
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **June 30, 2017**

or

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

For the transition period from _____

to _____

Commission file number 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)

**Corporate Office Properties Trust
Corporate Office Properties, L.P.**

(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust

Maryland

23-2947217

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

Corporate Office Properties, L.P.

Delaware

23-2930022

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD

21046

(Address of principal executive offices)

(Zip Code)

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

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

Corporate Office Properties Trust Yes No

Corporate Office Properties, L.P. Yes No

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

Corporate Office Properties Trust Yes No

Corporate Office Properties, L.P. Yes No

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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Corporate Office Properties Trust
Corporate Office Properties, L.P.

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

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

As of July 21, 2017, 99,466,838 of Corporate Office Properties Trust's Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017 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 June 30, 2017, COPT owned approximately 96.7% of the outstanding common units and none of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

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

Noncontrolling interests and shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of COPT and those of COPLP. The common limited partnership interests in COPLP not

owned by COPT are accounted for as partners' capital in COPLP's consolidated financial statements and as noncontrolling interests in COPT's consolidated financial statements. COPLP's consolidated financial statements also reflect COPT's noncontrolling interests in certain real estate partnerships, limited liability companies ("LLCs") 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 held in connection with a non-qualified elective deferred compensation plan (comprised primarily of mutual funds and equity securities) and the corresponding liability to the plan's participants that are held directly by COPT.

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

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

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries;
 - and
 - Note 14, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries;
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT";
- and
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPLP."

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

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2017	December 31, 2016
Assets		
Properties, net:		
Operating properties, net	\$ 2,688,174	\$ 2,671,831
Projects in development or held for future development	446,385	401,531
Total properties, net	3,134,559	3,073,362
Assets held for sale, net	51,291	94,654
Cash and cash equivalents	10,606	209,863
Restricted cash and marketable securities	6,866	8,193
Investment in unconsolidated real estate joint venture	25,335	25,548
Accounts receivable (net of allowance for doubtful accounts of \$435 and \$603, respectively)	42,742	34,438
Deferred rent receivable (net of allowance of \$125 and \$373, respectively)	89,832	90,219
Intangible assets on real estate acquisitions, net	69,205	78,351
Deferred leasing costs (net of accumulated amortization of \$29,720 and \$65,988, respectively)	40,506	41,214
Investing receivables	54,598	52,279
Prepaid expenses and other assets, net	49,347	72,764
Total assets	\$ 3,574,887	\$ 3,780,885
Liabilities and equity		
Liabilities:		
Debt, net	\$ 1,897,734	\$ 1,904,001
Accounts payable and accrued expenses	95,267	108,682
Rents received in advance and security deposits	25,444	29,798
Dividends and distributions payable	28,462	31,335
Deferred revenue associated with operating leases	13,172	12,666
Redeemable preferred shares of beneficial interest (\$0.01 par value; 531,667 shares issued and outstanding at December 31, 2016 and none at June 30, 2017)	—	26,583
Capital lease obligation	16,177	—
Other liabilities	56,076	50,177
Total liabilities	2,132,332	2,163,242
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	23,731	22,979
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized, 6,900,000 shares issued and outstanding at December 31, 2016 and none at June 30, 2017)	—	172,500
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 99,471,641 at June 30, 2017 and 98,498,651 at December 31, 2016)	995	985
Additional paid-in capital	2,146,119	2,116,581
Cumulative distributions in excess of net income	(793,828)	(765,276)
Accumulated other comprehensive loss	(1,163)	(1,731)
Total Corporate Office Properties Trust's shareholders' equity	1,352,123	1,523,059
Noncontrolling interests in subsidiaries:		
Common units in COPLP	46,233	49,228
Preferred units in COPLP	8,800	8,800
Other consolidated entities	11,668	13,577
Noncontrolling interests in subsidiaries	66,701	71,605
Total equity	1,418,824	1,594,664
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,574,887	\$ 3,780,885

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Rental revenue	\$ 101,347	\$ 107,524	\$ 201,962	\$ 212,906
Tenant recoveries and other real estate operations revenue	26,950	26,400	53,102	54,105
Construction contract and other service revenues	23,138	12,003	36,172	23,223
Total revenues	151,435	145,927	291,236	290,234
Expenses				
Property operating expenses	48,628	48,141	97,147	100,016
Depreciation and amortization associated with real estate operations	32,793	33,248	65,852	67,775
Construction contract and other service expenses	22,315	11,478	34,801	22,172
Impairment losses	1,625	69,692	1,625	72,138
General, administrative and leasing expenses	7,859	8,026	16,470	19,909
Business development expenses and land carry costs	1,597	2,363	3,290	4,781
Total operating expenses	114,817	172,948	219,185	286,791
Operating income (loss)	36,618	(27,021)	72,051	3,443
Interest expense	(19,163)	(22,639)	(38,157)	(46,198)
Interest and other income	1,583	1,330	3,309	2,486
(Loss) gain on early extinguishment of debt	(513)	5	(513)	22
Income (loss) before equity in income of unconsolidated entities and income taxes	18,525	(48,325)	36,690	(40,247)
Equity in income of unconsolidated entities	718	10	1,443	20
Income tax (expense) benefit	(48)	(1)	(88)	7
Income (loss) before gain on sales of real estate	19,195	(48,316)	38,045	(40,220)
Gain on sales of real estate	12	—	4,250	—
Net income (loss)	19,207	(48,316)	42,295	(40,220)
Net (income) loss attributable to noncontrolling interests:				
Common units in COPLP	(273)	1,976	(907)	1,849
Preferred units in COPLP	(165)	(165)	(330)	(330)
Other consolidated entities	(907)	(914)	(1,841)	(1,892)
Net income (loss) attributable to COPT	17,862	(47,419)	39,217	(40,593)
Preferred share dividends	(3,039)	(3,553)	(6,219)	(7,105)
Issuance costs associated with redeemed preferred shares	(6,847)	—	(6,847)	—
Net income (loss) attributable to COPT common shareholders	\$ 7,976	\$ (50,972)	\$ 26,151	\$ (47,698)
Earnings per common share:				
Net income (loss) attributable to COPT common shareholders - basic	\$ 0.08	\$ (0.54)	\$ 0.26	\$ (0.51)
Net income (loss) attributable to COPT common shareholders - diluted	\$ 0.08	\$ (0.54)	\$ 0.26	\$ (0.51)
Dividends declared per common share	\$ 0.275	\$ 0.275	\$ 0.550	\$ 0.550

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$ 19,207	\$ (48,316)	\$ 42,295	\$ (40,220)
Other comprehensive income (loss)				
Unrealized loss on interest rate derivatives	(1,800)	(5,704)	(1,576)	(16,988)
Loss on interest rate derivatives recognized in interest expense (effective portion)	853	850	2,037	1,720
Loss on interest rate derivatives recognized in interest expense (ineffective portion)	88	—	88	—
Equity in other comprehensive income (loss) of equity method investee	39	(184)	39	(184)
Other comprehensive (loss) income	(820)	(5,038)	588	(15,452)
Comprehensive income (loss)	18,387	(53,354)	42,883	(55,672)
Comprehensive (income) loss attributable to noncontrolling interests	(1,318)	1,085	(3,098)	205
Comprehensive income (loss) attributable to COPT	<u>\$ 17,069</u>	<u>\$ (52,269)</u>	<u>\$ 39,785</u>	<u>\$ (55,467)</u>

See accompanying notes to consolidated financial statements.

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

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2015 (94,531,512 common shares outstanding)	\$199,083	\$ 945	\$2,004,507	\$ (657,172)	\$ (2,838)	\$ 72,039	\$1,616,564
Conversion of common units to common shares (26,758 shares)	—	—	371	—	—	(371)	—
Costs associated with common shares issued to the public	—	—	(5)	—	—	—	(5)
Share-based compensation (141,089 shares issued, net of redemptions)	—	2	4,301	—	—	—	4,303
Redemption of vested equity awards	—	—	(1,492)	—	—	—	(1,492)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(5)	—	—	5	—
Comprehensive loss	—	—	—	(40,593)	(14,874)	(1,322)	(56,789)
Dividends	—	—	—	(59,175)	—	—	(59,175)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(2,346)	(2,346)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(8)	(8)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	(349)	—	—	—	(349)
Balance at June 30, 2016 (94,699,359 common shares outstanding)	<u>\$199,083</u>	<u>\$ 947</u>	<u>\$2,007,328</u>	<u>\$ (756,940)</u>	<u>\$ (17,712)</u>	<u>\$ 67,997</u>	<u>\$1,500,703</u>
Balance at December 31, 2016 (98,498,651 common shares outstanding)	\$172,500	\$ 985	\$2,116,581	\$ (765,276)	\$ (1,731)	\$ 71,605	\$1,594,664
Redemption of preferred shares (6,900,000 shares)	(172,500)	—	6,847	(6,847)	—	—	(172,500)
Conversion of common units to common shares (187,000 shares)	—	2	2,562	—	—	(2,564)	—
Common shares issued under at-the-market program (591,042 shares)	—	6	19,662	—	—	—	19,668
Exercise of share options (5,000 shares)	—	—	150	—	—	—	150
Share-based compensation (189,948 shares issued, net of redemptions)	—	2	3,045	—	—	—	3,047
Redemption of vested equity awards	—	—	(1,813)	—	—	—	(1,813)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(514)	—	—	514	—
Comprehensive income	—	—	—	39,217	568	1,958	41,743
Dividends	—	—	—	(60,922)	—	—	(60,922)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(2,202)	(2,202)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(2,610)	(2,610)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	(401)	—	—	—	(401)
Balance at June 30, 2017 (99,471,641 common shares outstanding)	<u>\$ —</u>	<u>\$ 995</u>	<u>\$2,146,119</u>	<u>\$ (793,828)</u>	<u>\$ (1,163)</u>	<u>\$ 66,701</u>	<u>\$1,418,824</u>

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Revenues from real estate operations received	\$ 255,302	\$ 261,980
Construction contract and other service revenues received	39,917	34,992
Property operating expenses paid	(80,385)	(87,005)
Construction contract and other service expenses paid	(31,996)	(24,303)
General, administrative, leasing, business development and land carry costs paid	(20,315)	(19,212)
Interest expense paid	(36,351)	(41,179)
Lease incentives	(9,375)	(996)
Other	940	123
Net cash provided by operating activities	<u>117,737</u>	<u>124,400</u>
Cash flows from investing activities		
Construction, development and redevelopment	(85,926)	(75,339)
Tenant improvements on operating properties	(13,711)	(14,862)
Other capital improvements on operating properties	(11,780)	(16,007)
Proceeds from dispositions of properties	54,798	5,448
Leasing costs paid	(3,904)	(3,434)
Other	1,573	(13)
Net cash used in investing activities	<u>(58,950)</u>	<u>(104,207)</u>
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	213,000	133,500
Other debt proceeds	—	45,000
Repayments of debt		
Revolving Credit Facility	(19,000)	(119,000)
Scheduled principal amortization	(1,913)	(3,532)
Other debt repayments	(200,100)	(40,498)
Net proceeds from issuance of common shares	19,835	(5)
Redemption of preferred shares	(199,083)	—
Common share dividends paid	(54,439)	(52,021)
Preferred share dividends paid	(9,305)	(7,105)
Distributions paid to noncontrolling interests in COPLP	(2,274)	(2,362)
Distributions paid to redeemable noncontrolling interests	(781)	(14,306)
Redemption of vested equity awards	(1,813)	(1,492)
Other	(2,171)	(5,365)
Net cash used in financing activities	<u>(258,044)</u>	<u>(67,186)</u>
Net decrease in cash and cash equivalents	(199,257)	(46,993)
Cash and cash equivalents		
Beginning of period	209,863	60,310
End of period	<u>\$ 10,606</u>	<u>\$ 13,317</u>

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2017	2016
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ 42,295	\$ (40,220)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	66,948	68,901
Impairment losses	1,618	72,138
(Gain) loss on interest rate derivatives	(9)	1,870
Amortization of deferred financing costs and net debt discounts	2,613	2,998
Decrease (increase) in deferred rent receivable	669	(1,276)
Gain on sales of real estate	(4,250)	—
Share-based compensation	2,820	3,839
Other	(2,548)	(1,725)
Operating changes in assets and liabilities:		
Increase in accounts receivable	(8,304)	(3,320)
Decrease (increase) in restricted cash and marketable securities	1,826	(389)
Decrease in prepaid expenses and other assets, net	20,800	11,303
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(2,387)	15,394
Decrease in rents received in advance and security deposits	(4,354)	(5,113)
Net cash provided by operating activities	<u>\$ 117,737</u>	<u>\$ 124,400</u>
Supplemental schedule of non-cash investing and financing activities:		
(Decrease) increase in accrued capital improvements, leasing and other investing activity costs	\$ (4,927)	\$ 1,604
Increase in property in connection with capital lease obligation	\$ 16,127	\$ —
Increase in property and redeemable noncontrolling interests in connection with property contributed in a joint venture	\$ —	\$ 22,600
Decrease in redeemable noncontrolling interests and increase in other liabilities in connection with distribution payable to redeemable noncontrolling interest	\$ —	\$ 6,675
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$ 513	\$ (15,268)
Equity in other comprehensive income (loss) of an equity method investee	\$ 39	\$ (184)
Dividends/distribution payable	\$ 28,462	\$ 30,219
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 2,564	\$ 371
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$ 514	\$ 5
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$ 401	\$ 349

See accompanying notes to consolidated financial statements.

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

	June 30, 2017	December 31, 2016
Assets		
Properties, net:		
Operating properties, net	\$ 2,688,174	\$ 2,671,831
Projects in development or held for future development	446,385	401,531
Total properties, net	3,134,559	3,073,362
Assets held for sale, net	51,291	94,654
Cash and cash equivalents	10,606	209,863
Restricted cash and marketable securities	2,721	2,756
Investment in unconsolidated real estate joint venture	25,335	25,548
Accounts receivable (net of allowance for doubtful accounts of \$435 and \$603, respectively)	42,742	34,438
Deferred rent receivable (net of allowance of \$125 and \$373, respectively)	89,832	90,219
Intangible assets on real estate acquisitions, net	69,205	78,351
Deferred leasing costs (net of accumulated amortization of \$29,720 and \$65,988, respectively)	40,506	41,214
Investing receivables	54,598	52,279
Prepaid expenses and other assets, net	49,347	72,764
Total assets	\$ 3,570,742	\$ 3,775,448
Liabilities and equity		
Liabilities:		
Debt, net	\$ 1,897,734	\$ 1,904,001
Accounts payable and accrued expenses	95,267	108,682
Rents received in advance and security deposits	25,444	29,798
Distributions payable	28,462	31,335
Deferred revenue associated with operating leases	13,172	12,666
Redeemable preferred units of general partner, 531,667 units outstanding at December 31, 2016 and none at June 30, 2017	—	26,583
Capital lease obligation	16,177	—
Other liabilities	51,931	44,740
Total liabilities	2,128,187	2,157,805
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	23,731	22,979
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, 6,900,000 preferred units outstanding at December 31, 2016 and none at June 30, 2017	—	172,500
Limited partner, 352,000 preferred units outstanding at June 30, 2017 and December 31, 2016	8,800	8,800
Common units, 99,471,641 and 98,498,651 held by the general partner and 3,403,391 and 3,590,391 held by limited partners at June 30, 2017 and December 31, 2016, respectively	1,399,578	1,401,597
Accumulated other comprehensive loss	(1,266)	(1,854)
Total Corporate Office Properties, L.P.'s equity	1,407,112	1,581,043
Noncontrolling interests in subsidiaries	11,712	13,621
Total equity	1,418,824	1,594,664
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,570,742	\$ 3,775,448

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Rental revenue	\$ 101,347	\$ 107,524	\$ 201,962	\$ 212,906
Tenant recoveries and other real estate operations revenue	26,950	26,400	53,102	54,105
Construction contract and other service revenues	23,138	12,003	36,172	23,223
Total revenues	151,435	145,927	291,236	290,234
Expenses				
Property operating expenses	48,628	48,141	97,147	100,016
Depreciation and amortization associated with real estate operations	32,793	33,248	65,852	67,775
Construction contract and other service expenses	22,315	11,478	34,801	22,172
Impairment losses	1,625	69,692	1,625	72,138
General, administrative and leasing expenses	7,859	8,026	16,470	19,909
Business development expenses and land carry costs	1,597	2,363	3,290	4,781
Total operating expenses	114,817	172,948	219,185	286,791
Operating income (loss)	36,618	(27,021)	72,051	3,443
Interest expense	(19,163)	(22,639)	(38,157)	(46,198)
Interest and other income	1,583	1,330	3,309	2,486
(Loss) gain on early extinguishment of debt	(513)	5	(513)	22
Income (loss) before equity in income of unconsolidated entities and income taxes	18,525	(48,325)	36,690	(40,247)
Equity in income of unconsolidated entities	718	10	1,443	20
Income tax (expense) benefit	(48)	(1)	(88)	7
Income (loss) before gain on sales of real estate	19,195	(48,316)	38,045	(40,220)
Gain on sales of real estate	12	—	4,250	—
Net income (loss)	19,207	(48,316)	42,295	(40,220)
Net income attributable to noncontrolling interests in consolidated entities	(907)	(911)	(1,841)	(1,890)
Net income (loss) attributable to COPLP	18,300	(49,227)	40,454	(42,110)
Preferred unit distributions	(3,204)	(3,718)	(6,549)	(7,435)
Issuance costs associated with redeemed preferred units	(6,847)	—	(6,847)	—
Net income (loss) attributable to COPLP common unitholders	<u>\$ 8,249</u>	<u>\$ (52,945)</u>	<u>\$ 27,058</u>	<u>\$ (49,545)</u>
Earnings per common unit:				
Net income (loss) attributable to COPLP common unitholders - basic	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>
Net income (loss) attributable to COPLP common unitholders - diluted	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>
Distributions declared per common unit	<u>\$ 0.275</u>	<u>\$ 0.275</u>	<u>\$ 0.550</u>	<u>\$ 0.550</u>

See accompanying notes to consolidated financial statements.

