or a portion of their common units. COPLP (or COPT as the general partner) has the right, in its sole discretion, to deliver to such redeeming limited partners for each partnership unit either one COPT common share (subject to anti-dilution adjustment) or a cash payment equal to the then fair market value of such share (so adjusted) (based on the formula for determining such value set forth in the partnership agreement). Limited partners holding common units redeemed their units into common shares on the basis of one common share for each common unit in the amount of 160,160 in 2015, 140,149 in 2014 and 311,343 in 2013.

We declared distributions per common unit of $1.10 in 2015, 2014 and 2013.

15. Share-Based Compensation and Other Compensation Matters

Share-Based Compensation Plans

In May 2010, COPT adopted the Amended and Restated 2008 Omnibus Equity and Incentive Plan. COPT may issue equity-based awards under this plan to officers, employees, non-employee trustees and any other key persons of us and our subsidiaries, as defined in the plan. The plan provides for a maximum of 5.9 million common shares in COPT to be issued in the form of options, share appreciation rights, deferred share awards, restricted share awards, unrestricted share awards, performance shares, dividend equivalent rights and other equity-based awards and for the granting of cash-based awards. The plan expires on May 13, 2020.

In March 1998, COPT adopted a long-term incentive plan for our Trustees and employees. This plan, which expired in March 2008, provided for the award of options, restricted shares and dividend equivalents.

Awards under these plans to nonemployee Trustees generally vest on the first anniversary of the grant date provided that the Trustee remains in his or her position. Awards granted to employees vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employees remain employed by us. Options expire ten years after the date of grant. Shares for each of the share-based compensation plans are issued under registration statements on Form S-8 that became effective upon filing with the Securities and Exchange Commission. In connection with awards of common shares granted by COPT under such share-based compensation plans, COPLP issues to COPT an equal number of equity instruments with identical terms.

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The following table summarizes restricted shares under the share-based compensation plans for 2013, 2014 and 2015:

	Shares		Weighted Average Grant Date Fair Value
Unvested at December 31, 2012	434,643		$29.67
Granted	193,833		25.91
Forfeited	(9,541	)	27.59
Vested	(241,487	)	30.97
Unvested at December 31, 2013	377,448		26.96
Granted	216,607		26.73
Forfeited	(21,335	)	25.10
Vested	(182,213	)	28.56
Unvested at December 31, 2014	390,507		26.19
Granted	201,024		28.69
Forfeited	(10,550	)	26.05
Vested	(202,781	)	26.07
Unvested at December 31, 2015	378,200		$27.58
Unvested shares as of December 31, 2015 that are expected to vest	364,666		$27.61

The aggregate intrinsic value of restricted shares that vested was $4.9 million in 2015, $4.9 million in 2014 and $6.3 million in 2013.

We made the following grants of PSUs to executives from 2011 through 2015 (dollars in thousands):

Grant Date	Number of PSUs Granted	Performance Period Commencement Date	Performance Period End Date	Grant Date Fair Value	Number of PSUs Outstanding as of December 31, 2015
3/3/2011	56,883	3/3/2011	3/2/2014	$2,796	—
3/1/2012	54,070	1/1/2012	12/31/2014	1,772	—
3/1/2013	69.579	1/1/2013	12/31/2015	1,867	51,556
3/6/2014	49,103	1/1/2014	12/31/2016	1,723	37,843
3/5/2015	45,656	1/1/2015	12/31/2017	1,678	45,656

The PSUs each have three year performance periods concluding on the earlier of the respective performance period end dates set forth above or the date of: (1) termination by us without cause, death or disability of the executive or constructive discharge of the executive (collectively, “qualified termination”); or (2) a sale event. The number of PSUs earned (“earned PSUs”) at the end of the performance period will be determined based on the percentile rank of COPT’s total shareholder return relative to a peer group of companies, as set forth in the following schedule:

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

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If the percentile rank exceeds the 25th percentile and is between two of the percentile ranks set forth in the table above, then the percentage of the earned PSUs will be interpolated between the ranges set forth in the table above to reflect any performance between the listed percentiles. At the end of the performance period, we, in settlement of the award, will issue a number of fully-vested COPT common shares equal to the sum of:

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

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

Based on COPT's total shareholder return relative to its peer group of companies:

- for the 2011 PSUs that vested in 2014, there was no payout value in connection with the vesting;
- for the 2012 PSUs that vested in 2014, we issued 40,309 common shares in settlement of the PSUs on March 5, 2015;
- for 2013 and 2014 PSUs issued to Mr. Stephen E. Riffee, our former Chief Financial Officer who departed on February 3, 2015, we issued 15,289 common shares on March 5, 2015 in settlement of such PSUs; and
- for the 2013 PSUs that vested on December 31, 2015, there was no payout value in connection with the vesting.

We computed grant date fair values for PSUs using Monte Carlo models and are recognizing these values over three-year periods that commenced on the respective grant dates. The grant date fair value and certain of the assumptions used in the Monte Carlo models for the PSUs granted in 2013, 2014 and 2015 are set forth below:

	For the Years Ended December 31,		
	2015	2014	2013
Grant date fair value	$36.76	$35.09	$26.84
Baseline common share value	$29.28	$26.52	$25.85
Expected volatility of common shares	19.9 %	28.6 %	29.5 %
Risk-free interest rate	0.99 %	0.66 %	0.33 %

In 2015, nonemployee members of our Board of Trustees were granted a total of 24,056 deferred share awards with an aggregate grant date fair value of $642,000 ($26.70 per share). Deferred share awards vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position. We settle deferred share awards by issuing an equivalent number of common shares upon vesting of the awards or a later date elected by the Trustee (generally upon cessation of being a Trustee). In 2015, we issued 15,485 common shares in settlement of deferred share awards granted in 2014; these shares had a grant date fair value of $26.77 per share, and the aggregate intrinsic value of the shares on the settlement date was $413,000.

We have not issued options since 2009, and all of our options were vested and fully expensed as of December 31, 2015. The table below sets forth information regarding our outstanding options (dollars in thousands, except per share data):

	Options Outstanding and Exercisable	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value

			(in Years)	
December 31, 2012	798,210	$37.62	3	$325
December 31, 2013	640,927	$38.11	2	$68
December 31, 2014	559,736	$39.60	2	$167
December 31, 2015	425,347	$42.75	1	$—

The aggregate intrinsic value of options exercised was $300,000 in 2015, $225,000 in 2014 and $258,000 in 2013.

We own a taxable REIT subsidiary that is subject to Federal and state income taxes. We realized a windfall tax loss of $513,000 in 2015, $3,000 in 2014 and $122,000 in 2013 on options exercised and vesting restricted shares in connection with employees of that subsidiary.

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The table below sets forth our reporting for share based compensation cost (in thousands):

	For the Years Ended December 31,		
	2015	2014	2013
General, administrative and leasing expenses	$5,574	$5,307	$5,412
Property operating expenses	1,000	857	1,118
Capitalized to development activities	824	886	1,075
Share-based compensation cost	$7,398	$7,050	$7,605

The amounts included in our consolidated statements of operations for share-based compensation reflected an estimate of pre-vesting forfeitures of 0% for PSUs and deferred share awards and 0% to 5% for restricted shares.

As of December 31, 2015, unrecognized compensation costs related to unvested awards included:

- $6.3 million on restricted shares expected to be recognized over a weighted average period of approximately two years;
- $1.7 million on PSUs expected to be recognized over a weighted average performance period of approximately two years and
- $223,000 on deferred share awards expected to be recognized through May 2016.