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

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss)	\$ 19,207	\$ (48,316)	\$ 42,295	\$ (40,220)
Other comprehensive income (loss)				
Unrealized loss on interest rate derivatives	(1,800)	(5,704)	(1,576)	(16,988)
Loss on interest rate derivatives recognized in interest expense (effective portion)	853	850	2,037	1,720
Loss on interest rate derivatives recognized in interest expense (ineffective portion)	88	—	88	—
Equity in other comprehensive income (loss) of equity method investee	39	(184)	39	(184)
Other comprehensive (loss) income	(820)	(5,038)	588	(15,452)
Comprehensive income (loss)	18,387	(53,354)	42,883	(55,672)
Comprehensive income attributable to noncontrolling interests	(907)	(911)	(1,841)	(1,890)
Comprehensive income (loss) attributable to COPLP	<u>\$ 17,480</u>	<u>\$ (54,265)</u>	<u>\$ 41,042</u>	<u>\$ (57,562)</u>

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2015	352,000	\$8,800	7,431,667	\$199,083	98,208,903	\$1,400,745	\$ (2,985)	\$ 10,921	\$ 1,616,564
Costs associated with common shares issued to the public	—	—	—	—	—	(5)	—	—	(5)
Share-based compensation (units net of redemption)	—	—	—	—	141,089	4,303	—	—	4,303
Redemptions of vested equity awards	—	—	—	—	—	(1,492)	—	—	(1,492)
Comprehensive loss	—	330	—	7,105	—	(49,545)	(15,452)	773	(56,789)
Distributions to owners of common and preferred units	—	(330)	—	(7,105)	—	(54,086)	—	—	(61,521)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(8)	(8)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(349)	—	—	(349)
Balance at June 30, 2016	<u>352,000</u>	<u>\$8,800</u>	<u>7,431,667</u>	<u>\$199,083</u>	<u>98,349,992</u>	<u>\$1,299,571</u>	<u>\$ (18,437)</u>	<u>\$ 11,686</u>	<u>\$ 1,500,703</u>
Balance at December 31, 2016	352,000	\$8,800	6,900,000	\$172,500	102,089,042	\$1,401,597	\$ (1,854)	\$ 13,621	\$ 1,594,664
Redemption of preferred units resulting from redemption of preferred shares	—	—	(6,900,000)	(172,500)	—	—	—	—	(172,500)
Issuance of common units resulting from common shares issued under COPT at-the-market program	—	—	—	—	591,042	19,668	—	—	19,668
Issuance of common units resulting from exercise of share options	—	—	—	—	5,000	150	—	—	150
Share-based compensation (units net of redemption)	—	—	—	—	189,948	3,047	—	—	3,047
Redemptions of vested equity awards	—	—	—	—	—	(1,813)	—	—	(1,813)
Comprehensive income	—	330	—	6,219	—	33,905	588	701	41,743
Distributions to owners of common and preferred units	—	(330)	—	(6,219)	—	(56,575)	—	—	(63,124)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(2,610)	(2,610)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(401)	—	—	(401)
Balance at June 30, 2017	<u>352,000</u>	<u>\$8,800</u>	<u>—</u>	<u>\$ —</u>	<u>102,875,032</u>	<u>\$1,399,578</u>	<u>\$ (1,266)</u>	<u>\$ 11,712</u>	<u>\$ 1,418,824</u>

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Revenues from real estate operations received	\$ 255,302	\$ 261,980
Construction contract and other service revenues received	39,917	34,992
Property operating expenses paid	(80,385)	(87,005)
Construction contract and other service expenses paid	(31,996)	(24,303)
General, administrative, leasing, business development and land carry costs paid	(20,315)	(19,212)
Interest expense paid	(36,351)	(41,179)
Lease incentives	(9,375)	(996)
Other	940	123
Net cash provided by operating activities	<u>117,737</u>	<u>124,400</u>
Cash flows from investing activities		
Construction, development and redevelopment	(85,926)	(75,339)
Tenant improvements on operating properties	(13,711)	(14,862)
Other capital improvements on operating properties	(11,780)	(16,007)
Proceeds from dispositions of properties	54,798	5,448
Leasing costs paid	(3,904)	(3,434)
Other	1,573	(13)
Net cash used in investing activities	<u>(58,950)</u>	<u>(104,207)</u>
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	213,000	133,500
Other debt proceeds	—	45,000
Repayments of debt		
Revolving Credit Facility	(19,000)	(119,000)
Scheduled principal amortization	(1,913)	(3,532)
Other debt repayments	(200,100)	(40,498)
Net proceeds from issuance of common units	19,835	(5)
Redemption of preferred units	(199,083)	—
Common unit distributions paid	(56,383)	(54,053)
Preferred unit distributions paid	(9,635)	(7,435)
Redemption of vested equity awards	(1,813)	(1,492)
Distributions paid to redeemable noncontrolling interests	(781)	(14,306)
Other	(2,171)	(5,365)
Net cash used in financing activities	<u>(258,044)</u>	<u>(67,186)</u>
Net decrease in cash and cash equivalents	<u>(199,257)</u>	<u>(46,993)</u>
Cash and cash equivalents		
Beginning of period	209,863	60,310
End of period	<u>\$ 10,606</u>	<u>\$ 13,317</u>

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2017	2016
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ 42,295	\$ (40,220)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	66,948	68,901
Impairment losses	1,618	72,138
(Gain) loss on interest rate derivatives	(9)	1,870
Amortization of deferred financing costs and net debt discounts	2,613	2,998
Decrease (increase) in deferred rent receivable	669	(1,276)
Gain on sales of real estate	(4,250)	—
Share-based compensation	2,820	3,839
Other	(2,548)	(1,725)
Operating changes in assets and liabilities:		
Increase in accounts receivable	(8,304)	(3,320)
Decrease (increase) in restricted cash and marketable securities	534	(1,106)
Decrease in prepaid expenses and other assets, net	20,800	11,303
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(1,095)	16,111
Decrease in rents received in advance and security deposits	(4,354)	(5,113)
Net cash provided by operating activities	<u>\$ 117,737</u>	<u>\$ 124,400</u>
Supplemental schedule of non-cash investing and financing activities:		
(Decrease) increase in accrued capital improvements, leasing and other investing activity costs	\$ (4,927)	\$ 1,604
Increase in property in connection with capital lease obligation	\$ 16,127	\$ —
Increase in property and redeemable noncontrolling interests in connection with property contributed in a joint venture	\$ —	\$ 22,600
Decrease in redeemable noncontrolling interests and increase in other liabilities in connection with distribution payable to redeemable noncontrolling interest	\$ —	\$ 6,675
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$ 513	\$ (15,268)
Equity in other comprehensive income (loss) of an equity method investee	\$ 39	\$ (184)
Distributions payable	\$ 28,462	\$ 30,219
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$ 401	\$ 349

See accompanying notes to consolidated financial statements.

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

1. Organization

Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) is a fully-integrated and self-managed real estate investment trust (“REIT”). Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”) is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, “we”, “us” and “our” as used herein refer to each of the Company and the Operating Partnership. We own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support the United States Government and its 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 portfolio of 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 June 30, 2017, our properties included the following:

- 165 operating office properties totaling 17.3 million square feet, including 14 triple-net leased, single-tenant data center properties. We owned six of these properties through an unconsolidated real estate joint venture;
- ten office properties under construction or redevelopment that we estimate will total approximately 1.4 million square feet upon completion, including three partially operational properties and two properties completed but held for future lease to the United States Government;
- 987 acres of land we controlled for future development that we believe could be developed into approximately 2.5 million square feet and an additional 194 acres of other land; and
- a wholesale data center with a critical load of 19.25 megawatts.

COPLP owns real estate 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 June 30, 2017, COPT owned 96.7% of the outstanding COPLP common units (“common units”) and none 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 any series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

We use the equity method of accounting when we own an interest in an entity and can exert significant influence over but cannot control the entity's operations. We discontinue equity method accounting if our investment in an entity (and net advances) is reduced to zero unless we have guaranteed obligations of the entity or are otherwise committed to provide further financial support for the entity.

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

These interim financial statements should be read together with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2016 included in our 2016 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly state our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 2016 Annual Report on Form 10-K.

Reclassification

We reclassified certain amounts from prior periods to conform to the current period presentation of our consolidated financial statements with no effect on previously reported net income or equity.

Recent Accounting Pronouncements

We adopted guidance issued by the Financial Accounting Standards Board ("FASB") effective January 1, 2017 intended to simplify various aspects related to the accounting and presentation for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the consolidated statement of cash flows. In connection with our adoption of this policy, we made an entity-wide accounting policy election to continue to account for potential future award forfeitures by estimating the number of awards that are expected to vest. Our adoption of this guidance did not have a material impact on our consolidated financial statements.

We adopted guidance issued by the FASB prospectively effective January 1, 2017 that clarifies the definition of a business used by entities in determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. Under the new guidance it is expected that the majority of our future operating property acquisitions will be accounted for as asset acquisitions, whereas under the previous guidance our recent acquisitions were accounted for as business combinations; we believe that the primary effect of this change will be that transaction costs associated with future acquisitions will be capitalized rather than expensed as incurred. This guidance had no effect on our consolidated financial statements upon adoption.

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. This guidance also requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Also in connection with this guidance, in 2017, the FASB issued additional guidance, including guidance clarifying the scope of asset derecognition provisions and accounting for partial sales of nonfinancial assets. While we are still completing our assessment of the impact of the guidance, below is a summary of the anticipated primary effects on our accounting and reporting.

- Construction contract revenue: We reviewed our historical construction management arrangements and related contracts. Based on this review, we believe that we will account for these arrangements using the percentage of completion method, which is the method we have used in most cases historically. We do not currently believe that the resulting effect of the change will be material.
- Sales of real estate: The new guidance requires recognition of a sale of real estate and resulting gain or loss when control transfers and the buyer has the ability to direct use of, or obtain substantially all of the remaining benefit from, the asset (which generally will occur on the closing date); the factor of continuing involvement is no longer a specific consideration for the timing of recognition. The new guidance eliminates the need to consider adequacy of buyer investment, which was replaced by additional judgments regarding collectability and intent and/or ability to pay. The new guidance also requires an entity to derecognize nonfinancial assets and in substance nonfinancial assets once it transfers control of such assets. When an entity transfers its controlling interest in a nonfinancial asset, but retains a noncontrolling ownership interest, the entity is required to measure any non-controlling interest it receives or retains at fair value and recognize a full gain or loss on the transaction; as a result, sales and partial sales of real estate assets will now be subject to the same derecognition

model as all other nonfinancial assets. Since all but one of our sale transactions previously met the criteria for immediate gain recognition under existing guidance, we do not believe that the recognition pattern for these transactions will be changed by the new guidance. Our one sale transaction that did not meet the criteria for immediate full recognition under the previous standard was our contribution of data center properties into a newly-formed joint venture in July 2016, as discussed further in our 2016 Annual Report on Form 10-K. We believe that this transaction, which was accounted for as a partial sale under existing guidance, would meet the criteria for immediate full gain recognition under the new guidance; this would result in an additional \$18 million in income being recognizable in 2016 under the new guidance that is currently being amortized into income in subsequent periods under existing guidance.

- Real estate revenue associated with executory costs and other non-lease components: Once the new guidance setting forth principles for the recognition, measurement, presentation and disclosure of leases (discussed below) goes into effect, we believe that the new revenue standard may apply to executory costs and other components of revenue due under leases that are deemed to be non-lease components (such as common area maintenance and provision of utilities), even when the revenue for such activities is not separately stipulated in the lease. In that case, then revenue from these items previously recognized on a straight-line basis under current lease guidance would be recognized under the new revenue guidance as the related services are delivered. As a result, while the total revenue recognized over time would not differ under the new guidance, the recognition pattern could be different. We are in the process of evaluating the significance of the difference in the recognition pattern that would result from this change.

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 have not decided which method of adoption we will use.

In February 2016, the FASB issued guidance that sets forth principles for the recognition, measurement, presentation and disclosure of leases. This guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. The resulting classification determines whether the lease expense is recognized based on an effective interest method or straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The guidance requires lessors of real estate to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. While we are still completing our assessment of the impact of this guidance, below is a summary of the anticipated primary effects of this guidance on our accounting and reporting.

- Real estate leases in which we are the lessor:
 - Balance sheet reporting: We believe that we will apply an approach under the new guidance that is similar to the current accounting for operating leases, in which we will continue to recognize the underlying leased asset as property on our balance sheet.
 - Deferral of compensation-related lease costs: Under the new lease guidance, lessors may only capitalize their incremental direct costs of leasing. As a result, we believe that we will no longer be able to defer the recognition of compensation-related costs in connection with new or extended tenant leases (refer to amounts reported in our 2016 Annual Report on Form 10-K for amounts deferred in 2014, 2015 and 2016).
 - Lease revenue reporting: As discussed in further detail above in connection with the new revenue guidance, we believe that the new revenue standard may apply to executory costs and other components of revenue deemed to be non-lease components (such as common area maintenance and provision of utilities), even when the revenue for such activities is not separately stipulated in the lease. In that case, we would need to separate the lease components of revenue due under leases from the non-lease components. Under the new guidance, we would continue to recognize the lease components of lease revenue on a straight-line basis over our respective lease terms as we do under prior guidance. However, we would recognize the non-lease components under the new revenue guidance as the related services are delivered. As discussed above, we are in the process of evaluating the significance of the difference in the recognition pattern that would result from this change.
- Leases in which we are the lessee:
 - Our most significant leases as lessee are ground leases we have for certain properties; as of June 30, 2017, our future minimum rental payments under these leases totaled \$90.4 million, with various expiration dates extending to the year 2100. While we are still in the process of evaluating these leases under the new guidance, we believe that we will be required to recognize a right-of-use asset and a lease liability for the present value of these minimum lease payments. We believe that these leases most likely will be classified as finance leases under the new guidance; as a result, the interest component of each lease payment would be recorded as interest expense and the right-of-use asset would be amortized into expense using the straight-line method over the life of the lease.

This guidance is effective for reporting periods beginning January 1, 2019, with modified retrospective restatement for each reporting period presented at the time of adoption. Early adoption is also permitted for this guidance.

In June 2016, the FASB issued guidance that changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance replaces the current incurred loss model with an expected loss approach, resulting in a more timely recognition of such losses. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g. loan commitments). Under the new guidance, an entity will recognize its estimate of expected credit losses as an allowance, as the guidance requires that financial assets be measured on an amortized cost basis and to be presented at the net amount expected to be collected. The guidance is effective for us beginning January 1, 2020, with early adoption permitted after December 2018. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

In August 2016, the FASB issued guidance that clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The areas addressed in the new guidance relate to debt prepayment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned and bank-owned life insurance policies, distributions received from equity method investments, beneficial interest in securitization transactions and separately identifiable cash flows and application of the predominance principle. The guidance is effective for us beginning January 1, 2018, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued guidance that requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents and amounts described as restricted cash or restricted cash equivalents. Under the new guidance, amounts described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The guidance is effective for us beginning January 1, 2018, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

3. Fair Value Measurements

Recurring Fair Value Measurements

COPT has a non-qualified elective deferred compensation plan for Trustees and certain members of our management team that permits participants to defer up to 00% 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 \$4.1 million as of June 30, 2017, 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 June 30, 2017, 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.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. As discussed in Note 6, we estimated the fair values of our investing receivables based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates

used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of debt fair values in Note 8, we estimated the fair value of our unsecured senior notes based on quoted market rates for publicly-traded debt (categorized within Level 2 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

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

COPT and Subsidiaries

The table below sets forth financial assets and liabilities of COPT and its subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2017 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 4,074	\$ —	\$ —	\$ 4,074
Other	71	—	—	71
Interest rate derivatives (2)	—	117	—	117
Total assets	\$ 4,145	\$ 117	\$ —	\$ 4,262
Liabilities:				
Deferred compensation plan liability (3)	\$ —	\$ 4,145	\$ —	\$ 4,145
Interest rate derivatives (3)	—	601	—	601
Total liabilities	\$ —	\$ 4,746	\$ —	\$ 4,746

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

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

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

COPLP and Subsidiaries

The table below sets forth financial assets and liabilities of COPLP and its subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2017 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Interest rate derivatives (1)	\$ —	\$ 117	\$ —	\$ 117
Liabilities:				
Interest rate derivatives (2)	\$ —	\$ 601	\$ —	\$ 601

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

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

Nonrecurring Fair Value Measurements

As part of our closing process for the first quarter of 2017, we conducted our quarterly review of our portfolio for indicators of impairment and found there to be no impairment losses.

As part of our closing process for the second quarter of 2017, we conducted our quarterly review of our portfolio for indicators of impairment. Further, we performed recoverability analyses for our properties classified as held for sale, which resulted in impairment losses of \$1.6 million. These impairment losses were primarily on properties in White Marsh, Maryland (“White Marsh”) (included in our Regional Office and Other segments) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell.

Changes in the expected future cash flows due to changes in our plans for specific properties (especially our expected holding period) could result in the recognition of impairment losses. In addition, because properties held for sale are carried at the lower of carrying value or estimated fair values less costs to sell, declines in their estimated fair values due to market conditions and other factors could result in the recognition of impairment losses.

The table below sets forth the fair value hierarchy of the valuation technique we used to determine nonrecurring fair value measurements of properties held for sale as of June 30, 2017 (dollars in thousands):

Description	Fair Values as of June 30, 2017			Total
	Quoted Prices in	Significant	Significant	
	Active Markets for	Other	Unobservable	
	Identical Assets	Observable Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Assets:				
Assets held for sale, net	\$ —	\$ —	\$ 50,003	\$ 50,003

The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above as of June 30, 2017 (dollars in thousands):

Valuation Technique	Fair Values on Measurement Date	Unobservable Input	Range (Weighted Average)
Discounted cash flow	\$ 47,537	Discount rate	9.0% - 10.5% (9.2%)
		Terminal capitalization rate	8.0% - 9.0% (8.1%)
Yield analyses	\$ 2,466	Investor yield requirement	9.0% (1)

(1) Only one fair value applied for this unobservable input.

4. Properties, Net

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

	June 30, 2017	December 31, 2016
Land	\$ 432,617	\$ 433,311
Buildings and improvements	3,010,765	2,944,905
Less: Accumulated depreciation	(755,208)	(706,385)
Operating properties, net	\$ 2,688,174	\$ 2,671,831

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

	June 30, 2017	December 31, 2016
Land	\$ 225,965	\$ 195,521
Development in progress, excluding land	220,420	206,010
Projects in development or held for future development	\$ 446,385	\$ 401,531

Our properties held for sale included:

- as of June 30, 2017: eight operating properties in White Marsh (included in our Regional Office and Other segments); one operating property in our Fort Meade/BW Corridor sub-segment; and land in White Marsh; and
- as of December 31, 2016: eight operating properties in White Marsh (included primarily in our Regional Office segment); one operating property in our Northern Virginia Defense/IT sub-segment; and land in White Marsh and Northern Virginia.

The table below sets forth the components of assets held for sale on our consolidated balance sheet for these properties (in thousands):

	June 30, 2017	December 31, 2016
Properties, net	\$ 47,397	\$ 85,402
Deferred rent receivable	1,831	4,241
Intangible assets on real estate acquisitions, net	338	338
Deferred leasing costs, net	1,326	3,636
Lease incentives, net	399	1,037
Assets held for sale, net	<u>\$ 51,291</u>	<u>\$ 94,654</u>

2017 Dispositions

On February 15, 2017, we completed the disposition of 3120 Fairview Park Drive, an operating property totaling 190,000 square feet in Falls Church, Virginia (in our Northern Virginia Defense/IT sub-segment), for \$39.0 million, with no gain recognized.

On June 9, 2017, we completed the disposition of 1334 Ashton Road, an operating property totaling 37,000 square feet in Hanover, Maryland (in our Fort Meade/BW Corridor sub-segment), for \$2.3 million, with no gain recognized.

We also sold land in the six months ended June 30, 2017 for \$14.3 million and recognized a gain on sale of \$4.2 million.

On July 28, 2017, we completed the disposition of our remaining assets in White Marsh (in our Regional Office and Other segments), including eight operating properties totaling 412,000 square feet, and land, for \$47.5 million.

2017 Construction Activities

During the six months ended June 30, 2017, we placed into service 295,000 square feet in three newly constructed properties (including a partially operational property) and 88,000 square feet in three redeveloped properties (including two partially operational properties). As of June 30, 2017, we had eight 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 (including two properties completed but held for future lease to the United States Government) and two office properties under redevelopment that we estimate will total 61,000 square feet upon completion.

5. Real Estate Joint Ventures

Consolidated Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of June 30, 2017 (dollars in thousands):

	Date Acquired	Nominal Ownership % as of 6/30/2017	Nature of Activity	June 30, 2017 (1)		
				Total	Encumbered	Total
				Assets	Assets	Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Development and operation of real estate (2)	\$ 157,624	\$ 77,269	\$ 50,225
M Square Associates, LLC	6/26/2007	50%	Development and operation of real estate (3)	67,789	45,756	46,580
Stevens Investors, LLC	8/11/2015	95%	Development of real estate (4)	62,382	—	22,953
				<u>\$ 287,795</u>	<u>\$ 123,025</u>	<u>\$ 119,758</u>

(1) Excludes amounts eliminated in consolidation.

(2) This joint venture's properties are in Huntsville, Alabama.

(3) This joint venture's properties are in College Park, Maryland.

(4) This joint venture's property is in Washington, DC. Our partner in this joint venture is entitled to receive an additional distribution from the joint venture of \$6.7 million that was reported in other liabilities on our consolidated balance sheet as of June 30, 2017 and paid in July 2017.

Unconsolidated Joint Venture

As of June 30, 2017, we owned a 50% interest in GI-COPT DC Partnership LLC (“GI-COPT”), a joint venture owning six triple-net leased, single-tenant data center properties in Virginia, that we account for using the equity method of accounting. As of June 30, 2017, we had an investment balance in GI-COPT of \$25.3 million. Our balance was \$17.4 million lower than our share of the joint venture’s equity due to a difference between our cost basis and our share of the underlying equity in the net assets upon formation of the joint venture; we are amortizing this basis difference into equity in income from unconsolidated entities over the lives of the underlying assets.

6. Investing Receivables

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

	June 30, 2017	December 31, 2016
Notes receivable from the City of Huntsville	\$ 51,578	\$ 49,258
Other investing loans receivable	3,020	3,021
	<u>\$ 54,598</u>	<u>\$ 52,279</u>

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 5) and carry an interest rate of 9.95%.

We did not have an allowance for credit losses in connection with our investing receivables as of June 30, 2017 or December 31, 2016. The fair value of these receivables approximated their carrying amounts as of June 30, 2017 and December 31, 2016.

7. Prepaid Expenses and Other Assets, Net

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

	June 30, 2017	December 31, 2016
Lease incentives, net	\$ 16,964	\$ 18,276
Prepaid expenses	11,972	24,432
Furniture, fixtures and equipment, net	5,303	5,204
Construction contract costs incurred in excess of billings	3,620	10,350
Deferred tax asset, net (1)	2,908	3,036
Non-real estate equity method investments	2,415	2,355
Deferred financing costs, net (2)	1,747	3,128
Other assets	4,418	5,983
Prepaid expenses and other assets, net	<u>\$ 49,347</u>	<u>\$ 72,764</u>

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

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

8. Debt, Net

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

	Carrying Value (1) as of		Stated Interest Rates as of June 30, 2017	Scheduled Maturity as of June 30, 2017
	June 30, 2017	December 31, 2016		
Mortgage and Other Secured Debt:				
Fixed rate mortgage debt (2)	\$ 152,449	\$ 154,143	3.82% - 7.87% (3)	2019-2026
Variable rate secured debt	13,283	13,448	LIBOR + 1.85% (4)	October 2020
Total mortgage and other secured debt	165,732	167,591		
Revolving Credit Facility	194,000	—	LIBOR + 0.875% to 1.60% (5)	May 2019
Term Loan Facilities (6)	348,283	547,494	LIBOR + 0.90% to 2.40% (7)	2020-2022
Unsecured Senior Notes				
3.600%, \$350,000 aggregate principal	347,338	347,128	3.60% (8)	May 2023
5.250%, \$250,000 aggregate principal	246,408	246,176	5.25% (9)	February 2024
3.700%, \$300,000 aggregate principal	298,080	297,843	3.70% (10)	June 2021
5.000%, \$300,000 aggregate principal	296,547	296,368	5.00% (11)	July 2025
Unsecured notes payable	1,346	1,401	0% (12)	2026
Total debt, net	\$ 1,897,734	\$ 1,904,001		

- (1) The carrying values of our debt other than the Revolving Credit Facility reflect net deferred financing costs of \$5.0 million as of June 30, 2017 and \$6.1 million as of December 31, 2016.
- (2) Certain 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 \$385,000 as of June 30, 2017 and \$422,000 as of December 31, 2016.
- (3) The weighted average interest rate on our fixed rate mortgage debt was 4.19% as of June 30, 2017.
- (4) The interest rate on our variable rate secured debt as of June 30, 2017 was 2.90%.
- (5) The weighted average interest rate on the Revolving Credit Facility was 2.39% as of June 30, 2017.
- (6) As of June 30, 2017, we have the ability to borrow an additional \$350.0 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. On May 1, 2017, we repaid \$200.0 million of the loan balance on a term loan scheduled to mature in 2020.
- (7) The weighted average interest rate on these loans was 2.75% as of June 30, 2017.
- (8) The carrying value of these notes reflects an unamortized discount totaling \$1.8 million as of June 30, 2017 and \$2.0 million as of December 31, 2016. 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 \$3.2 million as of June 30, 2017 and \$3.4 million as of December 31, 2016. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.
- (10) The carrying value of these notes reflects an unamortized discount totaling \$1.5 million as of June 30, 2017 and \$1.7 million as of December 31, 2016. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.
- (11) The carrying value of these notes reflects an unamortized discount totaling \$2.9 million as of June 30, 2017 and \$3.0 million as of December 31, 2016. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.
- (12) These notes carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling \$416,000 as of June 30, 2017 and \$460,000 as of December 31, 2016.

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

Certain of our debt instruments require that we comply with a number of restrictive financial covenants. As of June 30, 2017, we were compliant with these covenants.

We capitalized interest costs of \$1.6 million in the three months ended June 30, 2017, \$1.3 million in the three months ended June 30, 2016, \$3.1 million in the six months ended June 30, 2017 and \$3.1 million in the six months ended June 30, 2016.

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

	June 30, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	\$ 1,188,373	\$ 1,229,354	\$ 1,187,515	\$ 1,220,282
Other fixed-rate debt	153,795	155,581	155,544	156,887
Variable-rate debt	555,566	552,782	560,942	558,437
	<u>\$ 1,897,734</u>	<u>\$ 1,937,717</u>	<u>\$ 1,904,001</u>	<u>\$ 1,935,606</u>

9. Interest Rate Derivatives

The following table sets forth the key terms and fair values of our interest rate swap derivatives, each of which was designated as a cash flow hedge of interest rate risk (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					June 30, 2017	December 31, 2016
\$ 100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	\$ (408)	\$ (848)
13,402 (1)	1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	117	100
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(79)	(23)
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	(68)	48
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	(46)	10
100,000 (2)	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	—	(701)
					<u>\$ (484)</u>	<u>\$ (1,414)</u>

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

(2) We cash settled this derivative and interest accrued thereon for \$460,000 on May 1, 2017. Since the hedged transactions associated with this derivative were still probable to occur as of the settlement date, amounts in accumulated other comprehensive loss ("AOCL") associated with this derivative will be reclassified to interest expense through August 2019.

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	
		June 30, 2017	December 31, 2016
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets	\$ 117	\$ 158
Interest rate swaps designated as cash flow hedges	Other liabilities	(601)	(1,572)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Unrealized loss recognized in AOCL (effective portion)	\$ (1,800)	\$ (5,704)	\$ (1,576)	\$ (16,988)
Loss reclassified from AOCL into interest expense (effective portion)	(853)	(850)	(2,037)	(1,720)
(Loss) gain on derivatives recognized in interest expense (ineffective portion)	(356)	(319)	98	(1,870)
Loss reclassified from AOCL into interest expense (ineffective portion) (1)	(88)	—	(88)	—

(1) Represents a loss recognized on certain interest rate swaps from the accelerated reclassification of amounts in AOCL in the three and six months ended June 30, 2017, when we concluded that hedged forecasted transactions were probable not to occur.

Over the next 12 months, we estimate that approximately \$1.9 million of losses will be reclassified from AOCL as an increase to interest expense.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on our derivative obligations. 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 June 30, 2017, the fair value of interest rate derivatives in a liability position related to these agreements was \$591,000, excluding the effects of accrued interest and credit valuation adjustments. As of June 30, 2017, 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 \$822,000.

10. Redeemable Noncontrolling Interests

Our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC (discussed further in Note 5), 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 table below sets forth the activity for these redeemable noncontrolling interests (in thousands):

	<u>For the Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 22,979	\$ 19,218
Contributions from noncontrolling interests	—	22,778
Distributions to noncontrolling interests	(789)	(20,989)
Net income attributable to noncontrolling interests	1,140	1,117
Adjustment to arrive at fair value of interests	401	349
Ending balance	<u>\$ 23,731</u>	<u>\$ 22,473</u>

11. Equity

During the six months ended June 30, 2017, COPT redeemed all of the outstanding shares of its following series of preferred shares:

- the 5.600% Series K Cumulative Redeemable Preferred Shares (the "Series K Preferred Shares"), redeemed effective January 21, 2017 at a price of \$50.00 per share, or \$26.6 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption. Concurrently with this redemption, COPLP redeemed its Series K Preferred Units on the same terms. Since we made an irrevocable notification to holders of the Series K Preferred Shares in December 2016 of our intention to redeem such shares, we presented the liquidation preference of the shares/units as a liability on the consolidated balance sheets of COPT and COPLP as of December 31, 2016; we also recognized a \$17,000 decrease to net income available to common shareholders/unitholders in the three months ended December 31, 2016 pertaining to the original issuance costs incurred on the shares/units; and
- the 7.375% Series L Cumulative Preferred Shares (the "Series L Preferred Shares"), redeemed effective June 27, 2017 at a price of \$25.00 per share, or \$172.5 million in the aggregate, plus accrued and unpaid dividends thereon up to but not including the date of redemption. Concurrently with this redemption, COPLP redeemed its Series L Preferred Units on the same terms. We also recognized a \$6.8 million decrease to net income available to common shareholders/unitholders in the three months ended June 30, 2017 pertaining to the original issuance costs incurred on the shares/units.