16. Operating Leases

We lease our properties to tenants under operating leases with various expiration dates extending to the year 2030. Gross minimum future rentals on noncancelable leases in our properties as of December 31, 2015 were as follows (in thousands):

Year Ending December 31,	
2016	$378,780
2017	349,192
2018	278,714
2019	218,977
2020	154,207
Thereafter	433,892
	$1,813,762

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17. Information by Business Segment

Effective in the quarter ended December 31, 2015, we changed the reportable segments that we use to review operating results and make decisions regarding segment performance and resource allocation. Given the changes in our portfolio resulting from development, acquisition and disposition activities, we made this change to better align our segments with our business strategy by contemplating the market characteristics of our properties. Our new segment reporting includes the following segments: Defense/IT Locations; Regional Office; our operating wholesale data center; and other. Our segment reporting also includes reporting for Defense/IT Locations sub-segments, which include the following: Fort George G. Meade and the Baltimore/Washington Corridor (referred to herein as “Fort Meade/BW Corridor”); Northern Virginia Defense/IT Locations; Lackland Air Force Base (in San Antonio); locations serving the U.S. Navy (“Navy Support Locations”), which included properties proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia); Redstone Arsenal (in Huntsville); Colorado Defense/IT Locations; and data center shells (properties leased to tenants to be operated as data centers in which the tenants generally fund the costs for the power, fiber connectivity and data center infrastructure). The table below reports segment financial information for our reportable segments (in thousands). We measure the performance of our segments through the measure we define as NOI from real estate operations, which is derived by subtracting property operating expenses from revenues from real estate operations.

	Operating Office Property Segments										
	Defense/Information Technology Locations										
	Fort Meade/BW Corridor	Northern Virginia Defense/IT	Lackland Air Force Base	Navy Support Locations	Redstone Arsenal	Colorado Defense/IT	Data Center Shells	Total Defense/IT Locations	Regional Office	Operating Wholesale Data Center	Oth
Year Ended December 31, 2015											
Revenues from real estate operations	$244,274	$49,199	$39,659	$28,177	$11,228	$—	$21,746	$394,283	$98,165	$19,032	$7
Property operating expenses	83,309	20,107	22,004	13,229	3,497	—	2,298	144,444	36,165	10,402	3,4
NOI from real estate operations	$160,965	$29,092	$17,655	$14,948	$7,731	$—	$19,448	$249,839	$62,000	$8,630	$4
Additions to long-lived assets	$31,883	$90,248	$—	$7,656	$883	$—	$—	$130,670	$204,139	$132	$3
Transfers from non-operating properties	$45,560	$50,690	$32,307	$1,408	$13,190	$—	$51,492	$194,647	$22,313	$89,745	$4
Segment assets at December 31, 2015	$1,290,028	$411,196	$134,381	$196,090	$108,038	$—	$203,013	$2,342,746	$608,471	$243,338	$7

Year Ended December 31, 2014											
Revenues from real estate operations	$233,764	$48,313	$34,463	$31,335	$10,446	$—	$18,421	$376,742	$85,025	$10,430	$7
Property operating expenses	80,824	19,071	19,677	12,576	3,066	—	2,272	137,486	31,427	7,286	3,6
NOI from real estate operations	$152,940	$29,242	$14,786	$18,759	$7,380	$—	$16,149	$239,256	$53,598	$3,144	$3
Additions to long-lived assets	$24,173	$7,119	$—	$10,010	$4,077	$—	$—	$45,379	$19,290	$22	$(
Transfers from non-operating properties	$56,699	$360	$—	$—	$21,014	$—	$43,154	$121,227	$17,942	$1,108	$1
Segment assets at December 31, 2014	$1,264,353	$372,041	$102,232	$195,972	$97,209	$—	$156,214	$2,188,021	$526,988	$163,177	$7
Year Ended December 31, 2013											
Revenues from real estate operations	$234,857	$56,524	$31,252	$33,431	$5,050	$12,229	$12,520	$385,863	$98,487	$7,271	$7
Property operating expenses	80,149	19,718	16,784	12,872	1,282	3,797	1,304	135,906	35,488	6,360	2,9
NOI from real estate operations	$154,708	$36,806	$14,468	$20,559	$3,768	$8,432	$11,216	$249,957	$62,999	$911	$4
Additions to long-lived assets	$28,009	$5,522	$5	$4,945	$3,563	$200	$—	$42,244	$13,244	$598	$7
Transfers from non-operating properties	$50,067	$37,234	$—	$14	$48,799	$987	$24,200	$161,301	$32,692	$70,106	$1
Segment assets at December 31, 2013	$1,229,192	$385,061	$103,650	$195,105	$77,773	$—	$117,012	$2,107,793	$556,718	$166,790	$7

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Segment revenues from real estate operations	$519,068	$479,711	$498,633
Construction contract and other service revenues	106,402	106,748	62,363
Less: Revenues from discontinued operations (Note 18)	(4)	14	(37,636)
Total revenues	$625,466	$586,473	$523,360

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

	For the Years Ended December 31,		
	2015	2014	2013
Segment property operating expenses	$194,488	$179,799	$180,704
Less: Property operating expenses from discontinued operations (Note 18)	6	135	(13,505)
Total property operating expenses	$194,494	$179,934	$167,199

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

	For the Years Ended December 31,		
	2015	2014	2013
Construction contract and other service revenues	$106,402	$106,748	$62,363
Construction contract and other service expenses	(102,696)	(100,058)	(58,875)
NOI from service operations	$3,706	$6,690	$3,488

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

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

	For the Years Ended December 31,		
	2015	2014	2013
NOI from real estate operations	$324,580	$299,912	$317,929
NOI from service operations	3,706	6,690	3,488
Interest and other income	4,517	4,923	3,834
Equity in income of unconsolidated entities	62	229	2,110
Income tax expense	(199)	(310)	(1,978)
Other adjustments:	—		
Depreciation and other amortization associated with real estate operations	(140,025)	(136,086)	(113,214)
Impairment losses	(23,289)	(1,416)	(5,857)
General, administrative and leasing expenses	(31,361)	(31,794)	(30,869)
Business development expenses and land carry costs	(13,507)	(5,573)	(5,436)
Interest expense on continuing operations	(89,074)	(92,393)	(82,010)
NOI from discontinued operations	(10)	(121)	(24,131)
Gain (loss) on early extinguishment of debt	85,275	(9,552)	(27,030)
COPT consolidated income from continuing operations	$120,675	$34,509	$36,836

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

	As of December 31,	
	2015	2014
Segment assets	$3,265,469	$2,951,495
Non-operating property assets	450,679	567,586
Other assets	193,164	145,155
Total COPT consolidated assets	$3,909,312	$3,664,236

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

18. Discontinued Operations

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

- 920 Elkridge Landing Road in the Baltimore/Washington Corridor that was sold on June 25, 2013;
- 4230 Forbes Boulevard in the Baltimore/Washington Corridor that was sold on December 11, 2013;
- 15 operating properties in Colorado Springs that were sold on December 12, 2013; and

- nine operating properties in the Baltimore/Washington Corridor and five operating properties in Colorado Springs for which the title to the properties was transferred to the mortgage lender on December 23, 2013.

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Revenue from real estate operations	$4	$(14)	$37,636
Property operating expenses	6	135	(13,505)
Depreciation and amortization	—	—	(4,505)
Impairment losses	(234)	(3)	(26,190)
General, administrative and leasing expenses	—	—	(4)
Interest expense	—	—	(8,221)
Gain on sales of real estate	—	24	2,671
Gain (loss) on early extinguishment of debt	380	(116)	67,810
Discontinued operations	$156	$26	$55,692

19. Earnings Per Share ("EPS") and Earnings Per Unit ("EPU")

COPT and Subsidiaries EPS

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

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

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Numerator:			
Income from continuing operations	$120,675	$34,509	$36,836
Gain on sales of real estate, net	68,047	10,671	9,016
Preferred share dividends	(14,210)	(15,939)	(19,971)
Issuance costs associated with redeemed preferred shares	—	(1,769)	(2,904)
Income from continuing operations attributable to noncontrolling interests	(10,575)	(4,955)	(4,486)
Income from continuing operations attributable to restricted shares	(706)	(432)	(414)
Numerator for basic EPS from continuing operations attributable to COPT common shareholders	$163,231	$22,085	$18,077
Dilutive effect of common units in the Operating Partnership on diluted EPS from continuing operations	6,397	—	—
Numerator for diluted EPS from continuing operations attributable to COPT common shareholders	$169,628	$22,085	$18,077
Numerator for basic EPS from continuing operations attributable to COPT common shareholders	$163,231	$22,085	$18,077
Discontinued operations	156	26	55,692
Discontinued operations attributable to noncontrolling interests	(3)	4	(3,351)
Numerator for basic EPS on net income attributable to COPT common shareholders	$163,384	$22,115	$70,418
Dilutive effect of common units in COPLP	6,403	—	—
Numerator for diluted EPS on net income attributable to COPT common shareholders	$169,787	$22,115	$70,418
Denominator (all weighted averages):			
Denominator for basic EPS (common shares)	93,914	88,092	85,167
Dilutive effect of common units	3,692	—	—
Dilutive effect of share-based compensation awards	61	171	57
Denominator for diluted EPS (common shares)	97,667	88,263	85,224
Basic EPS:			
Income from continuing operations attributable to COPT common shareholders	$1.74	$0.25	$0.21
Discontinued operations attributable to COPT common shareholders	—	—	0.62
Net income attributable to COPT common shareholders	$1.74	$0.25	$0.83
Diluted EPS:			
Income from continuing operations attributable to COPT common shareholders	$1.74	$0.25	$0.21
Discontinued operations attributable to COPT common shareholders	—	—	0.62
Net income attributable to COPT common shareholders	$1.74	$0.25	$0.83

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

Weighted Average Shares
Excluded from Denominator for the

	Years Ended December 31,		
	2015	2014	2013
Conversion of common units	—	3,897	3,869
Conversion of Series I preferred units	176	176	176
Conversion of Series K preferred shares	434	434	434

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

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

- weighted average restricted shares and deferred share awards of 410,000 for 2015, 401,000 for 2014 and 385,000 for 2013; and
- weighted average options of 469,000 for 2015, 492,000 for 2014 and 636,000 for 2013, respectively.

As discussed in Note 10, we had outstanding senior notes with an exchange settlement feature, but such notes did not affect our diluted EPS reported above since the weighted average closing price of COPT's common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

COPLP and Subsidiaries EPU

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

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

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Numerator:			
Income from continuing operations	$120,675	$34,509	$36,836
Gain on sales of real estate, net	68,047	10,671	9,016
Preferred unit distributions	(14,870)	(16,599)	(20,631)
Issuance costs associated with redeemed preferred units	—	(1,769)	(2,904)
Income from continuing operations attributable to noncontrolling interests	(3,523)	(3,281)	(2,977)
Income from continuing operations attributable to restricted units	(706)	(432)	(414)
Numerator for basic and diluted EPU from continuing operations attributable to COPLP common unitholders	$169,623	$23,099	$18,926
Discontinued operations	156	26	55,692
Discontinued operations attributable to noncontrolling interests	3	5	(930)
Numerator for basic and diluted EPU on net income attributable to COPLP common unitholders	$169,782	$23,130	$73,688
Denominator (all weighted averages):			
Denominator for basic EPU (common units)	97,606	91,989	89,036
Dilutive effect of share-based compensation awards	61	171	57
Denominator for diluted EPU (common units)	97,667	92,160	89,093
Basic EPU:			
Income from continuing operations attributable to COPLP common unitholders	$1.74	$0.25	$0.21
Discontinued operations attributable to COPLP common unitholders	—	—	0.62
Net income attributable to COPLP common unitholders	$1.74	$0.25	$0.83
Diluted EPU:			
Income from continuing operations attributable to COPLP common unitholders	$1.74	$0.25	$0.21
Discontinued operations attributable to COPLP common unitholders	—	—	0.62
Net income attributable to COPLP common unitholders	$1.74	$0.25	$0.83

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

	Weighted Average Units Excluded from Denominator for the Years Ended December 31,		
	2015	2014	2013
Conversion of Series I preferred units	176	176	176
Conversion of Series K preferred units	434	434	434

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

- weighted average restricted units and deferred share awards of 410,000 for 2015, 401,000 for 2014 and 385,000 for 2013; and

- weighted average options of 469,000 for 2015, 492,000 for 2014 and 636,000 for 2013.

As discussed in Note 10, we had outstanding senior notes with an exchange settlement feature, but such notes did not affect our diluted EPU reported above since the weighted average closing price of COPT’s common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

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

20. Commitments and Contingencies

Litigation

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

Environmental

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

Tax Incremental Financing Obligation

In August 2010, Anne Arundel County, Maryland issued $30 million in tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as National Business Park North. The real estate taxes on increases in assessed value of a development district encompassing National Business Park North are to be transferred to a special fund pledged to the repayment of the bonds. We recognized a $1.9 million liability through December 31, 2015 representing our estimated obligation to fund through a special tax any future shortfalls between debt service on the bonds and real estate taxes available to repay the bonds.

Operating Leases

We are obligated as lessee under operating leases (mostly ground leases) with various expiration dates extending to the year 2100. Future minimum rental payments due under the terms of these operating leases as of December 31, 2015 follow (in thousands):

Year Ending December 31,	
2016	$1,189
2017	1,117
2018	1,071
2019	1,049
2020	1,067
Thereafter	86,798
	$92,291

Contractual Obligations

We had amounts remaining to be incurred under various contractual obligations as of December 31, 2015 that included the following:

- new development and redevelopment obligations of $87.8 million (including acquisitions of land);
- capital expenditures for operating properties of $47.9 million;
- third party construction and development of $10.7 million; and
- other purchase obligations of $3.6 million.

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

Environmental Indemnity Agreement

In connection with a lease and subsequent sale in 2008 and 2010 of three properties in Dayton, New Jersey, we agreed to provide certain environmental indemnifications. The prior owner of the properties, a Fortune 100 company that is responsible for groundwater contamination at such properties, previously agreed to indemnify us for (1) direct losses incurred in connection with the contamination and (2) its failure to perform remediation activities required by the State of New Jersey, up to the point that the state declares the remediation to be complete. Under the environmental indemnification agreement, we agreed to the following:

- to indemnify the tenant against losses covered under the prior owner's indemnity agreement if the prior owner fails to indemnify the tenant for such losses. This indemnification is capped at $5.0 million in perpetuity after the State of New Jersey declares the remediation to be complete;
- to indemnify the tenant for consequential damages (e.g., business interruption) at one of the buildings in perpetuity and another of the buildings through 2025. This indemnification is limited to $12.5 million; and
- to pay 50% of additional costs related to construction and environmental regulatory activities incurred by the tenant as a result of the indemnified environmental condition of the properties. This indemnification is limited to $300,000 annually and $1.5 million in the aggregate.

21. Subsequent Event

On February 10, 2016, our Board of Trustees appointed Stephen E. Budorick, our Executive Vice President and Chief Operating Officer since September 2011, to become our President and Chief Executive Officer effective May 12, 2016, the date of the Company's 2016 Annual Meeting of Shareholders. On that date, Roger A. Waesche, Jr., our current President and Chief Executive Officer, will leave the Company to pursue other interests and he will not be nominated for reelection as a Trustee. The Board expects to appoint Mr. Budorick to our Board of Trustees after the 2016 Annual Meeting of Shareholders. In connection with the departure of Mr. Waesche, we will recognize executive transition costs of approximately $2.9 million in 2016.

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

22. Quarterly Data (Unaudited)

The tables below set forth selected quarterly information for the years ended December 31, 2015 and 2014 (in thousands, except per share data). Certain of the amounts below have been reclassified to conform to the current period presentation of our consolidated financial statements.