During the six months ended June 30, 2017, COPT issued 591,042 common shares at a weighted average price of \$33.84 per share under its existing at-the-market ("ATM") stock offering program. Net proceeds from the shares issued totaled \$19.7 million, after payment of \$300,000 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 this ATM program is an aggregate gross sales price of \$70.0 million in common share sales.

During the six months ended June 30, 2017, certain COPLP limited partners converted 187,000 common units in COPLP for an equal number of common shares in COPT.

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

12. Information by Business Segment

We have the following reportable segments: Defense/IT Locations; Regional Office; our operating wholesale data center; and other. We also report on Defense/IT Locations sub-segments, which include the following: Fort George G. Meade and the Baltimore/Washington Corridor (referred to herein as “Fort Meade/BW Corridor”); Northern Virginia Defense/IT Locations; Lackland Air Force Base (in San Antonio); locations serving the U.S. Navy (“Navy Support Locations”), which included properties proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia; Redstone Arsenal (in Huntsville); and data center shells (properties leased to tenants to be operated as data centers in which the tenants generally fund the costs for the power, fiber connectivity and data center infrastructure). We measure the performance of our segments through the measure we define as net operating income from real estate operations (“NOI from real estate operations”), which includes: real estate revenues and property operating expenses; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures (“UJVs”) that is allocable to COPT’s ownership interest (“UJV NOI allocable to COPT”). Amounts reported for segment assets represent long-lived assets associated with consolidated operating properties (including the carrying value of properties, intangible assets, deferred leasing costs, deferred rents receivable and lease incentives) and the carrying value of investments in UJVs owning operating properties. Amounts reported as additions to long-lived assets represent additions to existing consolidated operating properties, excluding transfers from non-operating properties, which we report separately.

The table below reports segment financial information for our reportable segments (in thousands):

	Operating Office Property Segments										
	Defense/Information Technology Locations						Regional Office	Operating Wholesale Data Center	Other	Total	
	Fort Meade/BW Corridor	Northern Virginia Defense/IT	Lackland Air Force Base	Navy Support Locations	Redstone Arsenal	Data Center Shells					
Three Months Ended June 30, 2017											
Revenues from real estate operations	\$ 61,284	\$ 11,095	\$ 13,029	\$ 7,449	\$ 3,624	\$ 5,800	\$ 102,281	\$ 17,462	\$ 7,033	\$ 1,521	\$ 128,297
Property operating expenses	(20,129)	(4,219)	(8,130)	(3,025)	(1,491)	(577)	(37,571)	(7,082)	(3,501)	(474)	(48,628)
UJV NOI allocable to COPT	—	—	—	—	—	1,294	1,294	—	—	—	1,294
NOI from real estate operations	\$ 41,155	\$ 6,876	\$ 4,899	\$ 4,424	\$ 2,133	\$ 6,517	\$ 66,004	\$ 10,380	\$ 3,532	\$ 1,047	\$ 80,963
Additions to long-lived assets	\$ 5,853	\$ 977	\$ 16	\$ 2,231	\$ 84	\$ —	\$ 9,161	\$ 4,018	\$ 2,005	\$ (29)	\$ 15,155
Transfers from non-operating properties	\$ 18,159	\$ 218	\$ —	\$ 466	\$ 1,709	\$ 26,215	\$ 46,767	\$ (25)	\$ —	\$ —	\$ 46,742
Three Months Ended June 30, 2016											
Revenues from real estate operations	\$ 60,912	\$ 12,057	\$ 11,651	\$ 6,998	\$ 3,191	\$ 7,288	\$ 102,097	\$ 23,283	\$ 6,804	\$ 1,740	\$ 133,924
Property operating expenses	(20,378)	(4,307)	(6,844)	(2,675)	(960)	(826)	(35,990)	(8,721)	(2,651)	(779)	(48,141)
NOI from real estate operations	\$ 40,534	\$ 7,750	\$ 4,807	\$ 4,323	\$ 2,231	\$ 6,462	\$ 66,107	\$ 14,562	\$ 4,153	\$ 961	\$ 85,783
Additions to long-lived assets	\$ 7,096	\$ 3,059	\$ —	\$ 2,233	\$ 301	\$ —	\$ 12,689	\$ 2,180	\$ —	\$ 153	\$ 15,022
Transfers from non-operating properties	\$ 768	\$ 27,944	\$ 231	\$ —	\$ 4	\$ 29,857	\$ 58,804	\$ 26	\$ (482)	\$ —	\$ 58,348
Six Months Ended June 30, 2017											
Revenues from real estate operations	\$ 122,139	\$ 22,802	\$ 24,663	\$ 14,459	\$ 7,084	\$ 11,322	\$ 202,469	\$ 35,738	\$ 13,803	\$ 3,054	\$ 255,064
Property operating expenses	(40,649)	(8,671)	(14,932)	(6,234)	(2,862)	(1,236)	(74,584)	(14,568)	(6,866)	(1,129)	(97,147)
UJV NOI allocable to COPT	—	—	—	—	—	2,592	2,592	—	—	—	2,592
NOI from real estate operations	\$ 81,490	\$ 14,131	\$ 9,731	\$ 8,225	\$ 4,222	\$ 12,678	\$ 130,477	\$ 21,170	\$ 6,937	\$ 1,925	\$ 160,509
Additions to long-lived assets	\$ 9,275	\$ 3,445	\$ 16	\$ 4,399	\$ 216	\$ —	\$ 17,351	\$ 11,138	\$ 3,579	\$ 127	\$ 32,195
Transfers from non-operating properties	\$ 31,575	\$ 440	\$ —	\$ 466	\$ 1,705	\$ 25,200	\$ 59,386	\$ (25)	\$ 8	\$ 18	\$ 59,387
Segment assets at June 30, 2017	\$1,267,635	\$ 357,747	\$130,431	\$195,732	\$ 109,586	\$230,557	\$2,291,688	\$ 435,399	\$ 229,224	\$ 19,350	\$2,975,661
Six Months Ended June 30, 2016											
Revenues from real estate operations	\$ 123,421	\$ 24,173	\$ 21,876	\$ 13,932	\$ 6,307	\$ 13,618	\$ 203,327	\$ 46,785	\$ 13,297	\$ 3,602	\$ 267,011
Property operating expenses	(43,624)	(8,848)	(12,264)	(6,199)	(1,938)	(1,636)	(74,509)	(18,552)	(5,312)	(1,643)	(100,016)
NOI from real estate operations	\$ 79,797	\$ 15,325	\$ 9,612	\$ 7,733	\$ 4,369	\$ 11,982	\$ 128,818	\$ 28,233	\$ 7,985	\$ 1,959	\$ 166,995
Additions to long-lived assets	\$ 13,615	\$ 6,137	\$ —	\$ 3,503	\$ 919	\$ —	\$ 24,174	\$ 4,939	\$ —	\$ 310	\$ 29,423
Transfers from non-operating properties	\$ 36,519	\$ 27,850	\$ 237	\$ —	\$ 215	\$ 55,954	\$ 120,775	\$ 108	\$ (431)	\$ (11)	\$ 120,441
Segment assets at June 30, 2016	\$1,305,769	\$ 424,441	\$133,359	\$195,195	\$ 106,810	\$256,276	\$2,421,850	\$ 594,750	\$ 237,226	\$ 35,291	\$3,289,117

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Segment revenues from real estate operations	\$ 128,297	\$ 133,924	\$ 255,064	\$ 267,011
Construction contract and other service revenues	23,138	12,003	36,172	23,223
Total revenues	\$ 151,435	\$ 145,927	\$ 291,236	\$ 290,234

The following table reconciles UJV NOI allocable to COPT to equity in income of unconsolidated entities as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
UJV NOI allocable to COPT	\$ 1,294	\$ —	\$ 2,592	\$ —
Less: Income from UJV allocable to COPT attributable to depreciation and amortization expense and interest expense	(575)	—	(1,147)	—
Add: Equity in (loss) income of unconsolidated non-real estate entities	(1)	10	(2)	20
Equity in income of unconsolidated entities	\$ 718	\$ 10	\$ 1,443	\$ 20

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Construction contract and other service revenues	\$ 23,138	\$ 12,003	\$ 36,172	\$ 23,223
Construction contract and other service expenses	(22,315)	(11,478)	(34,801)	(22,172)
NOI from service operations	\$ 823	\$ 525	\$ 1,371	\$ 1,051

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
NOI from real estate operations	\$ 80,963	\$ 85,783	\$ 160,509	\$ 166,995
NOI from service operations	823	525	1,371	1,051
Interest and other income	1,583	1,330	3,309	2,486
Equity in income of unconsolidated entities	718	10	1,443	20
Income tax (expense) benefit	(48)	(1)	(88)	7
Depreciation and other amortization associated with real estate operations	(32,793)	(33,248)	(65,852)	(67,775)
Impairment losses	(1,625)	(69,692)	(1,625)	(72,138)
General, administrative and leasing expenses	(7,859)	(8,026)	(16,470)	(19,909)
Business development expenses and land carry costs	(1,597)	(2,363)	(3,290)	(4,781)
Interest expense	(19,163)	(22,639)	(38,157)	(46,198)
Less: UJV NOI allocable to COPT included in equity in income of unconsolidated entities	(1,294)	—	(2,592)	—
(Loss) gain on early extinguishment of debt	(513)	5	(513)	22
Income (loss) before gain on sales of real estate	\$ 19,195	\$ (48,316)	\$ 38,045	\$ (40,220)

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

	June 30, 2017	June 30, 2016
Segment assets	\$ 2,975,661	\$ 3,289,117
Non-operating property assets	452,824	413,597
Other assets	146,402	138,978
Total COPT consolidated assets	\$ 3,574,887	\$ 3,841,692

The accounting policies of the segments are the same as those used to prepare our consolidated financial statements, except that discontinued operations and UJV NOI allocable to COPT 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) gain on early extinguishment of debt, gain on sales of real estate and equity in income of unconsolidated entities not included in NOI 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, administrative and leasing expenses, business development expenses and land carry costs, interest and other income, income taxes and noncontrolling interests because these items represent general corporate or non-operating property items not attributable to segments.

13. Share-Based Compensation and Other Compensation Matters

Performance Share Units (“PSUs”)

On January 1, 2017, our Board of Trustees granted 36,525 PSUs with an aggregate grant date fair value of \$1.4 million to executives. The PSUs have a performance period beginning on January 1, 2017 and concluding on the earlier of December 31, 2019 or the date of: (1) termination by us without cause, death or disability of the executive or constructive discharge of the executive (collectively, “qualified termination”); or (2) a sale event. The number of PSUs earned (“earned PSUs”) at the end of the performance period will be determined based on the percentile rank of COPT’s total shareholder return relative to a peer group of companies, as set forth in the following schedule:

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

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

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

If a performance period ends due to a sale event or qualified termination, the number of earned PSUs is prorated based on the portion of the three-year performance period that has elapsed. If employment is terminated by the employee or by us for cause, all PSUs are forfeited. PSUs do not carry voting rights. We computed a grant date fair value of \$38.43 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$31.22; expected volatility for COPT common shares of 19.0%; and a risk-free interest rate of 1.47%. We are recognizing the grant date fair value in connection with these PSU awards over the period commencing on January 1, 2017 and ending on December 31, 2019.

We issued 9,763 common shares on February 7, 2017 to Mr. Stephen E. Budorick, our Chief Executive Officer, in settlement of PSUs issued in 2014, representing 00% of the target award for those PSUs.

Restricted Shares

During the six months ended June 30, 2017, certain employees and non-employee members of our Board of Trustees were granted a total of 227,235 restricted common shares with an aggregate grant date fair value of \$7.7 million (weighted average of \$33.97 per share). Restricted shares granted to employees vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employees remain employed by us. Restricted shares granted to non-employee Trustees vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position. During the six months ended June 30, 2017, forfeiture restrictions lapsed on 144,006 previously issued common shares; these shares had a weighted average grant date fair value of \$26.22 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$4.9 million.

Deferred Share Awards

During the six months ended June 30, 2017, nonemployee members of our Board of Trustees were granted a total of 10,032 deferred share awards with an aggregate grant date fair value of \$326,000 (\$32.47 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). During the six months ended June 30, 2017, we issued 15,590 common shares in settlement of deferred share awards granted in 2016; these shares had a grant date fair value of \$26.89 per share, and the aggregate intrinsic value of the shares on the settlement date was \$508,000.

Options

During the six months ended June 30, 2017, 5,000 options to purchase common shares ("options") were exercised. The weighted average exercise price of these options was \$29.98 per share, and the aggregate intrinsic value of the options exercised was \$18,000.

14. 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.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income (loss) attributable to COPT	\$ 17,862	\$ (47,419)	\$ 39,217	\$ (40,593)
Preferred share dividends	(3,039)	(3,553)	(6,219)	(7,105)
Issuance costs associated with redeemed preferred shares	(6,847)	—	(6,847)	—
Income attributable to share-based compensation awards	(117)	(96)	(242)	(214)
Numerator for basic and diluted EPS on net income (loss) attributable to COPT common shareholders	<u>\$ 7,859</u>	<u>\$ (51,068)</u>	<u>\$ 25,909</u>	<u>\$ (47,912)</u>
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	99,036	94,300	98,725	94,251
Dilutive effect of share-based compensation awards	160	—	158	—
Denominator for diluted EPS (common shares)	<u>99,196</u>	<u>94,300</u>	<u>98,883</u>	<u>94,251</u>
Basic EPS:				
Net income (loss) attributable to COPT common shareholders	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>
Diluted EPS:				
Net income (loss) attributable to COPT common shareholders	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>

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

	Weighted Average Shares Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Conversion of common units	3,405	3,676	3,425	3,676
Conversion of Series I Preferred Units	176	176	176	176
Conversion of Series K Preferred Shares	—	434	—	434

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

- weighted average restricted shares and deferred share awards for the three months ended June 30, 2017 and 2016 of 455,000 and 403,000, respectively, and for the six months ended June 30, 2017 and 2016 of 424,000 and 404,000, respectively; and
- weighted average options for the three months ended June 30, 2017 and 2016 of 61,000 and 309,000, respectively, and for the six months ended June 30, 2017 and 2016 of 100,000 and 344,000, respectively.

COPLP and Subsidiaries EPU

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

- the denominator is increased to include: (1) the weighted average number of potential additional common units that would have been outstanding if securities that are convertible into our common units were converted; and (2) the effect of dilutive potential common units outstanding during the period attributable to share-based compensation using the treasury stock or if-converted methods; and

- the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion into common units that we added to the denominator.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income (loss) attributable to COPLP common unitholders	\$ 18,300	\$ (49,227)	\$ 40,454	\$ (42,110)
Preferred unit distributions	(3,204)	(3,718)	(6,549)	(7,435)
Issuance costs associated with redeemed preferred units	(6,847)	—	(6,847)	—
Income attributable to share-based compensation awards	(117)	(96)	(242)	(214)
Numerator for basic and diluted EPU on net income (loss) attributable to COPLP common unitholders	<u>\$ 8,132</u>	<u>\$ (53,041)</u>	<u>\$ 26,816</u>	<u>\$ (49,759)</u>
Denominator (all weighted averages):				
Denominator for basic EPU (common units)	102,441	97,976	102,150	97,927
Dilutive effect of share-based compensation awards	160	—	158	—
Denominator for diluted EPU (common units)	<u>102,601</u>	<u>97,976</u>	<u>102,308</u>	<u>97,927</u>
Basic EPU:				
Net income (loss) attributable to COPLP common unitholders	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>
Diluted EPU:				
Net income (loss) attributable to COPLP common unitholders	<u>\$ 0.08</u>	<u>\$ (0.54)</u>	<u>\$ 0.26</u>	<u>\$ (0.51)</u>

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

	Weighted Average Units Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Conversion of Series I preferred units	176	176	176	176
Conversion of Series K preferred units	—	434	—	434

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

- weighted average restricted units and deferred share awards for the three months ended June 30, 2017 and 2016 of 455,000 and 403,000, respectively, and for the six months ended June 30, 2017 and 2016 of 424,000 and 404,000, respectively; and
- weighted average options for the three months ended June 30, 2017 and 2016 of 61,000 and 309,000, respectively, and for the six months ended June 30, 2017 and 2016 of 100,000 and 344,000, respectively.

15. 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 \$1.4 million liability through June 30, 2017 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 June 30, 2017 follow (in thousands):

Year Ending December 31,	
2017 (1)	\$ 634
2018	1,257
2019	1,240
2020	1,232
2021	1,231
Thereafter	85,744
	<u>\$ 91,338</u>

(1) Represents the six months ending December 31, 2017.

Capital Lease

On May 25, 2017, we entered into a ground lease on land under development in Washington, D.C. for our Stevens Investors, LLC joint venture. The lease has a 99-year term, and we possess an option to purchase the property for one dollar (estimated to occur between 2019 and 2020). Upon inception of the lease, we recorded a \$16.1 million capital lease liability on our consolidated balance sheets based on the present value of the future minimum rental payments. Future minimum rental payments due under the term of this lease as of June 30, 2017 follow (in thousands):

Year Ending December 31,	
2017 (1)	\$ 700
2018	15,775
2020	135
Thereafter	75
Total minimum rental payments	<u>\$ 16,685</u>
Less: Amount representing interest	(508)
Capital lease obligation	<u>\$ 16,177</u>

(1) Represents the six months ending December 31, 2017.

Contractual Obligations

We had amounts remaining to be incurred under various contractual obligations as of June 30, 2017 that included the following:

- new development and redevelopment obligations of \$53.3 million;

- capital expenditures for operating properties of \$50.7 million;
- third party construction and development of \$65.1 million; and
- other obligations of \$1.2 million.

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 limited to \$19 million in the aggregate. We have insurance coverage in place to mitigate much of any potential future losses that may result from these indemnification agreements.

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

Overview

During the six months ended June 30, 2017:

- we finished the period with occupancy of our portfolio of operating office properties at 93.0%, including six properties owned through an unconsolidated real estate joint venture;
- we placed into service an aggregate of 383,000 square feet in six newly constructed or redeveloped properties that were 79% leased as of June 30, 2017;
- we sold two operating properties totaling 227,000 square feet that were 79.6% occupied for \$41.3 million and other land for \$14.3 million. The net proceeds from these sales were used primarily to fund cash reserves;
- we repaid \$200.0 million of the loan balance on a term loan scheduled to mature in 2020 using available cash;
- COPT redeemed all of the outstanding shares of its:
 - Series K Preferred Shares effective January 21, 2017 at a price of \$50.00 per share, or \$26.6 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption using available cash. Concurrently with this redemption, COPLP redeemed its Series K Preferred Units on the same terms; and
 - Series L Preferred Shares effective June 27, 2017 at a price of \$25.00 per share, or \$172.5 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption using borrowings from our Revolving Credit Facility. Concurrently with this redemption, COPLP redeemed its Series L Preferred Units on the same terms; and
- COPT issued 591,042 common shares at a weighted average price of \$33.84 per share under its ATM stock offering program. Net proceeds from the shares issued totaled \$19.7 million, which were used primarily to fund cash reserves.

On July 28, 2017, we completed the sale of our remaining assets in White Marsh, including eight operating properties totaling 412,000 square feet, and land, for \$47.5 million. The net proceeds from this sale were used primarily to repay borrowings under our Revolving Credit Facility.

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

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

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

You should refer to our consolidated financial statements and the notes thereto as you read this section.

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

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to borrow on favorable terms;

- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares;
- our ability to achieve projected results;
- and
- environmental requirements.

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

Occupancy and Leasing

Office Properties

The tables below set forth occupancy information pertaining to our portfolio of operating office properties, which included six properties owned through an unconsolidated real estate joint venture:

	June 30, 2017	December 31, 2016
Occupancy rates at period end		
Total	93.0%	92.1%
Defense/IT Locations:		
Fort Meade/BW Corridor	94.6%	94.3%
Northern Virginia Defense/IT	86.5%	85.0%
Lackland Air Force Base	100.0%	100.0%
Navy Support Locations	81.9%	72.7%
Redstone Arsenal	98.7%	96.4%
Data Center Shells	100.0%	100.0%
Total Defense/IT Locations	94.0%	92.6%
Regional Office	93.0%	95.2%
Other	52.9%	52.9%
Average contractual annual rental rate per square foot at period end (1)	\$ 30.06	\$ 30.16

(1) Includes estimated expense reimbursements. Amounts reported include the portion of properties owned through an unconsolidated real estate joint venture that was allocable to our ownership interest.

	Rentable Square Feet	Occupied Square Feet
	(in thousands)	
December 31, 2016	17,190	15,831
Square feet vacated	—	(213)
Occupancy of previously vacated space in connection with new leases (1)	—	298
Square feet constructed or redeveloped	383	371
Dispositions	(227)	(181)
Square feet removed from operations for redevelopment	(22)	—
Other changes	(1)	5
June 30, 2017	<u>17,323</u>	<u>16,111</u>

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

During the six months ended June 30, 2017, we completed 1.1 million square feet of leasing, including 383,000 of construction and redevelopment space, and renewed 72.7% of the square footage of our lease expirations (including the effect of early renewals).

Occupancy of our Same Office Properties increased from 91.9% as of December 31, 2016 to 92.7% as of June 30, 2017.

Wholesale Data Center Property

Our 19.25 megawatt wholesale data center property had 16.9 megawatts leased as of June 30, 2017, a 2.0 megawatt increase relative to December 31, 2016.

Results of Operations

We evaluate the operating performance of our properties using NOI from real estate operations, our segment performance measure, which includes: real estate revenues and property operating expenses; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures (“UJVs”) that is allocable to COPT’s ownership interest (“UJV NOI allocable to COPT”). We view our NOI from real estate operations as comprising the following primary categories of operating properties:

- office properties continually owned and 100% operational throughout the current and prior year reporting periods, excluding properties held for sale. We define these as changes from “Same Office Properties”;
- constructed or redeveloped office properties placed into service that were not 100% operational throughout the current and prior year reporting periods;
- our wholesale data center;
- properties held for sale as of June 30, 2017; 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.

Since both of the measures discussed above exclude certain items includable in income before gain on sales of real estate, 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. A reconciliation of NOI from real estate operations and NOI from service operations to income before gain on sales of real estate reported on the consolidated statements of operations of COPT and subsidiaries is provided in Note 12 to our consolidated financial statements.

Comparison of Statements of Operations for the Three Months Ended June 30, 2017 and 2016

	For the Three Months Ended June 30,		
	2017	2016	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$ 128,297	\$ 133,924	\$ (5,627)
Construction contract and other service revenues	23,138	12,003	11,135
Total revenues	151,435	145,927	5,508
Expenses			
Property operating expenses	48,628	48,141	487
Depreciation and amortization associated with real estate operations	32,793	33,248	(455)
Construction contract and other service expenses	22,315	11,478	10,837
Impairment losses	1,625	69,692	(68,067)
General, administrative and leasing expenses	7,859	8,026	(167)
Business development expenses and land carry costs	1,597	2,363	(766)
Total operating expenses	114,817	172,948	(58,131)
Operating income (loss)	36,618	(27,021)	63,639
Interest expense	(19,163)	(22,639)	3,476
Interest and other income	1,583	1,330	253
(Loss) gain on early extinguishment of debt	(513)	5	(518)
Equity in income of unconsolidated entities	718	10	708
Income tax expense	(48)	(1)	(47)
Income (loss) before gain on sales of real estate	19,195	(48,316)	67,511
Gain on sales of real estate	12	—	12
Net income (loss)	\$ 19,207	\$ (48,316)	\$ 67,523

	For the Three Months Ended June 30,		
	2017	2016	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	\$ 88,734	\$ 86,787	\$ 1,947
Lease termination revenue	517	336	181
Tenant recoveries and other real estate operations revenue	24,432	22,956	1,476
Same Office Properties total revenues	113,683	110,079	3,604
Constructed and redeveloped properties placed in service	4,857	1,883	2,974
Wholesale data center	7,033	6,804	229
Properties held for sale	2,404	2,333	71
Dispositions	61	12,569	(12,508)
Other	259	256	3
	<u>128,297</u>	<u>133,924</u>	<u>(5,627)</u>
Property operating expenses			
Same Office Properties			
Constructed and redeveloped properties placed in service	(42,747)	(40,563)	(2,184)
Wholesale data center	(1,378)	(304)	(1,074)
Properties held for sale	(3,501)	(2,651)	(850)
Dispositions	(677)	(654)	(23)
Other	(43)	(3,750)	3,707
	<u>(282)</u>	<u>(219)</u>	<u>(63)</u>
	<u>(48,628)</u>	<u>(48,141)</u>	<u>(487)</u>
UJV NOI allocable to COPT	1,294	—	1,294
NOI from real estate operations			
Same Office Properties	70,936	69,516	1,420
Constructed and redeveloped properties placed in service	3,479	1,579	1,900
Wholesale data center	3,532	4,153	(621)
Properties held for sale	1,727	1,679	48
Dispositions	18	8,819	(8,801)
Other	1,271	37	1,234
	<u>\$ 80,963</u>	<u>\$ 85,783</u>	<u>\$ (4,820)</u>
Same Office Properties rent statistics			
Average occupancy rate	92.7%	91.6%	1.1%
Average straight-line rent per occupied square foot (1)	\$ 6.51	\$ 6.45	\$ 0.06

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

Our Same Office Properties pool consisted of 137 office properties, comprising 84.9% of our total operating office square footage as of June 30, 2017 (87.2% excluding the effect of properties held for sale). This pool of properties included the following changes from the pool used for purposes of comparing 2016 and 2015 in our 2016 Annual Report on Form 10-K: the addition of four properties placed in service that were 100% operational on or before January 1, 2016 and three properties acquired in 2015; and the removal of two properties reclassified to held for sale and one property reclassified as redevelopment in 2017. The increase in tenant recoveries and other real estate operations revenue and property operating expenses from our Same Office Properties was due primarily to an increase in operating expenses directly reimbursable from tenants.

Our NOI from constructed and redeveloped properties placed in service included 12 properties placed in service in 2016 and 2017.

NOI from Service Operations

	For the Three Months Ended June 30,		
	2017	2016	Variance
	(in thousands)		
Construction contract and other service revenues	\$ 23,138	\$ 12,003	\$ 11,135
Construction contract and other service expenses	22,315	11,478	10,837
NOI from service operations	<u>\$ 823</u>	<u>\$ 525</u>	<u>\$ 298</u>

Construction contract and other service revenue and expenses increased due primarily to a greater 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 an insignificant amount of operating income relative to our real estate operations.

Impairment Losses

As part of our closing process for the second quarter of 2017, we conducted our quarterly review of our portfolio for indicators of impairment. Further, we performed recoverability analyses for our properties classified as held for sale, which resulted in impairment losses of \$1.6 million. These impairment losses were primarily on properties in White Marsh (included in our Regional Office and Other segments) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell.

During the second quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering the refined investment strategy of our then newly-appointed Chief Executive Officer and the goals of an asset sales program and concluded that we would: (1) not hold our operating properties in Aberdeen, Maryland (“Aberdeen”) for the long-term; (2) sell specific properties in our Northern Virginia Defense/IT and Fort Meade/BW Corridor sub-segments; (3) not develop commercial properties on land in Frederick, Maryland; and (4) sell an operating property in Greater Philadelphia that had not previously been classified as held for sale. Accordingly, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

- \$34.4 million on operating properties in Aberdeen (included in our Other segment). After shortening our estimated holding period for these properties, we determined that the carrying amount of the properties would not likely be recovered from the operation and eventual dispositions of the properties during the shortened holding period. Accordingly, we adjusted the properties to their estimated fair value;
- \$14.1 million on operating properties in our Northern Virginia Defense/IT and Fort Meade/BW Corridor sub-segments that we reclassified to held for sale during the period whose carrying amounts exceeded their estimated fair values less costs to sell;
- \$8.2 million on land in Frederick, Maryland. We determined that the carrying amount of the land would not likely be recovered from its sale and adjusted the land to its estimated fair value;
- \$6.2 million on a property in Greater Philadelphia (included in our Regional Office segment) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell;
- \$4.4 million on land in Aberdeen. In performing our analysis related to the operating properties in Aberdeen, we determined that the weakening leasing and overall commercial real estate conditions in that market indicated that our land holdings in the market may be impaired. As a result, we determined that the carrying amount of the land was not recoverable and adjusted the land to its estimated fair value; and
- \$2.4 million primarily on land in Colorado Springs, Colorado and operating properties in White Marsh classified as held for sale whose carrying amounts exceeded their estimated fair values less costs to sell based on updated negotiations with prospective buyers.

Interest Expense

The decrease in interest expense included the effect of a 15% decrease in our average outstanding debt in the current period relative to the prior period.

Comparison of Statements of Operations for the Six Months Ended June 30, 2017 and 2016

	For the Six Months Ended June 30,		
	2017	2016	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$ 255,064	\$ 267,011	\$ (11,947)
Construction contract and other service revenues	36,172	23,223	12,949
Total revenues	291,236	290,234	1,002
Expenses			
Property operating expenses	97,147	100,016	(2,869)
Depreciation and amortization associated with real estate operations	65,852	67,775	(1,923)
Construction contract and other service expenses	34,801	22,172	12,629
Impairment losses	1,625	72,138	(70,513)
General, administrative and leasing expenses	16,470	19,909	(3,439)
Business development expenses and land carry costs	3,290	4,781	(1,491)
Total operating expenses	219,185	286,791	(67,606)
Operating income	72,051	3,443	68,608
Interest expense	(38,157)	(46,198)	8,041
Interest and other income	3,309	2,486	823
(Loss) gain on early extinguishment of debt	(513)	22	(535)
Equity in income of unconsolidated entities	1,443	20	1,423
Income tax (expense) benefit	(88)	7	(95)
Income (loss) before gain on sales of real estate	38,045	(40,220)	78,265
Gain on sales of real estate	4,250	—	4,250
Net income (loss)	\$ 42,295	\$ (40,220)	\$ 82,515

NOI from Real Estate Operations

	For the Six Months Ended June 30,		
	2017	2016	Variance
(Dollars in thousands, except per square foot data)			
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	\$ 177,222	\$ 172,331	\$ 4,891
Lease termination revenue	1,223	1,289	(66)
Tenant recoveries and other real estate operations revenue	48,294	46,808	1,486
Same Office Properties total revenues	226,739	220,428	6,311
Constructed and redeveloped properties placed in service	8,388	2,686	5,702
Wholesale data center	13,803	13,297	506
Properties held for sale	4,716	4,933	(217)
Dispositions	863	25,153	(24,290)
Other	555	514	41
	255,064	267,011	(11,947)
Property operating expenses			
Same Office Properties			
Constructed and redeveloped properties placed in service	(2,651)	(503)	(2,148)
Wholesale data center	(6,866)	(5,312)	(1,554)
Properties held for sale	(1,418)	(1,745)	327
Dispositions	(334)	(8,426)	8,092
Other	(770)	(427)	(343)
	(97,147)	(100,016)	2,869
UJV NOI allocable to COPT	2,592	—	2,592
NOI from real estate operations			
Same Office Properties	141,631	136,825	4,806
Constructed and redeveloped properties placed in service	5,737	2,183	3,554
Wholesale data center	6,937	7,985	(1,048)
Properties held for sale	3,298	3,188	110
Dispositions	529	16,727	(16,198)
Other	2,377	87	2,290
	\$ 160,509	\$ 166,995	\$ (6,486)
Same Office Properties rent statistics			
Average occupancy rate	92.5%	91.5%	1.0%
Average straight-line rent per occupied square foot (1)	\$ 13.03	\$ 12.83	\$ 0.20

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

Our NOI from constructed and redeveloped properties placed in service included 12 properties placed in service in 2016 and 2017.

NOI from Service Operations

	For the Six Months Ended June 30,		
	2017	2016	Variance
(in thousands)			
Construction contract and other service revenues	\$ 36,172	\$ 23,223	\$ 12,949
Construction contract and other service expenses	34,801	22,172	12,629
NOI from service operations	\$ 1,371	\$ 1,051	\$ 320

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

Impairment Losses

The decrease in impairment losses was attributable primarily to the losses described above for the three-month period ended June 30, 2016.

General, Administrative and Leasing Expenses

General, administrative and leasing expenses decreased due primarily to our recognition in the prior period of \$4.4 million in executive transition costs, representing mostly severance and termination benefits primarily in connection with executive departures, compared to \$730,000 in such costs recognized in the current period.