	For the Year Ended December 31, 2015				For the Year Ended December 31, 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
COPT and Subsidiaries								
Revenues	$161,034	$170,363	$150,744	$143,325	$146,667	$139,820	$153,015	$146,971
Operating income	$30,575	$37,471	$31,993	$20,055	$25,206	$31,836	$37,422	$37,148
Income from continuing operations	$10,987	$16,839	$94,279	$(1,430)	$5,660	$9,248	$13,727	$5,874
Discontinued operations	$(238)	$394	$—	$—	$11	$(198)	$191	$22
Net income	$14,735	$17,232	$94,294	$62,617	$5,671	$9,050	$24,548	$5,937
Net income attributable to noncontrolling interests	(1,380)	(1,451)	(4,494)	(3,253)	(930)	(1,160)	(1,828)	(1,033)
Net income attributable to COPT	13,355	15,781	89,800	59,364	4,741	7,890	22,720	4,904
Preferred share dividends	(3,552)	(3,553)	(3,552)	(3,553)	(4,490)	(4,344)	(3,553)	(3,552)
Issuance costs associated with redeemed preferred shares	—	—	—	—	—	(1,769)	—	—
Net income attributable to COPT common shareholders	$9,803	$12,228	$86,248	$55,811	$251	$1,777	$19,167	$1,352
Basic earnings per common share	$0.10	$0.13	$0.91	$0.59	$0.00	$0.02	$0.22	$0.01
Diluted earnings per common share	$0.10	$0.13	$0.91	$0.59	$0.00	$0.02	$0.22	$0.01
COPLP and Subsidiaries								
Revenues	$161,034	$170,363	$150,744	$143,325	$146,667	$139,820	$153,015	$146,971
Operating income	$30,575	$37,471	$31,993	$20,055	$25,206	$31,836	$37,422	$37,148
Income from continuing operations	$10,987	$16,839	$94,279	$(1,430)	$5,660	$9,248	$13,727	$5,874
Discontinued operations	$(238)	$394	$—	$—	$11	$(198)	$191	$22
Net income	$14,735	$17,232	$94,294	$62,617	$5,671	$9,050	$24,548	$5,937
Net income attributable to noncontrolling interests	(818)	(812)	(972)	(918)	(737)	(837)	(897)	(805)
Net income attributable to COPLP	13,917	16,420	93,322	61,699	4,934	8,213	23,651	5,132

Preferred unit distributions	(3,717)	(3,718)	(3,717)	(3,718)	(4,655)	(4,509)	(3,718)	(3,717)
Issuance costs associated with redeemed preferred units	—	—	—	—	—	(1,769)	—	—
Net income attributable to COPLP common unitholders	$10,200	$12,702	$89,605	$57,981	$279	$1,935	$19,933	$1,415
Basic earnings per common unit	$0.10	$0.13	$0.91	$0.59	$0.00	$0.02	$0.22	$0.01
Diluted earnings per common unit	$0.10	$0.13	$0.91	$0.59	$0.00	$0.02	$0.22	$0.01

Corporate Office Properties Trust and Subsidiaries and Corporate Office Properties, L.P. and Subsidiaries
Schedule II—Valuation and Qualifying Accounts
Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses (1)	Charged to Other Accounts (2)	Deductions (3)	Balance at End of Year
Accounts Receivables-Allowance for doubtful accounts					
Year ended December 31, 2015	$717	$1,125	$98	$(415)	$1,525
Year ended December 31, 2014	$2,976	$278	$—	$(2,537)	$717
Year ended December 31, 2013	$4,694	$(65)	$—	$(1,653)	$2,976
Allowance for Deferred Rent Receivable					
Year ended December 31, 2015	$1,418	$—	$544	$—	$1,962
Year ended December 31, 2014	$2,126	$—	$(708)	$—	$1,418
Year ended December 31, 2013	$913	$—	$1,213	$—	$2,126
Allowance for Deferred Tax Asset					
Year ended December 31, 2015	$2,062	$—	$—	$—	$2,062
Year ended December 31, 2014	$2,062	$—	$—	$—	$2,062
Year ended December 31, 2013	$207	$1,855	$—	$—	$2,062

(1) Amounts charged to costs and expenses are net of recoveries.
(2) Allowances for certain accounts receivables were charged to service company revenue. Deferred rent receivable allowances were charged to rental revenue.
(3) Deductions reflect adjustments to reserves due to actual write-offs of accounts.

Corporate Office Properties Trust and Subsidiaries and Corporate Office Properties, L.P. and Subsidiaries
Schedule III—Real Estate and Accumulated Depreciation
December 31, 2015
(Dollars in thousands)

			Initial Cost			Gross Amounts Carried At Close of Period					
Property (Type) (1)	Location	Encumbrances (2)	Land	Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	Date Acquired (6)
100 Light Street (O)	Baltimore, MD	$50,732	$26,715	$58,343	$55	$26,715	$58,398	$85,113	$(1,588)	1973	8/7/2015
1000 Redstone Gateway (O)	Huntsville, AL	11,370	—	20,533	—	—	20,533	20,533	(1,438)	2013	3/23/2010
1100 Redstone Gateway (O)	Huntsville, AL	11,791	—	19,593	—	—	19,593	19,593	(965)	2014	3/23/2010
114 National Business Parkway (O)	Annapolis Junction, MD	—	364	3,109	60	364	3,169	3,533	(1,125)	2002	6/30/2000
11751 Meadowville Lane (O)	Richmond, VA	—	1,305	52,098	112	1,305	52,210	53,515	(11,194)	2007	9/15/2006
1200 Redstone Gateway (O)	Huntsville, AL	13,639	—	22,389	—	—	22,389	22,389	(1,145)	2013	3/23/2010
1201 M Street (O)	Washington, DC	—	—	49,785	4,225	—	54,010	54,010	(8,947)	2001	9/28/2010
1201 Winterson Road (O)	Linthicum, MD	—	1,288	12,175	460	1,288	12,635	13,923	(3,824)	1985 (7)	4/30/1998
1220 12th Street, SE (O)	Washington, DC	—	—	42,464	2,431	—	44,895	44,895	(8,523)	2003	9/28/2010
1243 Winterson Road (L)	Linthicum, MD	—	630	—	—	630	—	630	—	(8)	12/19/2001
1302 Concourse Drive (O)	Linthicum, MD	—	2,078	8,313	6,559	2,078	14,872	16,950	(6,188)	1996	11/18/1999
1304 Concourse Drive (O)	Linthicum, MD	—	1,999	12,934	2,884	1,999	15,818	17,817	(6,360)	2002	11/18/1999
1306 Concourse Drive (O)	Linthicum, MD	—	2,796	11,186	8,152	2,796	19,338	22,134	(6,922)	1990	11/18/1999
131 National Business Parkway (O)	Annapolis Junction, MD	—	1,906	7,623	3,524	1,906	11,147	13,053	(5,596)	1990	9/28/1998
132 National Business	Annapolis Junction,	—	2,917	12,259	3,005	2,917	15,264	18,181	(7,700)	2000	5/28/1999

Parkway (O)	MD										
133 National Business Parkway (O)	Annapolis Junction, MD	—	2,517	10,068	5,204	2,517	15,272	17,789	(8,230)	1997	9/28/1998
1331 Ashton Road (O)	Hanover, MD	—	587	2,347	1,575	587	3,922	4,509	(1,337)	1989	4/28/1999
1334 Ashton Road (O)	Hanover, MD	—	736	1,488	2,639	736	4,127	4,863	(2,467)	1989	4/28/1999
134 National Business Parkway (O)	Annapolis Junction, MD	—	3,684	7,517	3,496	3,684	11,013	14,697	(4,062)	1999	11/13/1998
1340 Ashton Road (O)	Hanover, MD	—	905	3,620	1,469	905	5,089	5,994	(2,621)	1989	4/28/1999
1341 Ashton Road (O)	Hanover, MD	—	306	1,223	604	306	1,827	2,133	(932)	1989	4/28/1999
1343 Ashton Road (O)	Hanover, MD	—	193	774	405	193	1,179	1,372	(640)	1989	4/28/1999
13450 Sunrise Valley Road (O)	Herndon, VA	—	1,386	5,576	3,335	1,386	8,911	10,297	(3,902)	1998	7/25/2003
13454 Sunrise Valley Road (O)	Herndon, VA	—	2,899	11,986	6,750	2,899	18,736	21,635	(7,177)	1998	7/25/2003
135 National Business Parkway (O)	Annapolis Junction, MD	11,125	2,484	9,750	5,700	2,484	15,450	17,934	(6,467)	1998	12/30/1998
1362 Mellon Road (O)	Hanover, MD	—	1,706	8,670	182	1,706	8,852	10,558	(1,517)	2006	2/10/2006
13857 McLearen Road (O)	Herndon, VA	—	3,507	30,177	1,565	3,507	31,742	35,249	(6,961)	2007	7/11/2012
140 National Business Parkway (O)	Annapolis Junction, MD	—	3,407	24,167	688	3,407	24,855	28,262	(7,647)	2003	12/31/2003
141 National Business Parkway (O)	Annapolis Junction, MD	11,566	2,398	9,590	3,194	2,398	12,784	15,182	(5,963)	1990	9/28/1998
14280 Park Meadow Drive (O)	Chantilly, VA	—	3,731	15,953	1,764	3,731	17,717	21,448	(6,185)	1999	9/29/2004
1460 Dorsey Road (L)	Hanover, MD	—	1,800	—	—	1,800	—	1,800	—	(8)	2/28/2006
14840 Conference Center Drive (O)	Chantilly, VA	—	1,572	8,175	2,860	1,572	11,035	12,607	(4,320)	2000	7/25/2003
14850 Conference Center Drive (O)	Chantilly, VA	—	1,615	8,358	2,947	1,615	11,305	12,920	(4,646)	2000	7/25/2003
		—	3,436	14,402	5,239	3,436	19,641	23,077	(8,221)	1999	7/25/2003

14900 Conference Center Drive (O)	Chantilly, VA

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			Initial Cost			Gross Amounts Carried At Close of Period					
Property (Type) (1)	Location	Encumbrances (2)	Land	Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	Date Acquired (6)
1501 South Clinton Street (O)	Baltimore, MD	—	27,964	52,146	8,165	27,964	60,311	88,275	(14,472)	2006	10/27/2009
15049 Conference Center Drive (O)	Chantilly, VA	—	4,415	20,365	3,619	4,415	23,984	28,399	(9,236)	1997	8/14/2002
15059 Conference Center Drive (O)	Chantilly, VA	—	5,753	13,615	2,065	5,753	15,680	21,433	(6,697)	2000	8/14/2002
15395 John Marshall Highway (O)	Haymarket, VA	—	2,465	24,768	—	2,465	24,768	27,233	(1,195)	2014	5/7/2013
1550 West Nursery Road (O)	Linthicum, MD	—	14,071	16,930	—	14,071	16,930	31,001	(3,626)	2009	10/28/2009
1560 West Nursery Road (O)	Linthicum, MD	—	1,441	113	—	1,441	113	1,554	(5)	2014	10/28/2009
1560A Cable Ranch Road (O) (10)	San Antonio, TX	—	1,097	3,770	394	1,097	4,164	5,261	(1,298)	1985/2007	6/19/2008
1560B Cable Ranch Road (O) (10)	San Antonio, TX	—	2,299	6,545	159	2,299	6,704	9,003	(1,738)	1985/2006	6/19/2008
16442 Commerce Drive (O)	Dahlgren, VA	—	613	2,582	883	613	3,465	4,078	(1,332)	2002	12/21/2004
16480 Commerce Drive (O)	Dahlgren, VA	—	1,856	7,425	1,283	1,856	8,708	10,564	(2,316)	2000	12/28/2004
16501 Commerce Drive (O)	Dahlgren, VA	—	522	2,090	482	522	2,572	3,094	(797)	2002	12/21/2004
16539 Commerce Drive (O)	Dahlgren, VA	—	688	2,860	1,524	688	4,384	5,072	(1,934)	1990	12/21/2004
16541 Commerce Drive (O)	Dahlgren, VA	—	773	3,094	1,368	773	4,462	5,235	(1,727)	1996	12/21/2004
16543 Commerce Drive (O)	Dahlgren, VA	—	436	1,742	502	436	2,244	2,680	(573)	2002	12/21/2004
1751 Pinnacle Drive (O)	McLean, VA	—	10,486	42,339	24,059	10,486	66,398	76,884	(23,750)	1989/1995	9/23/2004
1753 Pinnacle Drive (O)	McLean, VA	—	8,275	34,353	10,894	8,275	45,247	53,522	(15,849)	1976/2004	9/23/2004
201 Technology Drive (O)	Lebanon, VA	—	726	31,091	59	726	31,150	31,876	(6,358)	2007	10/5/2007
206 Research Boulevard (O)	Aberdeen, MD	—	1,813	17,485	—	1,813	17,485	19,298	(1,416)	2012	9/14/2007
209 Research Boulevard (O)	Aberdeen, MD	—	1,045	16,087	79	1,045	16,166	17,211	(2,069)	2010	9/14/2007
210 Research Boulevard (O)	Aberdeen, MD	—	1,065	15,102	75	1,065	15,177	16,242	(1,569)	2010	9/14/2007
2100 L Street (L)		—	1,273	1,685	—	1,273	1,685	2,958	—	(8)	8/11/2015

	Washington, DC										
2100 Rideout Road (O)	Huntsville, AL	—	—	2,586	—	—	2,586	2,586	—	(7)	3/23/2010
21267 Smith Switch Road (O)	Ashburn, VA	—	4,040	10,135	—	4,040	10,135	14,175	(365)	2014	12/27/2012
21271 Smith Switch Road (O)	Ashburn, VA	—	7,346	18,267	—	7,346	18,267	25,613	(881)	2013	12/27/2012
22289 Exploration Drive (O)	Lexington Park, MD	—	1,422	5,719	1,660	1,422	7,379	8,801	(2,826)	2000	3/24/2004
22299 Exploration Drive (O)	Lexington Park, MD	—	1,362	5,791	1,218	1,362	7,009	8,371	(2,641)	1998	3/24/2004
22300 Exploration Drive (O)	Lexington Park, MD	—	1,094	5,038	1,315	1,094	6,353	7,447	(2,024)	1997	11/9/2004
22309 Exploration Drive (O)	Lexington Park, MD	—	2,243	10,419	7,787	2,243	18,206	20,449	(4,683)	1984/1997	3/24/2004
23535 Cottonwood Parkway (O)	California, MD	—	692	3,051	248	692	3,299	3,991	(1,206)	1984	3/24/2004
250 W Pratt St (O)	Baltimore, MD	—	8,057	34,654	4,765	8,057	39,419	47,476	(1,652)	1985	3/19/2015
2500 Riva Road (O)	Annapolis, MD	—	2,791	12,145	1	2,791	12,146	14,937	(4,417)	2000	3/4/2003
2600 Park Tower Drive (O)	Vienna, VA	—	20,304	34,443	346	20,304	34,789	55,093	(1,051)	1999	4/15/2015
2691 Technology Drive (O)	Annapolis Junction, MD	—	2,098	17,334	5,305	2,098	22,639	24,737	(7,827)	2005	5/26/2000
2701 Technology Drive (O)	Annapolis Junction, MD	22,053	1,737	15,266	2,821	1,737	18,087	19,824	(7,567)	2001	5/26/2000
2711 Technology Drive (O)	Annapolis Junction, MD	17,153	2,251	21,611	1,468	2,251	23,079	25,330	(10,158)	2002	11/13/2000
2720 Technology Drive (O)	Annapolis Junction, MD	—	3,863	29,272	146	3,863	29,418	33,281	(8,316)	2004	1/31/2002
2721 Technology Drive (O)	Annapolis Junction, MD	—	4,611	14,597	1,263	4,611	15,860	20,471	(6,400)	2000	10/21/1999
2730 Hercules Road (O)	Annapolis Junction, MD	34,256	8,737	31,612	7,213	8,737	38,825	47,562	(15,674)	1990	9/28/1998
2900 Towerview Road (O)	Herndon, VA	—	3,207	16,379	6,509	3,207	22,888	26,095	(7,181)	1982/2008	12/20/2005