Interest Expense

The decrease in interest expense included \$1.9 million in hedge ineffectiveness on our interest rate swaps recognized in the prior period and the effect of a 13% decrease in our average outstanding debt in the current period relative to the prior period.

Gain on Sales of Real Estate

We recognized gain on sales of real estate of \$4.2 million in the current period in connection with a land sale (discussed further in Note 4 to our consolidated financial statements).

Funds from Operations

Funds from operations (“FFO”) is defined as net income computed using GAAP, excluding gains on sales of, and impairment losses on, previously depreciated operating properties, plus real estate-related depreciation and amortization. When multiple properties consisting of both operating and non-operating properties exist on a single tax parcel, we classify all of the gains on sales of, and impairment losses on, the tax parcel as all being for previously depreciated operating properties when most of the value of the parcel is associated with operating properties on the parcel. FFO also includes adjustments to net income for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. 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 net income 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; loss on interest rate derivatives; demolition costs on redevelopment properties; executive transition costs (including separation related compensation and replacement recruitment for Vice President level positions and above); and issuance costs associated with redeemed preferred shares. This measure also includes adjustments for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. We believe this to be a useful supplemental measure alongside Diluted FFO as it excludes gains and losses from certain investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) our operating performance. We believe that net income 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 this to be a useful supplemental measure alongside Diluted FFO per share as it excludes gains and losses from certain investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) our operating performance. 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 table appearing below sets forth the computation of the above stated measures for the three and six months ended June 30, 2017 and 2016, and provides reconciliations to the GAAP measures of COPT and subsidiaries associated with such measures:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars and shares in thousands, except per share data)			
Net income (loss)	\$ 19,207	\$ (48,316)	\$ 42,295	\$ (40,220)
Add Real estate-related depreciation and amortization	32,793	33,248	65,852	67,775
Add: Depreciation and amortization on UJV allocable to COPT	311	—	622	—
Add: Impairment losses on previously depreciated operating properties	1,610	55,124	1,610	55,971
Add: Gain on sales of previously depreciated operating properties	(12)	—	(31)	—
FFO	53,909	40,056	110,348	83,526
Less: Preferred share dividends	(3,039)	(3,553)	(6,219)	(7,105)
Less: Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Less: FFO allocable to other noncontrolling interests	(906)	(1,014)	(1,884)	(2,041)
Less: Issuance costs associated with redeemed preferred shares	(6,847)	—	(6,847)	—
Basic and diluted FFO allocable to share-based compensation awards	(185)	(130)	(401)	(296)
Basic and diluted FFO available to common share and common unit holders	\$ 42,767	\$ 35,194	\$ 94,667	\$ 73,754
Gain on sales of non-operating properties	—	—	(4,219)	—
Impairment losses on non-operating properties	15	14,568	15	16,167
Loss (gain) on interest rate derivatives	444	319	(9)	1,870
Loss (gain) on early extinguishment of debt	513	(5)	513	(22)
Issuance costs associated with redeemed preferred shares	6,847	—	6,847	—
Executive transition costs	31	247	730	4,384
Demolition costs on redevelopment properties	72	370	294	578
Diluted FFO comparability adjustments allocable to share-based compensation awards	(31)	(63)	(17)	(94)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$ 50,658	\$ 50,630	\$ 98,821	\$ 96,637
Weighted average common shares	99,036	94,300	98,725	94,251
Conversion of weighted average common units	3,405	3,676	3,425	3,676
Weighted average common shares/units - Basic FFO	102,441	97,976	102,150	97,927
Dilutive effect of share-based compensation awards	160	117	158	107
Weighted average common shares/units - Diluted FFO	102,601	98,093	102,308	98,034
Diluted FFO per share	\$ 0.42	\$ 0.36	\$ 0.93	\$ 0.75
Diluted FFO per share, as adjusted for comparability	\$ 0.49	\$ 0.52	\$ 0.97	\$ 0.99
Denominator for diluted EPS	99,196	94,300	98,883	94,251
Weighted average common units	3,405	3,676	3,425	3,676
Anti-dilutive EPS effect of share-based compensation awards	—	117	—	107
Denominator for diluted FFO per share measures	102,601	98,093	102,308	98,034

Property Additions

The table below sets forth the major components of our additions to properties for the six months ended June 30, 2017 (in thousands):

Construction, development and redevelopment	\$	102,688
Tenant improvements on operating properties		10,803 (1)
Capital improvements on operating properties		9,186
	\$	<u>122,677</u>

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

Cash Flows

Net cash flow provided by operating activities decreased \$6.7 million when comparing the six months ended June 30, 2017 and 2016 due primarily to higher lease incentive payments in the current period, partially offset by lower interest expense payments due to lower outstanding debt balances.

Net cash flow used in investing activities decreased \$45.3 million when comparing the six months ended June 30, 2017 and 2016 due primarily to an increase in property sales in 2017 relative to 2016.

Net cash flow used in financing activities in the six months ended June 30, 2017 was \$258.0 million, and included the following:

- redemption of preferred shares (or units) of \$199.1 million; and
- dividends and/or distributions to equity holders of \$66.0 million; offset in part by
- net proceeds from the issuance of common shares (or units) of \$19.8 million.

Net cash flow used in financing activities in the six months ended June 30, 2016 was \$67.2 million, and included the following:

- dividends and/or distributions to equity holders of \$61.5 million; and
- distributions to redeemable noncontrolling interests of \$14.3 million related primarily to distributions to our partner in Stevens Investors, LLC, as discussed in our 2016 Annual Report on Form 10-K; offset in part by
- net proceeds from debt borrowings of \$15.5 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 June 30, 2017, COPT owned 96.7% of the outstanding common units and none 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 8 of the notes to consolidated financial statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger COPT's guarantee obligations, then COPT will be required to fulfill its cash payment commitments under such guarantees. However, COPT's only significant asset is its investment in COPLP.

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

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

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

Liquidity and Capital Resources of COPLP

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions, to the extent they are pursued in the future. 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 June 30, 2017, we had \$10.6 million in cash and cash equivalents.

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 June 30, 2017, the maximum borrowing capacity under this facility totaled \$800.0 million, of which \$606.0 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.

The following table summarizes our contractual obligations as of June 30, 2017 (in thousands):

	For the Periods Ending December 31,							Total
	2017	2018	2019	2020	2021	Thereafter		
Contractual obligations (1)								
Debt (2)								
Balloon payments due upon maturity	\$ —	\$ —	\$ 194,000	\$ 112,132	\$ 300,000	\$ 1,276,829	\$ 1,882,961	
Scheduled principal payments	2,048	4,241	4,387	4,024	3,875	10,680	29,255	
Interest on debt (3)	36,596	72,921	69,645	66,170	58,389	116,900	420,621	
New development and redevelopment obligations (4)(5)	39,690	12,777	856	—	—	—	53,323	
Third-party construction and development obligations (5) (6)	27,232	37,848	—	—	—	—	65,080	
Capital expenditures for operating properties (5)(7)	18,162	23,367	9,207	—	—	—	50,736	
Capital lease obligation (principal and interest)	700	15,775	—	135	—	75	16,685	
Operating leases (8)	634	1,257	1,240	1,232	1,231	85,744	91,338	
Other obligations (8)	285	380	342	153	39	9	1,208	
Total contractual cash obligations	\$ 125,347	\$ 168,566	\$ 279,677	\$ 183,846	\$ 363,534	\$ 1,490,237	\$ 2,611,207	

- (1) The contractual obligations set forth in this table exclude property operations contracts that may be terminated with notice of one month or less and also exclude accruals and payables incurred (with the exclusion of debt) and therefore reflected in our reported liabilities.
- (2) Represents scheduled principal amortization payments and maturities only and therefore excludes net debt discounts and deferred financing costs of \$14.5 million. As of June 30, 2017, maturities included \$194.0 million in 2019 that may be extended to 2020, subject to certain conditions.
- (3) Represents interest costs for our outstanding debt as of June 30, 2017 for the terms of such debt. For variable rate debt, the amounts reflected above used June 30, 2017 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.
- (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 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 \$110 million on construction and development costs and approximately \$30 million on improvements to operating properties (including the commitments set forth in the table above) during the remainder of 2017. We expect to fund the construction and development costs using primarily 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 June 30, 2017, we were compliant with these covenants.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements during the six months ended June 30, 2017.

Inflation

Most of our tenants are obligated to pay their share of a property'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

See Note 2 to our consolidated financial statements for information regarding recent accounting pronouncements.

Item 3. 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 June 30, 2017 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

	For the Periods Ending December 31,						Total
	2017	2018	2019	2020	2021	Thereafter	
Debt:							
Fixed rate debt (1)	\$ 1,862	\$ 3,858	\$ 3,991	\$ 3,718	\$ 303,875	\$ 1,037,509	\$ 1,354,813
Weighted average interest rate	4.35%	4.37%	4.36%	3.96%	3.70%	4.47%	4.30%
Variable rate debt (2)	\$ 186	\$ 383	\$ 194,396	\$ 112,438	\$ —	\$ 250,000	\$ 557,403
Weighted average interest rate (3)	2.90%	2.90%	2.39%	2.51%	—%	2.86%	2.63%

- (1) Represents principal maturities only and therefore excludes net discounts and deferred financing costs of \$14.5 million.
- (2) As of June 30, 2017, maturities included \$194.0 million in 2019 that may be extended to 2020, subject to certain conditions.
- (3) The amounts reflected above used interest rates as of June 30, 2017 for variable rate debt.

The fair value of our debt was \$1.9 billion as of June 30, 2017. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$73 million as of June 30, 2017.

See Note 9 to our consolidated financial statements for information pertaining to interest rate swap contracts in place as of June 30, 2017 and their respective fair values.

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by \$401,000 in the six months ended June 30, 2017 if the applicable LIBOR rate was 1% higher.

Item 4. Controls and Procedures

COPT

- (a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2017 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

- (b) Change in Internal Control over Financial Reporting

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

COPLP

- (a) Evaluation of Disclosure Controls and Procedures

The Operating Partnership's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 15d-15(e) under the Exchange Act) as of June 30, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Operating Partnership's disclosure controls and procedures as of June 30, 2017 were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Operating Partnership in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods

specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Operating Partnership's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) **Change in Internal Control over Financial Reporting**

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

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our 2016 Annual Report on Form 10-K.

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

(a) During the three months ended June 30, 2017, 2,000 of COPLP's common units were exchanged for 2,000 COPT common shares in accordance with COPLP's Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

(b) Not applicable

(c) Not applicable

Item 3. Defaults Upon Senior Securities

(a) Not applicable

(b) Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits:

EXHIBIT NO.	DESCRIPTION
3.1	Amended and Restated Declaration of Trust of Corporate Office Properties Trust, as amended through May 2017 (filed herewith)
3.2	Amended and Restated Bylaws of Corporate Office Properties Trust, as amended through May 2017 (filed herewith) .
10.1	Corporate Office Properties Trust 2017 Omnibus Equity and Incentive Plan (included in Annex B to the Company’s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 27, 2017 and incorporated herein by reference) .
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) .
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).
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).

SIGNATURES

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

CORPORATE OFFICE PROPERTIES TRUST

/s/ Stephen E. Budorick
Stephen E. Budorick
President and Chief Executive Officer

/s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial Officer

Dated: July 31, 2017

CORPORATE OFFICE PROPERTIES, L.P.

By: Corporate Office Properties Trust,
its General Partner

/s/ Stephen E. Budorick
Stephen E. Budorick
President and Chief Executive Officer

/s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial Officer

Dated: July 31, 2017

CORPORATE OFFICE PROPERTIES TRUST

AMENDED AND RESTATED DECLARATION OF TRUST

(Reflecting amendments through May 2017)

This DECLARATION OF TRUST is made as of the date set forth above by the undersigned Trustee (as defined herein):

ARTICLE I
FORMATION

The Trust is a real estate investment trust within the meaning of Title 8. The Trust shall not be deemed to be a general partnership, limited partnership, joint venture, joint stock company or a corporation (but nothing herein shall preclude the Trust from being treated for tax purposes as an association under the Code).

ARTICLE II
NAME

The name of the Trust is:

Corporate Office Properties Trust

Under circumstances in which the Board of Trustees of the Trust (the "Board of Trustees" or "Board") determines that the use of the name of the Trust is not practicable, the Trust may use any other designation or name for the Trust.

ARTICLE III
PURPOSES AND POWERS

Section 3.1 Purposes. The purposes for which the Trust is formed are to invest in and to acquire, hold, manage, administer, control and dispose of property and interests (direct or indirect and of whatsoever nature) in and in respect of property, including, without limitation or obligation, engaging in business as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code").

Section 3.2 Powers. The Trust shall have all of the powers granted to real estate investment trusts by Title 8 and all other powers set forth in the Declaration of Trust which are not inconsistent with law and are appropriate to promote and attain the purposes set forth in the Declaration of Trust.

ARTICLE IV
RESIDENT AGENT

The name of the resident agent of the Trust in the State of Maryland is James J. Hanks, Jr., whose post office address is c/o Ballard Spahr Andrews & Ingersoll, 300 East Lombard Street, Baltimore, Maryland 21202. The resident agent is a citizen of and resides in the State of Maryland. The Trust may have such offices or places of business within or outside the State of Maryland as the Board of Trustees may from time to time determine.

ARTICLE V
BOARD OF TRUSTEES

Section 5.1 Powers. Subject to any express limitations contained in the Declaration of Trust or in the Bylaws, (a) the business and affairs of the Trust shall be managed under the direction of the Board of Trustees and (b) the Board shall have full, exclusive and absolute power, control and authority over any and all property of the Trust. The Board may take any action as in its sole judgment and discretion is necessary or appropriate to conduct the business and affairs of the Trust. The Declaration of Trust shall be construed with the presumption in favor of the grant of power and authority to the Board. Any construction of the Declaration of Trust or determination made in good faith by the Board concerning its powers and authority hereunder shall be conclusive. The enumeration and definition of particular powers of the Trustees included in the Declaration of Trust or in the Bylaws shall in no way be limited or restricted by reference to or inference from the terms of this or any other provision of the Declaration of Trust or the Bylaws or construed or deemed by inference or otherwise in any manner to exclude or limit the powers conferred upon the Board or the Trustees under the general laws of the State of Maryland or any other applicable laws.

The Board, without any action by the shareholders of the Trust, shall have and may exercise, on behalf of the Trust, without limitation, the power to terminate the status of the Trust as a real estate investment trust under the Code; to determine that compliance with any restriction or limitations on ownership and transfers of shares of the Trust's beneficial interest set forth in Article VII of the Declaration of Trust is no longer required in order for the Trust to qualify as a REIT; to adopt, amend and repeal Bylaws; to elect officers in the manner prescribed in the Bylaws; to solicit proxies from holders of shares of beneficial interest of the Trust; and to do any other acts and deliver any other documents necessary or appropriate to the foregoing powers.

Section 5.2 Number and Class. The number of Trustees (hereinafter the "Trustees") is nine (9), which number may be increased or decreased pursuant to the Bylaws of the Trust. The Trustees shall be elected at each annual meeting of shareholders in the manner provided in the Bylaws or, in order to fill any vacancy on the Board of Trustees, in the manner provided in the Bylaws. It shall not be necessary to list in the Declaration of Trust the names and addresses of any Trustees.

Section 5.3 Resignation, Removal or Death. Any Trustee may resign by written notice to the Board, effective upon execution and delivery to the Trust of such written notice or upon any future date specified in the notice. Subject to the rights of holders of one or more classes or series of Preferred Shares to elect one or more Trustees, a Trustee may be removed at any time, only for cause and only at a meeting of the shareholders, by the affirmative vote of the holders of not less than two-thirds of the Shares then outstanding and entitled to vote generally in the election of Trustees.

ARTICLE VI SHARES OF BENEFICIAL INTEREST

Section 6.1 Authorized Shares. The beneficial interest of the Trust shall be divided into shares of beneficial interest (the “Shares”). The Trust has authority to issue 150,000,000 shares of beneficial interest, consisting of 125,000,000 common shares of beneficial interest, \$0.01 par value per share (“Common Shares”), and 25,000,000 preferred shares of beneficial interest, \$0.01 par value per share (“Preferred Shares”). The Board of Trustees, without any action by the shareholders of the Trust, may amend the Declaration of Trust from time to time to increase or decrease the aggregate number of Shares or the number of Shares of any class that the Trust has authority to issue. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Sections 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified.