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Property (Type) (1)	Location	Encumbrances (2)	Initial Cost Land	Initial Cost Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried At Close of Period Land	Gross Amounts Carried At Close of Period Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	Date Acquired (6)
30 Light Street (O)	Baltimore, MD	4,268	—	12,101	37	—	12,138	12,138	(128)	2009	8/7/2015
300 Sentinel Drive (O)	Annapolis Junction, MD	—	1,517	59,016	219	1,517	59,235	60,752	(8,458)	2009	11/14/2003
302 Sentinel Drive (O)	Annapolis Junction, MD	—	2,648	29,687	445	2,648	30,132	32,780	(6,000)	2007	11/14/2003
304 Sentinel Drive (O)	Annapolis Junction, MD	—	3,411	24,917	193	3,411	25,110	28,521	(6,304)	2005	11/14/2003
306 Sentinel Drive (O)	Annapolis Junction, MD	15,878	3,260	22,592	611	3,260	23,203	26,463	(5,269)	2006	11/14/2003
308 Sentinel Drive (O)	Annapolis Junction, MD	—	1,422	26,208	37	1,422	26,245	27,667	(3,050)	2010	11/14/2003
310 Sentinel Way (O)	Annapolis Junction, MD	—	2,372	36,468	—	2,372	36,468	38,840	(191)	(7)	11/14/2003
310 The Bridge Street (O)	Huntsville, AL	—	261	26,531	1,695	261	28,226	28,487	(5,136)	2009	8/9/2011
312 Sentinel Way (O)	Annapolis Junction, MD	—	3,138	27,789	—	3,138	27,789	30,927	(913)	2014	11/14/2003
3120 Fairview Park Drive (O)	Falls Church, VA	—	6,863	35,606	8,773	6,863	44,379	51,242	(7,229)	2008	11/23/2010
314 Sentinel Way (O)	Annapolis Junction, MD	—	1,254	1,439	—	1,254	1,439	2,693	(249)	2008	11/14/2003
316 Sentinel Way (O)	Annapolis Junction, MD	—	2,748	38,156	138	2,748	38,294	41,042	(3,570)	2011	11/14/2003
318 Sentinel Way (O)	Annapolis Junction, MD	—	2,185	28,426	—	2,185	28,426	30,611	(6,981)	2005	11/14/2003
320 Sentinel Way (O)	Annapolis Junction, MD	—	2,067	21,623	—	2,067	21,623	23,690	(4,310)	2007	11/14/2003
322 Sentinel Way (O)	Annapolis Junction, MD	21,122	2,605	22,827	—	2,605	22,827	25,432	(5,143)	2006	11/14/2003
324 Sentinel Way (O)	Annapolis Junction, MD	—	1,656	23,018	—	1,656	23,018	24,674	(3,078)	2010	6/29/2006
410 National Business Parkway (O)	Annapolis Junction, MD	—	1,831	23,257	112	1,831	23,369	25,200	(1,719)	2012	6/29/2006
420 National Business Parkway (O)	Annapolis Junction, MD	—	2,370	27,490	106	2,370	27,596	29,966	(1,230)	2013	6/29/2006
430 National Business Parkway (O)	Annapolis Junction, MD	—	1,852	21,153	119	1,852	21,272	23,124	(2,034)	2011	6/29/2006
44408 Pecan Court (O)	California, MD	—	817	1,583	581	817	2,164	2,981	(560)	1986	3/24/2004
44414 Pecan Court (O)	California, MD	—	405	1,619	337	405	1,956	2,361	(725)	1986	3/24/2004

44417 Pecan Court (O)	California, MD	—	434	3,348	88	434	3,436	3,870	(1,127)	1989/2015	3/24/2004
44420 Pecan Court (O)	California, MD	—	344	890	148	344	1,038	1,382	(255)	1989	11/9/2004
44425 Pecan Court (O)	California, MD	—	1,309	3,506	1,590	1,309	5,096	6,405	(1,784)	1997	5/5/2004
45310 Abell House Lane (O)	California, MD	—	2,272	13,808	—	2,272	13,808	16,080	(1,403)	2011	8/30/2010
46579 Expedition Drive (O)	Lexington Park, MD	—	1,406	5,796	1,335	1,406	7,131	8,537	(3,060)	2002	3/24/2004
46591 Expedition Drive (O)	Lexington Park, MD	—	1,200	7,199	1,134	1,200	8,333	9,533	(1,933)	2005	3/24/2004
4851 Stonecroft Boulevard (O)	Chantilly, VA	—	1,878	11,558	21	1,878	11,579	13,457	(3,248)	2004	8/14/2002
4940 Campbell Drive (O) (10)	White Marsh, MD	—	1,379	2,728	1,464	1,379	4,192	5,571	(445)	1990	1/9/2007
525 Babcock Road (O)	Colorado Springs, CO	—	355	397	79	355	476	831	(173)	1967	7/12/2007
5325 Nottingham Drive (O)	White Marsh, MD	—	816	3,976	485	816	4,461	5,277	(1,233)	2002	1/9/2007
5355 Nottingham Drive (O)	White Marsh, MD	—	761	3,562	1,758	761	5,320	6,081	(2,132)	2005	1/9/2007
540 National Business Parkway (O)	Annapolis Junction, MD	—	2,035	9,496	—	2,035	9,496	11,531	—	(7)	6/29/2006
5520 Research Park Drive (O)	Catonsville, MD	—	—	20,072	201	—	20,273	20,273	(3,195)	2009	4/4/2006
5522 Research Park Drive (O)	Catonsville, MD	—	—	4,550	—	—	4,550	4,550	(955)	2007	3/8/2006
5825 University Research Court (O)	College Park, MD	15,255	—	22,740	87	—	22,827	22,827	(3,817)	2008	1/29/2008
5850 University Research Court (O)	College Park, MD	20,771	—	31,906	406	—	32,312	32,312	(4,580)	2008	1/29/2008
6700 Alexander Bell Drive (O)	Columbia, MD	—	1,755	7,019	6,226	1,755	13,245	15,000	(5,913)	1988	5/14/2001
6708 Alexander Bell Drive (O)	Columbia, MD	—	897	8,844	1,591	897	10,435	11,332	(3,414)	1988 (7)	5/14/2001

Property (Type) (1)	Location	Encumbrances (2)	Initial Cost: Land	Initial Cost: Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried At Close of Period: Land	Gross Amounts Carried At Close of Period: Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	Date Acquired (6)
6711 Columbia Gateway Drive (O)	Columbia, MD	—	2,683	23,239	619	2,683	23,858	26,541	(5,407)	2006-2007	9/28/2000
6716 Alexander Bell Drive (O)	Columbia, MD	—	1,242	4,969	3,352	1,242	8,321	9,563	(4,359)	1990	12/31/1998
6721 Columbia Gateway Drive (O)	Columbia, MD	16,663	1,753	34,090	76	1,753	34,166	35,919	(5,798)	2009	9/28/2000
6724 Alexander Bell Drive (O)	Columbia, MD	—	449	5,039	708	449	5,747	6,196	(2,266)	2001	5/14/2001
6731 Columbia Gateway Drive (O)	Columbia, MD	—	2,807	19,098	2,916	2,807	22,014	24,821	(8,494)	2002	3/29/2000
6740 Alexander Bell Drive (O)	Columbia, MD	—	1,424	5,696	3,340	1,424	9,036	10,460	(5,058)	1992	12/31/1998
6741 Columbia Gateway Drive (O)	Columbia, MD	—	675	1,711	124	675	1,835	2,510	(357)	2008	9/28/2000
6750 Alexander Bell Drive (O)	Columbia, MD	—	1,263	12,461	3,457	1,263	15,918	17,181	(7,576)	2001	12/31/1998
6760 Alexander Bell Drive (O)	Columbia, MD	—	890	3,561	2,974	890	6,535	7,425	(3,248)	1991	12/31/1998
6940 Columbia Gateway Drive (O)	Columbia, MD	—	3,545	9,916	5,537	3,545	15,453	18,998	(7,000)	1999	11/13/1998
6950 Columbia Gateway Drive (O)	Columbia, MD	—	3,596	14,269	3,087	3,596	17,356	20,952	(7,506)	1998	10/22/1998
7000 Columbia Gateway Drive (O)	Columbia, MD	—	3,131	12,103	2,138	3,131	14,241	17,372	(4,482)	1999	5/31/2002
7005 Columbia Gateway Drive (O)	Columbia, MD	—	3,036	189	—	3,036	189	3,225	—	(8)	6/26/2014
7015 Albert Einstein Drive (O)	Columbia, MD	1,570	2,058	6,093	1,527	2,058	7,620	9,678	(2,915)	1999	12/1/2005
7061 Columbia Gateway Drive (O)	Columbia, MD	—	729	3,094	1,407	729	4,501	5,230	(1,802)	2000	8/30/2001
7063 Columbia Gateway Drive (O)	Columbia, MD	—	902	3,684	2,512	902	6,196	7,098	(2,452)	2000	8/30/2001
7065 Columbia Gateway Drive (O)	Columbia, MD	—	919	3,763	3,095	919	6,858	7,777	(2,773)	2000	8/30/2001
7067 Columbia Gateway Drive (O)	Columbia, MD	—	1,829	11,823	2,838	1,829	14,661	16,490	(6,154)	2001	8/30/2001
7125 Columbia Gateway Drive (L)	Columbia, MD	—	3,361	1,677	279	3,361	1,956	5,317	—	1973/1999 (8)	6/29/2006
7125 Columbia Gateway Drive (O)	Columbia, MD	—	17,126	46,994	9,813	17,126	56,807	73,933	(16,632)	1973/1999	6/29/2006
	Columbia, MD	—	1,350	4,359	1,906	1,350	6,265	7,615	(2,692)	1989	9/19/2005

7130 Columbia Gateway Drive (O)											
7134 Columbia Gateway Drive (O)	Columbia, MD	—	704	2,139	314	704	2,453	3,157	(1,234)	1990 (7)	9/19/2005
7138 Columbia Gateway Drive (O)	Columbia, MD	—	1,104	3,518	2,118	1,104	5,636	6,740	(3,139)	1990	9/19/2005
7142 Columbia Gateway Drive (O)	Columbia, MD	—	1,342	3,978	2,502	1,342	6,480	7,822	(2,322)	1994	9/19/2005
7150 Columbia Gateway Drive (O)	Columbia, MD	—	1,032	3,429	665	1,032	4,094	5,126	(1,170)	1991	9/19/2005
7150 Riverwood Drive (O)	Columbia, MD	—	1,821	4,388	1,713	1,821	6,101	7,922	(1,933)	2000	1/10/2007
7160 Riverwood Drive (O)	Columbia, MD	—	2,732	7,006	2,275	2,732	9,281	12,013	(3,265)	2000	1/10/2007
7170 Riverwood Drive (O)	Columbia, MD	—	1,283	3,096	692	1,283	3,788	5,071	(1,386)	2000	1/10/2007
7175 Riverwood Drive (O)	Columbia, MD	—	1,788	7,269	—	1,788	7,269	9,057	(389)	1996/2013	7/27/2005
7200 Redstone Gateway (O)	Huntsville, AL	6,649	—	8,347	—	—	8,347	8,347	(328)	2013	3/23/2010
7200 Riverwood Road (O)	Columbia, MD	—	4,089	22,544	3,994	4,089	26,538	30,627	(8,761)	1986	10/13/1998
7205 Riverwood Drive (O)	Columbia, MD	—	1,367	21,484	—	1,367	21,484	22,851	(1,310)	2013	7/27/2005
7272 Park Circle Drive (O)	Hanover, MD	4,747	1,479	6,300	3,883	1,479	10,183	11,662	(2,956)	1991/1996	1/10/2007
7318 Parkway Drive (O)	Hanover, MD	—	972	3,888	1,002	972	4,890	5,862	(2,084)	1984	4/16/1999
7320 Parkway Drive (O)	Hanover, MD	—	905	3,570	5,048	905	8,618	9,523	(2,883)	1983	4/4/2002
7400 Redstone Gateway (O)	Huntsville, AL	7,292	—	9,012	—	—	9,012	9,012	(121)	2015	3/23/2010
7467 Ridge Road (O)	Hanover, MD	—	1,629	6,517	3,645	1,629	10,162	11,791	(4,439)	1990	4/28/1999
7740 Milestone Parkway (O)	Hanover, MD	18,987	3,825	34,176	404	3,825	34,580	38,405	(4,692)	2009	7/2/2007
7770 Backlick Road (O)	Springfield, VA	—	6,387	74,325	141	6,387	74,466	80,853	(5,292)	2012	3/10/2010

			Initial Cost			Gross Amounts Carried At Close of Period					
Property (Type) (1)	Location	Encumbrances (2)	Land	Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	Date Acquired (6)
7880 Milestone Parkway (O)	Hanover, MD	—	4,857	23,647	—	4,857	23,647	28,504	(215)	2015 (7)	9/17/2013
8003 Corporate Drive (O) (10)	White Marsh, MD	—	611	1,126	685	611	1,811	2,422	(99)	1999	1/9/2007
8007 Corporate Drive (O) (10)	White Marsh, MD	—	1,434	350	1,218	1,434	1,568	3,002	(278)	1995	1/9/2007
8010 Corporate Drive (O) (10)	White Marsh, MD	—	1,349	3,262	1,744	1,349	5,006	6,355	(1,448)	1998	1/9/2007
8013 Corporate Drive (O) (10)	White Marsh, MD	—	642	1,072	1,808	642	2,880	3,522	(519)	1990	1/9/2007
8015 Corporate Drive (O) (10)	White Marsh, MD	—	446	1,116	466	446	1,582	2,028	(468)	1990	1/9/2007
8019 Corporate Drive (O) (10)	White Marsh, MD	—	680	1,898	825	680	2,723	3,403	(827)	1990	1/9/2007
8020 Corporate Drive (O) (10)	White Marsh, MD	—	2,184	3,767	2,205	2,184	5,972	8,156	(1,703)	1997	1/9/2007
8023 Corporate Drive (O) (10)	White Marsh, MD	—	651	1,164	5	651	1,169	1,820	(47)	1990	1/9/2007
8094 Sandpiper Circle (O) (10)	White Marsh, MD	—	1,960	3,716	1,129	1,960	4,845	6,805	(1,267)	1998	1/9/2007
8098 Sandpiper Circle (O) (10)	White Marsh, MD	—	1,797	3,651	639	1,797	4,290	6,087	(929)	1998	1/9/2007
8110 Corporate Drive (O) (10)	White Marsh, MD	—	2,285	10,117	989	2,285	11,106	13,391	(3,133)	2001	1/9/2007
8140 Corporate Drive (O) (10)	White Marsh, MD	—	2,158	8,457	3,163	2,158	11,620	13,778	(4,117)	2003	1/9/2007
8621 Robert Fulton Drive (O)	Columbia, MD	—	2,317	12,642	344	2,317	12,986	15,303	(3,378)	2005-2006	6/10/2005
8661 Robert Fulton Drive (O)	Columbia, MD	—	1,510	3,764	2,420	1,510	6,184	7,694	(2,117)	2002	12/30/2003
8671 Robert Fulton Drive (O)	Columbia, MD	—	1,718	4,280	3,931	1,718	8,211	9,929	(3,060)	2002	12/30/2003
870 Elkridge Landing Road (O)	Linthicum, MD	—	2,003	9,442	7,616	2,003	17,058	19,061	(8,411)	1981	8/3/2001
891 Elkridge Landing Road (O)	Linthicum, MD	—	1,165	5,772	2,928	1,165	7,700	8,865	(3,488)	1984	7/2/2001
900 Elkridge Landing Road (O)	Linthicum, MD	—	1,993	7,972	3,603	1,993	11,575	13,568	(6,009)	1982	4/30/1998
901 Elkridge Landing Road (O)	Linthicum, MD	—	1,156	4,437	2,390	1,156	6,827	7,983	(3,015)	1984	7/2/2001
	Linthicum, MD	—	1,215	4,861	2,024	1,215	6,885	8,100	(3,462)	1985	4/30/1998