Section 6.2 Common Shares. Subject to the provisions of Article VII, each Common Share shall entitle the holder thereof to one vote on each matter upon which holders of Common Shares are entitled to vote. The Board of Trustees may reclassify any unissued Common Shares from time to time in one or more classes or series of Shares.

Section 6.3 Preferred Shares. The Board of Trustees may classify any unissued Preferred Shares and reclassify any previously classified but unissued Preferred Shares of any series from time to time, in one or more classes or series of Shares.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified Shares of any class or series, the Board of Trustees by resolution shall (a) designate that class or series to distinguish it from all other classes and series of Shares; (b) specify the number of Shares to be included in the class or series; (c) set, subject to the provisions of Article VII and subject to the express terms of any class or series of Shares outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Trust to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the “SDAT”). Any of the terms of any class or series of Shares set pursuant to clause (c) of this Section 6.4 may be made dependent upon facts ascertainable outside the Declaration of Trust (including the occurrence of any event, including a determination or action by the Trust or any other person or body) and may vary among holders

thereof, provided that the manner in which such facts or variations shall operate upon the terms of such class or series of Shares is clearly and expressly set forth in the articles supplementary filed with the SDAT.

Section 6.5 Authorization by Board of Share Issuance. The Board of Trustees may authorize the issuance from time to time of Shares of any class or series, whether now or hereafter authorized, or securities or rights convertible into Shares of any class or series, whether now or hereafter authorized, for such consideration (whether in cash, property, past or future services, obligation for future payment or otherwise) as the Board of Trustees may deem advisable (or without consideration in the case of a Share split or Share dividend), subject to such restrictions or limitations, if any, as may be set forth in the Declaration of Trust or the Bylaws of the Trust.

Section 6.6 Dividends and Distributions. The Board of Trustees may from time to time authorize and declare to shareholders such dividends or distributions, in cash or other assets of the Trust or in securities of the Trust or from any other source as the Board of Trustees in its discretion shall determine. The Board of Trustees shall endeavor to declare and pay such dividends and distributions as shall be necessary for the Trust to qualify as a real estate investment trust under the Code; however, shareholders shall have no right to any dividend or distribution unless and until authorized and declared by the Board. The exercise of the powers and rights of the Board of Trustees pursuant to this Section 6.6 shall be subject to the provisions of any class or series of Shares at the time outstanding. Notwithstanding any other provision in the Declaration of Trust, no determination shall be made by the Board of Trustees nor shall any transaction be entered into by the Trust which would cause any Shares or other beneficial interest in the Trust not to constitute “transferable shares” or “transferable certificates of beneficial interest” under Section 856(a)(2) of the Code or which would cause any distribution to constitute a preferential dividend as described in Section 562(c) of the Code.

Section 6.7 General Nature of Shares. All Shares shall be personal property entitling the shareholders only to those rights provided in the Declaration of Trust. The shareholders shall have no interest in the property of the Trust and shall have no right to compel any partition, division, dividend or distribution of the Trust or of the property of the Trust. The death of a shareholder shall not terminate the Trust. The Trust is entitled to treat as shareholders only those persons in whose names Shares are registered as holders of Shares on the beneficial interest ledger of the Trust.

Section 6.8 Fractional Shares. The Trust may, without the consent or approval of any shareholder, issue fractional Shares, eliminate a fraction of a Share by rounding up or down to a full Share, arrange for the disposition of a fraction of a Share by the person entitled to it, or pay cash for the fair value of a fraction of a Share.

Section 6.9 Declaration and Bylaws. All shareholders are subject to the provisions of the Declaration of Trust and the Bylaws of the Trust. Except as otherwise specifically required by law, the Trustees and the Shareholders shall each have the power to adopt, amend and modify the

Bylaws of the Trust in the manner set forth in the Bylaws as the same may be amended or modified from time to time.

Section 6.10 Divisions and Combinations of Shares. Subject to an express provision to the contrary in the terms of any class or series of beneficial interest hereafter authorized, the Board of Trustees shall have the power to divide or combine the outstanding shares of any class or series of beneficial interest, without a vote of shareholders.

ARTICLE VII RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Aggregate Share Ownership Limit. The term “Aggregate Share Ownership Limit” shall mean not more than 9.8 percent in value of the aggregate of the outstanding Equity Shares. The value of the outstanding Equity Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes hereof.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Charitable Trust. The term “Charitable Trust” shall mean any trust provided for in Section 7.3.1.

Code. The term “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

Common Share Ownership Limit. The term “Common Share Ownership Limit” shall mean not more than 9.8 percent (in value or in number of shares, whichever is more restrictive) of the aggregate of the outstanding Common Shares. The number and value of outstanding

Common Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes hereof.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Declaration of Trust. The term “Declaration of Trust” shall mean this Declaration of Trust as filed for record with the SDAT, and any amendments thereto.

Equity Shares. The term “Equity Shares” shall mean all classes or series of Shares, including, without limitation, Common Shares and Preferred Shares.

Excepted Holder. The term “Excepted Holder” shall mean a Permitted Holder or a shareholder of the Trust for whom an Excepted Holder Limit is created by this Article VII or by the Board of Trustees pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean, (i) in the case of Permitted Holders, the percentage limit established by the Board of Trustees prior to their becoming shareholders of the Trust, subject to adjustment pursuant to Sections 7.2.7 and 7.2.8 and (ii) in the case of any other Excepted Holder, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Trustees pursuant to Section 7.2.7, and subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Trustees pursuant to Section 7.2.7.

Initial Date. The term “Initial Date” shall mean the date upon which this Declaration of Trust containing this Article VII is filed for record with the SDAT.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding Equity Shares, the Closing Price for such Equity Shares on such date. The “Closing Price” on any date shall mean the last sale price for such Equity Shares, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Equity Shares, in either case as reported in the principal consolidated transaction reporting system with respect to the securities listed or admitted to trading on National Market or Small Cap tier of the Nasdaq Stock Market (“Nasdaq-NM”) or, if such Equity Shares are not listed or admitted to trading on the Nasdaq-NM, as reported on the principal consolidated transaction reporting system with respect to the principal national securities exchange on which such Equity Shares are listed or admitted to trading or, if such Equity Shares are not listed or admitted to trading on the Nasdaq-NM or any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the principal automated quotation system that may then be in use or, if such Equity Shares are not quoted by any such organization, the

average of the closing bid and asked prices as furnished by a professional market maker making a market in such Equity Shares selected by the Board of Trustees or, in the event that no trading price is available for such Equity Shares, the fair market value of Equity Shares, as determined in good faith by the Board of Trustees.

Permitted Holder. The term Permitted Holder shall mean Jay H. Shidler, Clay W. Hamlin, III, Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co. Investment Partnership I, L.P. and any corporation, partnership, trust, estate or other legal entity controlled by any of the foregoing persons (or jointly controlled by Messrs. Shidler and Hamlin).

Person. The term “Person” shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and a group to which an Excepted Holder Limit applies.

Prohibited Owner. The term “Prohibited Owner” shall mean, with respect to any purported Transfer, any Person who, but for the provisions of Section 7.2.1, would Beneficially Own or Constructively Own Equity Shares, and if appropriate in the context, shall also mean any Person who would have been the record owner of Equity Shares that the Prohibited Owner would have so owned.

REIT. The term “REIT” shall mean a real estate investment trust within the meaning of Section 856 of the Code.

Restriction Termination Date. The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Trustees determines that it is no longer in the best interests of the Trust to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of Equity Shares set forth herein is no longer required in order for the Trust to qualify as a REIT.

SDAT. The term “SDAT” shall mean the State Department of Assessments and Taxation of Maryland.

Transfer. The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Equity Shares or the right to vote or receive dividends on Equity Shares, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable for Equity Shares or any interest in Equity Shares or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive

Ownership of Equity Shares; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise; provided, however, that the term Transfer shall not include the initial issuance of Equity Shares in connection with the indirect merger of Corporate Office Properties Trust, Inc., a Minnesota corporation, with and into the Trust. The terms “Transferring” and “Transferred” shall have the correlative meanings.

Trustee. The term “Trustee” shall mean the Person unaffiliated with the Trust and a Prohibited Owner, that is appointed by the Trust to serve as trustee of the Charitable Trust.

Section 7.2 Equity Shares.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own Equity Shares in excess of the Aggregate Share Ownership Limit, (2) no Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own Common Shares in excess of the Common Share Ownership Limit and (3) no Excepted Holder shall Beneficially Own or Constructively Own Equity Shares in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own Equity Shares to the extent that such Beneficial or Constructive Ownership of Equity Shares would result in the Trust being “closely held” within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Trust owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Trust from such tenant would cause the Trust to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Notwithstanding any other provisions contained herein, any Transfer of Equity Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the Nasdaq-NM or any other national securities exchange or automated inter-dealer quotation system) that, if effective, would result in Equity Shares being beneficially owned by less than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

(b) Transfer in Trust. If any Transfer of Equity Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) occurs which, if

effective, would result in any Person Beneficially Owning or Constructively Owning Equity Shares in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of Equity Shares the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded to the nearest whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such Equity Shares; or

(ii) if the transfer to the Charitable Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of Equity Shares that otherwise would cause any Person to violate Section 7.2.1(a)(i) or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

Section 7.2.2 Remedies For Breach. If the Board of Trustees or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any Equity Shares in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Trustees or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Trust to redeem Equity Shares, refusing to give effect to such Transfer on the books of the Trust or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfers or attempted Transfers or other events in violation of Section 7.2.1 shall automatically result in the transfer to the Charitable Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Trustees or a committee thereof.

Section 7.2.3 Notice of Restricted Transfer. Any Person who, as the result of a Transfer, attempted Transfer or intended Transfer acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of Equity Shares that will or may violate Section 7.2.1(a), or any Person who would have owned Equity Shares that resulted in a transfer to the Charitable Trust pursuant to the provisions of Section 7.2.1(b), shall immediately give written notice to the Trust of such event, or in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Trust such other information as the Trust may request in order to determine the effect, if any, of such Transfer on the Trust's status as a REIT.

Section 7.2.4 Owners Required to Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such other percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding

Equity Shares, within 30 days after the end of each taxable year, shall give written notice to the Trust stating the name and address of such owner, the number of Equity Shares and other Equity Shares Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Trust such additional information as the Trust may request in order to determine the effect, if any, of such Beneficial Ownership on the Trust's status as a REIT and to ensure compliance with the Aggregate Share Ownership Limit.

(b) each Person who is a Beneficial or Constructive Owner of Equity Shares and each Person (including the shareholder of record) who is holding Equity Shares for a Beneficial or Constructive Owner shall provide to the Trust such information as the Trust may request, in good faith, in order to determine the Trust's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.1 of the Declaration of Trust, nothing contained in this Section 7.2 shall limit the authority of the Board of Trustees to take such other action as it deems necessary or advisable to protect the Trust and the interests of its shareholders in preserving the Trust's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3 or any definition contained in Section 7.1, the Board of Trustees shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 or any such definition with respect to any situation based on the facts known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Trustees and the Declaration of Trust fails to provide specific guidance with respect to such action, the Board of Trustees shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3.

Section 7.2.7 Exceptions.

(a) Subject to Section 7.2.1(a)(ii), the Board of Trustees, in its sole discretion, may exempt a Person from the Aggregate Share Ownership Limit and the Common Share Ownership Limit, as the case may be, and may establish or increase an Excepted Holder Limit for a Person (including a Permitted Holder) if:

(i) the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such Equity Shares will violate Section 7.2.1(a)(ii);

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Trust (or a tenant of any entity owned or controlled by the Trust) that would cause the Trust to own, actually or Constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Trust (or an entity owned or controlled by the Trust) derives (and is expected to continue to derive) a sufficiently

small amount of revenue such that, in the opinion of the Board of Trustees, rent from such tenant would not adversely affect the Trust's ability to qualify as a REIT, shall not be treated as a tenant of the Trust); and

(iii) such Person agrees that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such Equity Shares being automatically transferred to a Charitable Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Trustees may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Trustees in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Trust's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Trustees may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) Subject to Section 7.2.1(a)(ii), an underwriter which participates in a public offering or a private placement of Equity Shares (or securities convertible into or exchangeable for Equity Shares) may Beneficially Own or Constructively Own Equity Shares (or securities convertible into or exchangeable for Equity Shares) in excess of the Aggregate Share Ownership Limit, the Common Share Ownership Limit or both such limits, but only to the extent necessary to facilitate such public offering or private placement.

(d) The Board of Trustees may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the Common Share Ownership Limit.

Section 7.2.8 Increase in Aggregate Share Ownership and Common Share Ownership Limits. The Board of Trustees may from time to time increase the Common Share Ownership Limit and the Aggregate Share Ownership Limit.

Section 7.2.9 Legend. Each certificate for Equity Shares shall bear substantially the following legend:

The shares represented by this Certificate are subject to restrictions on Beneficial Ownership, Constructive Ownership and Transfer for the purpose of the Trust's maintenance of its status as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Declaration of Trust of the Trust (i) no Person may Beneficially Own or Constructively Own Common Shares of the Trust in excess of 9.8 percent (in value or number of

shares) of the outstanding Common Shares of the Trust unless such Person is an Excepted Holder or a Permitted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially Own or Constructively Own Equity Shares of the Trust in excess of 9.8 percent of the value of the total outstanding Equity Shares of the Trust, unless such Person is an Excepted Holder or a Permitted Holder (in which case the Excepted Holder Limit shall be applicable); (iii) no Person may Beneficially Own or Constructively Own Equity Shares that would result in the Trust being “closely held” under Section 856(h) of the Code or otherwise cause the Trust to fail to qualify as a REIT; and (iv) no Person may Transfer Equity Shares if such Transfer would result in Equity Shares of the Trust being owned by fewer than 100 Persons. Any Person who Beneficially Owns or Constructively Owns or attempts to Beneficially Own or Constructively Own Equity Shares which cause or will cause a Person to Beneficially Own or Constructively Own Equity Shares in excess or in violation of the above limitations must immediately notify the Trust. If any of the restrictions on transfer or ownership are violated, the Equity Shares represented hereby will be automatically transferred to a Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries. In addition, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Declaration of Trust of the Trust, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Equity Shares of the Trust on request and without charge.

Instead of the foregoing legend, the certificate may state that the Trust will furnish a full statement about certain restrictions on transferability to a shareholder on request and without charge.

Section 7.3 Transfer of Equity Shares in Trust.

Section 7.3.1 Ownership In Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of Equity Shares to a Charitable Trust, such Equity Shares shall be deemed to have been transferred to the Trustee as trustee of a Charitable Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Trust and shall be a Person unaffiliated with the Trust and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Trust as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Equity Shares held by the Trustee shall be issued and outstanding Equity Shares of the Company. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Charitable Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to Equity Shares held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee shall be paid with respect to such Equity Shares to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Charitable Trust and, subject to Maryland law, effective as of the date that Equity Shares have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Company has already taken irreversible trust action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Trust has received notification that Equity Shares have been transferred into a Charitable Trust, the Trust shall be entitled to rely on its share transfer and other shareholder records for purposes of preparing lists of shareholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of shareholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Trust that Equity Shares have been transferred to the Charitable Trust, the Trustee of the Charitable Trust shall sell the shares held in the Charitable Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Charitable Trust (*e.g.*, in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Charitable Trust and (2) the price per share received by the Trustee from the sale or other disposition of the shares held in the Charitable Trust. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Charitable Trust and (ii) to the extent that the Prohibited Owner received an

amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Shares Transferred to the Trustee. Equity Shares transferred to the Trustee shall be deemed to have been offered for sale to the Trust, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Trust, or its designee, accepts such offer. The Trust shall have the right to accept such offer until the Trustee has sold the shares held in the Charitable Trust pursuant to Section 7.3.4. Upon such a sale to the Trust, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Trust shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Charitable Trust such that (i) Equity Shares held in the Charitable Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Section 7.4 Nasdaq-NM Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the Nasdaq-NM or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction is so permitted shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Trust is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Trust or the Board of Trustees in exercising any right hereunder shall operate as a waiver of any right of the Trust or the Board of Trustees, as the case may be, except to the extent specifically waived in writing.