911 Elkridge Landing Road (O)											
921 Elkridge Landing Road (O)	Linthicum, MD	—	1,044	4,727	748	1,044	5,475	6,519	(4,924)	1983 (7)	4/30/1998
938 Elkridge Landing Road (O)	Linthicum, MD	—	922	4,748	1,263	922	6,011	6,933	(2,116)	1984	7/2/2001
939 Elkridge Landing Road (O)	Linthicum, MD	—	939	3,756	4,245	939	8,001	8,940	(3,337)	1983	4/30/1998
940 Elkridge Landing Road (L)	Linthicum, MD	—	842	4	—	842	4	846	—	(8)	7/2/2001
9651 Hornbaker Road (D)	Manassas, VA	—	6,050	249,706	985	6,050	250,691	256,741	(18,119)	2010	9/14/2010
Aerotech Commerce (L)	Colorado Springs, CO	—	900	—	—	900	—	900	—	(8)	5/19/2006
Arborcrest (O)	Blue Bell, PA	—	21,968	122,759	1,301	21,968	124,060	146,028	(25,901)	1991-96/2015	10/14/1997
Arundel Preserve (L)	Hanover, MD	—	13,401	9,331	—	13,401	9,331	22,732	—	(8)	7/2/2007
Ashburn Crossing - DC10 (O)	Ashburn, VA	—	4,408	10,689	—	4,408	10,689	15,097	(225)	2015	12/27/2012
Canton Crossing Land (L)	Baltimore, MD	—	16,085	2,134	—	16,085	2,134	18,219	—	(8)	10/27/2009
Canton Crossing Util Distr Ctr (O)	Baltimore, MD	—	7,300	15,556	942	7,300	16,498	23,798	(3,326)	2006	10/27/2009
Columbia Gateway - Southridge (L)	Columbia, MD	—	6,387	3,539	—	6,387	3,539	9,926	—	(8)	9/20/2004
Dahlgren Technology Center (L)	Dahlgren, VA	—	978	178	—	978	178	1,156	—	(8)	3/16/2005
Expedition VII (L)	Lexington Park, MD	—	705	728	—	705	728	1,433	—	(8)	3/24/2004
InterQuest (L) (10)	Colorado Springs, CO	—	8,201	—	—	8,201	—	8,201	—	(8)	9/28/2005
M Square Research Park (L)	College Park, MD	—	—	2,986	—	—	2,986	2,986	—	(8)	1/29/2008
National Business Park North (L)	Annapolis Junction, MD	—	28,066	41,936	—	28,066	41,936	70,002	—	(8)	6/29/2006
North Gate Business Park (L)	Aberdeen, MD	—	6,309	4,540	—	6,309	4,540	10,849	—	(8)	9/14/2007

			Initial Cost			Gross Amounts Carried At Close of Period					
Property (Type) (1)	Location	Encumbrances (2)	Land	Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Land Improvements	Total (3)(4)	Accumulated Depreciation (5)	Year Built or Renovated	D A (6
Northwest Crossroads (L)	San Antonio, TX	—	7,430	847	—	7,430	847	8,277	—	(8)	1/
NOVA Office A (O) (9)	Chantilly, VA	—	2,096	47,364	—	2,096	47,364	49,460	(1,046)	2015	7/
NOVA Office B (O) (9)	Chantilly, VA	—	739	26,277	—	739	26,277	27,016	—	(7)	7/
NOVA Office D (O)	Chantilly, VA	—	6,587	103	—	6,587	103	6,690	—	(7)	7/
Old Annapolis Road (O)	Columbia, MD	—	1,637	5,500	3,457	1,637	8,957	10,594	(2,983)	1974/1985	1
Patriot Park (L)	Colorado Springs, CO	—	2,328	1	—	2,328	1	2,329	—	(8)	7/
Patriot Point - DC15 (O)	Ashburn, VA	—	12,156	7,112	—	12,156	7,112	19,268	—	(7)	1
Patriot Point - DC16 (O)	Ashburn, VA	—	12,156	4,110	—	12,156	4,110	16,266	—	(7)	1
Patriot Point - DC17 (O)	Ashburn, VA	—	6,078	472	—	6,078	472	6,550	—	(7)	1
Patriot Ridge (L)	Springfield, VA	—	18,517	14,423	—	18,517	14,423	32,940	—	(8)	3/
Redstone Gateway (L)	Huntsville, AL	—	—	14,250	—	—	14,250	14,250	—	(8)	3/
Route 15/Biggs Ford Road (L)	Frederick, MD	—	8,703	596	—	8,703	596	9,299	—	(8)	8/
Sentry Gateway (L)	San Antonio, TX	—	8,275	3,645	—	8,275	3,645	11,920	—	(8)	3/
Sentry Gateway - T (O)	San Antonio, TX	—	14,020	38,804	13	14,020	38,817	52,837	(8,618)	1982/1985	3/
Sentry Gateway - V (O)	San Antonio, TX	—	—	1,066	—	—	1,066	1,066	(188)	2007	3/
Sentry Gateway - W (O)	San Antonio, TX	—	—	1,884	—	—	1,884	1,884	(296)	2009	3/
Sentry Gateway - X (O)	San Antonio, TX	—	1,964	21,178	—	1,964	21,178	23,142	(2,728)	2010	1/
		—	1,964	21,298	—	1,964	21,298	23,262	(2,745)	2010	1/

Sentry Gateway - Y (O)	San Antonio, TX										
Sentry Gateway - Z (O)	San Antonio, TX	—	1,964	30,335	—	1,964	30,335	32,299	(616	) 2015	6/
Southpoint Manassas - DC12 (O)	Manassas, VA	—	4,518	12,701	—	4,518	12,701	17,219	(127	) 2015	2/
Southpoint Manassas - DC14 (O)	Manassas, VA	—	4,518	13,009	—	4,518	13,009	17,527	(101	) 2015	2/
Westfields - Park Center (L)	Chantilly, VA	—	16,418	7,488	—	16,418	7,488	23,906	—	(8)	7/
Westfields Corporate Center (L)	Chantilly, VA	—	7,141	1,423	—	7,141	1,423	8,564	—	(8)	7/
White Marsh (L)	White Marsh, MD	—	7,852	2,570	—	7,852	2,570	10,422	—	(8)	1/
Woodland Park (L) (10)	Herndon, VA	—	9,614	85	—	9,614	85	9,699	—	(8)	4/
Other Developments, including intercompany eliminations (V)	Various	—	94	34	431	94	465	559	(39	) Various	V
		$316,887	$709,953	$3,106,271	$342,392	$709,953	$3,448,663	$4,158,616	$(718,680)		

(1) A legend for the Property Type follows: (O) = Office Property; (L) = Land held or pre-construction; (D) = Data Center; and (V) = Various.

(2) Excludes our Revolving Credit Facility of $43.5 million, term loan facilities of $515.9 million, unsecured senior notes of $1.2 billion, unsecured notes payable of $1.5 million, a letter of credit on a mortgage loan of $14.8 million, and deferred financing costs, net of premiums, on the remaining loans of $668,000.

(3) The aggregate cost of these assets for Federal income tax purposes was approximately $3.5 billion at December 31, 2015.

(4) As discussed in Note 3 to our Consolidated Financial Statements, we recognized impairment losses of $23.5 million primarily in connection with certain of our land and operating properties, including $22.0 million related to land and operating properties still owned as of December 31, 2015.

(5) The estimated lives over which depreciation is recognized follow: Building and land improvements: 10-40 years; and tenant improvements: related lease terms.

(6) The acquisition date of multi-parcel properties reflects the date of the earliest parcel acquisition.

(7) Under construction or redevelopment at December 31, 2015.

(8) Held or under pre-construction at December 31, 2015.

(9) The carrying amounts of these properties under construction exclude allocated costs of the garage being constructed to support the properties.

(10) Classified as held for sale as of December 31, 2015.

The following table summarizes our changes in cost of properties for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Beginning balance	$4,014,336	$3,811,950	$3,859,960
Acquisitions of operating properties	194,616	—	—
Improvements and other additions	273,761	254,868	249,639
Sales	(172,628)	(48,466)	(141,045)
Impairments	(29,548)	(3,042)	(45,931)
Other dispositions	(121,921)	(974)	(110,673)
Ending balance	$4,158,616	$4,014,336	$3,811,950

The following table summarizes our changes in accumulated depreciation for the same time periods (in thousands):

	2015	2014	2013
Beginning balance	$703,083	$597,649	$568,176
Depreciation expense	112,695	111,326	92,677
Sales	(49,614)	(3,129)	(9,542)
Impairments	(6,092)	(1,671)	(14,863)
Other dispositions	(41,392)	(1,092)	(38,799)
Ending balance	$718,680	$703,083	$597,649