ARTICLE VIII SHAREHOLDERS

Section 8.1 Meetings. There shall be an annual meeting of the shareholders, commencing with the calendar year 1999, to be held on proper notice at such time (after the delivery of the annual report) and convenient location as shall be determined by or in the manner prescribed in the Bylaws, for the election of the Trustees, if required, and for the transaction of any other business within the powers of the Trust. Except as otherwise provided in the Declaration of Trust or as specifically required by law, special meetings of shareholders may only be called in the manner provided in the Bylaws. If there are no Trustees, the officers of the

Trust shall promptly call a special meeting of the shareholders entitled to vote for the election of successor Trustees. Any meeting may be adjourned and reconvened as the Trustees determine or as provided in the Bylaws.

Section 8.2 Voting Rights. Subject to the provisions of any class or series of Shares then outstanding, the shareholders shall be entitled to vote only on the following matters: (a) election of Trustees as provided in Section 5.2 and the removal of Trustees as provided in Section 5.3; (b) amendment of the Declaration of Trust as provided in Article X; (c) termination of the Trust as provided in Section 10.3; (d) merger or consolidation of the Trust, or the sale or disposition of substantially all of the Trust Property, as provided in Article XI; and (e) such other matters with respect to which the Board of Trustees has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the shareholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the shareholders at any meeting or by consent shall in any way bind the Board of Trustees.

Section 8.3 Preemptive and Appraisal Rights. Except as may be provided by the Board of Trustees in setting the terms of classified or reclassified Shares pursuant to Section 6.4, no holder of Shares shall, as such holder, (a) have any preemptive right to purchase or subscribe for any additional Shares of the Trust or any other security of the Trust which it may issue or sell or (b), except as expressly required by Title 8, have any right to require the Trust to pay him the fair value of his Shares in an appraisal or similar proceeding.

Section 8.4 Extraordinary Actions. Except as specifically provided in Section 5.3 (relating to removal of Trustees), in Article X (relating to amendments to this Declaration of Trust), in Article XI (relating to mergers, consolidations or sales of trust property), and in Section 12.2 (relating to termination of the Trust) and except for any deletion or modification of the foregoing references in this Section 8.4, notwithstanding any provision of law permitting or requiring any action to be taken or authorized by the affirmative vote of the holders of a greater number of votes, any such action shall be effective and valid if taken or authorized by the affirmative vote of holders of Shares entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 8.5 Board Approval. The submission of any action to the shareholders for their consideration shall first be approved by the Board of Trustees.

Section 8.6 Action by Shareholders without a Meeting. The Bylaws of the Trust may provide that any action required or permitted to be taken by the shareholders may be taken without a meeting by the written consent of all shareholders entitled to cast votes on the matter.

ARTICLE IX
LIABILITY LIMITATION, INDEMNIFICATION
AND TRANSACTIONS WITH THE TRUST

Section 9.1 Limitation of Shareholder Liability. No shareholder shall be liable for any debt, claim, demand, judgment or obligation of any kind of, against or with respect to the Trust

by reason of his being a shareholder, nor shall any shareholder be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the property or the affairs of the Trust by reason of his being a shareholder.

Section 9.2 Limitation of Trustee and Officer Liability. To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of trustees and officers of a real estate investment trust, no Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages. Neither the amendment nor repeal of this Section 9.2, nor the adoption or amendment of any other provision of the Declaration of Trust inconsistent with this Section 9.2, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption. In the absence of any Maryland statute limiting the liability of trustees and officers of a Maryland real estate investment trust for money damages in a suit by or on behalf of the Trust or by any shareholder, no Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages except to the extent that (a) the Trustee or officer actually received an improper benefit or profit in money, property, or services, for the amount of the benefit or profit in money, property, or services actually received; or (b) a judgment or other final adjudication adverse to the Trustee or officer is entered in a proceeding based on a finding in the proceeding that the Trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Section 9.3 Indemnification. The Trust shall have the power, to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former shareholder, Trustee or officer of the Trust or (b) any individual who, while a Trustee of the Trust and at the request of the Trust, serves or has served as a director, officer, partner, trustee, employee or agent of another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his status as a present or former shareholder, Trustee or officer of the Trust. The Trust shall have the power, with the approval of its Board of Trustees, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust.

Section 9.4 Transactions Between the Trust and its Trustees, Officers, Employees and Agents. Subject to any express restrictions in the Declaration of Trust or adopted by the Trustees in the Bylaws or by resolution, the Trust may enter into any contract or transaction of any kind with any person, including any Trustee, officer, employee or agent of the Trust or any person affiliated with a Trustee, officer, employee or agent of the Trust, whether or not any of them has a financial interest in such transaction.

ARTICLE X
AMENDMENTS

Section 10.1 General. The Trust reserves the right from time to time to make any amendment to the Declaration of Trust, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Declaration of Trust, of any Shares. All rights and powers conferred by the Declaration of Trust on shareholders, Trustees and officers are granted subject to this reservation. An amendment to the Declaration of Trust (a) shall be signed and acknowledged by at least a majority of the Trustees, or an officer duly authorized by at least a majority of the Trustees, (b) shall be filed for record as provided in Section 13.5 and (c) shall become effective as of the later of the time the SDAT accepts the amendment for record or the time established in the amendment, not to exceed 30 days after the amendment is accepted for record. All references to the Declaration of Trust shall include all amendments thereto.

Section 10.2 By Trustees. The Trustees may amend the Declaration of Trust from time to time, in the manner provided by Title 8, without any action by the shareholders, to qualify as a real estate investment trust under the Code or under Title 8 and as otherwise provided in the Declaration of Trust.

Section 10.3 By Shareholders. Except as otherwise provided in the Declaration of Trust, any amendment to the Declaration of Trust shall be valid only if approved by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter.

ARTICLE XI
MERGER, CONSOLIDATION OR SALE OF TRUST PROPERTY

Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may (a) merge the Trust into another entity, (b) consolidate the Trust with one or more other entities into a new entity or (c) sell, lease, exchange or otherwise transfer all or substantially all of the Trust Property. Any such action must be approved by the Board of Trustees and, after notice to all shareholders entitled to vote on the matter, by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter.

ARTICLE XII
DURATION AND TERMINATION OF TRUST

Section 12.1 Duration. The Trust shall continue perpetually unless terminated pursuant to Section 12.2 or pursuant to any applicable provision of Title 8.

Section 12.2 Termination.

(a) Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may be terminated at any meeting of shareholders, by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter. Upon the termination of the Trust:

(i) The Trust shall carry on no business except for the purpose of winding up its affairs.

(ii) The Trustees shall proceed to wind up the affairs of the Trust and all of the powers of the Trustees under the Declaration of Trust shall continue, including the powers to fulfill or discharge the Trust's contracts, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining property of the Trust to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities and do all other acts appropriate to liquidate its business.

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and agreements as they deem necessary for their protection, the Trust may distribute the remaining property of the Trust among the shareholders so that after payment in full or the setting apart for payment of such preferential amounts, if any, to which the holders of any Shares at the time outstanding shall be entitled, the remaining property of the Trust shall, subject to any participating or similar rights of Shares at the time outstanding, be distributed ratably among the holders of Common Shares at the time outstanding.

(b) After termination of the Trust, the liquidation of its business and the distribution to the shareholders as herein provided, a majority of the Trustees shall execute and file with the Trust's records a document certifying that the Trust has been duly terminated, and the Trustees shall be discharged from all liabilities and duties hereunder, and the rights and interests of all shareholders shall cease.

ARTICLE XIII MISCELLANEOUS

Section 13.1 Governing Law. The Declaration of Trust is executed by the undersigned Trustees and delivered in the State of Maryland with reference to the laws thereof, and the rights of all parties and the validity, construction and effect of every provision hereof shall be subject to and construed according to the laws of the State of Maryland without regard to conflicts of laws provisions thereof.

Section 13.2 Reliance by Third Parties. Any certificate shall be final and conclusive as to any person dealing with the Trust if executed by the Secretary or an Assistant Secretary of the Trust or a Trustee, and if certifying to: (a) the number or identity of Trustees, officers of the Trust or shareholders; (b) the due authorization of the execution of any document; (c) the action or vote taken, and the existence of a quorum, at a meeting of the Board of Trustees or shareholders; (d) a copy of the Declaration of Trust or of the Bylaws as a true and complete copy as then in force; (e) an amendment to the Declaration of Trust; (f) the termination of the Trust; or (g) the

existence of any fact relating to the affairs of the Trust. No purchaser, lender, transfer agent or other person shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trust on its behalf or by any officer, employee or agent of the Trust.

Section 13.3 Severability.

(a) The provisions of the Declaration of Trust are severable, and if the Board of Trustees shall determine, with the advice of counsel, that any one or more of such provisions (the "Conflicting Provisions") are in conflict with the Code, Title 8 or other applicable federal or state laws, the Conflicting Provisions, to the extent of the conflict, shall be deemed never to have constituted a part of the Declaration of Trust, even without any amendment of the Declaration of Trust pursuant to Article X and without affecting or impairing any of the remaining provisions of the Declaration of Trust or rendering invalid or improper any action taken or omitted prior to such determination. No Trustee shall be liable for making or failing to make such a determination. In the event of any such determination by the Board of Trustees, the Board shall amend the Declaration of Trust in the manner provided in Section 10.2.

(b) If any provision of the Declaration of Trust shall be held invalid or unenforceable in any jurisdiction, such holding shall apply only to the extent of any such invalidity or unenforceability and shall not in any manner affect, impair or render invalid or unenforceable such provision in any other jurisdiction or any other provision of the Declaration of Trust in any jurisdiction.

Section 13.4 Construction. In the Declaration of Trust, unless the context otherwise requires, words used in the singular or in the plural include both the plural and singular and words denoting any gender include all genders. The title and headings of different parts are inserted for convenience and shall not affect the meaning, construction or effect of the Declaration of Trust. In defining or interpreting the powers and duties of the Trust and its Trustees and officers, reference may be made by the Trustees or officers, to the extent appropriate and not inconsistent with the Code or Title 8, to Titles 1 through 3 of the Corporations and Associations Article of the Annotated Code of Maryland. In furtherance and not in limitation of the foregoing, in accordance with the provisions of Title 3, Subtitles 6 and 7, of the Corporations and Associations Article of the Annotated Code of Maryland, the Trust shall be included within the definition of "corporation" for purposes of such provisions.

Section 13.5 Recordation. The Declaration of Trust and any amendment hereto shall be filed for record with the SDAT and may also be filed or recorded in such other places as the Trustees deem appropriate, but failure to file for record the Declaration of Trust or any amendment hereto in any office other than in the State of Maryland shall not affect or impair the validity or effectiveness of the Declaration of Trust or any amendment hereto. A restated Declaration of Trust shall, upon filing, be conclusive evidence of all amendments contained therein and may thereafter be referred to in lieu of the original Declaration of Trust and the various amendments thereto.

**AMENDED AND RESTATED
BYLAWS OF
CORPORATE OFFICE PROPERTIES TRUST
(THE "TRUST")**

(as amended and restated effective December 3, 2009, reflecting further amendments on December 13, 2012 and May 11, 2017)

ARTICLE I

OFFICES

Section 1. PRINCIPAL OFFICE. The principal office of the Trust in the State of Maryland shall be located at such place as the Trustees may designate.

Section 2. ADDITIONAL OFFICES. The Trust may have additional offices, including a principal executive office, at such places as the Board of Trustees may from time to time determine or the business of the Trust may require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. PLACE. All meetings of shareholders shall be held at the principal office of the Trust or at such other place as shall be set in accordance with these Bylaws and stated in the notice of the meeting.

Section 2. ANNUAL MEETING. An annual meeting of the shareholders for the election of Trustees and the transaction of any business within the powers of the Trust shall be held on the date and at the time and place set by the Trustees.

Section 3. SPECIAL MEETINGS.

(a) General. Each of the chairman of the board, chief executive officer, president and the Trustees may call a special meeting of the shareholders. Except as provided in subsection (b)(4) of this Section 3, a special meeting of shareholders shall be held on the date and at the time and place set by the chairman of the board, chief executive officer, president or Board of Trustees, whoever has called the meeting. Subject to subsection (b) of this Section 3, a special meeting of shareholders shall also be called by the secretary of the Trust to act on any matter that may properly be considered at a meeting of shareholders upon the written request of shareholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

(b) Shareholder-Requested Special Meetings.

(1) Any shareholder of record seeking to have shareholders request a special meeting shall, by sending written notice to the secretary (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Trustees to fix a record date to determine the shareholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more shareholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such shareholder (or such agent) and shall set forth the information required by paragraphs (a)(2) and (3) of this Section 13 with respect to a nomination of a candidate for election or re-election to the Board of Trustees (even if an election or re-election contest is not involved), or would otherwise be required in connection with such a solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"). Upon receiving the Record Date Request Notice, the Board of Trustees may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Trustees. If the Board of Trustees, within ten days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the tenth day after the first date on which a Record Date Request Notice is received by the secretary.

(2) In order for any shareholder to request a special meeting to act on any matter that may properly be considered at a meeting of shareholders, one or more written requests for a special meeting (collectively, the "Special Meeting Request") signed by shareholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority of all of the votes entitled to be cast on such matter at such meeting (the "Special Meeting Percentage") shall be delivered to the secretary. In addition, the Special Meeting Request shall (a) set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the secretary), (b) bear the date of signature of each such shareholder (or such agent) signing the Special Meeting Request, (c) set forth (i) the name and address, as they appear in the Trust's books, of each shareholder signing such request (or on whose behalf the Special Meeting Request is signed), (ii) the class, series and number of all shares of beneficial interest of the Trust which are owned beneficially or of record by each such shareholder, and (iii) the nominee holder for, and number of, shares of beneficial interest of the Trust owned beneficially but not of record by such shareholder, (d) be sent to the secretary by registered mail, return receipt requested, and (e) be received by the secretary within 60 days after the Request Record Date. Any requesting shareholder (or agent duly authorized in a writing accompanying the revocation or the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the secretary.

(3) The secretary shall inform the requesting shareholders of the reasonably estimated cost of preparing and mailing or delivering the notice of the meeting (including the Trust's proxy materials). The secretary shall not be required to call a special meeting upon shareholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (b)(2) of this Section 3, the secretary receives payment of such reasonably estimated cost prior to the preparation and mailing or delivery of such notice of the meeting.

(4) (A) In the case of any special meeting called by the secretary upon the request of shareholders (a "Shareholder Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Trustees; provided, however, that the date of any Shareholder Requested Meeting shall be not more than 90 days after the record date for such meeting (the "Meeting Record Date"), which record date in turn shall be not more than 30 days after the Delivery Date (as defined below); and provided further that if the Board of Trustees fails to designate, within ten days after the date that a valid Special Meeting Request is actually received by the secretary (the "Delivery Date"), a date and time for a Shareholder Requested Meeting, then such meeting shall be held at 2:00 p.m., local time, on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and provided further that in the event that the Board of Trustees fails to designate a place for a Shareholder Requested Meeting within ten days after the Delivery Date, then such meeting shall be held at the principal executive office of the Trust.

(B) In fixing a date for any special meeting, the chairman of the board, chief executive officer, president or Board of Trustees may consider such factors as he, she or it deems relevant, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Trustees to call an annual meeting or a special meeting. In the case of any Shareholder Requested Meeting, if the Board of Trustees fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date.

(5) If written revocations of the Special Meeting Request have been delivered to the secretary and the result is that shareholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting on the matter to the secretary: (i) if the notice of meeting has not already been delivered, the secretary shall refrain from delivering the notice of the meeting and send to all requesting shareholders who have not revoked such requests written notice of any revocation of a request for a special meeting on the matter, or (ii) if the notice of meeting has been delivered and if the secretary first sends to all requesting shareholders who have not revoked requests for a special meeting on the matter written notice of any revocation of a request for the special meeting and written notice of the Trust's intention to revoke the notice of the meeting or for the chairman of the meeting to adjourn the meeting without action on the matter, (A) the secretary may revoke the notice of the meeting at any time before ten days before the commencement of the meeting or (B) the chairman of the meeting may call the meeting to order and adjourn the meeting without acting on the matter. Any request

for a special meeting received after a revocation by the secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The chairman of the board, chief executive officer, president or Board of Trustees may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Trust for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the secretary. For the purpose of permitting the inspectors to perform such review, no such purported Special Meeting Request shall be deemed to have been delivered to the secretary until the earlier of (i) five Business Days after receipt by the secretary of such purported request and (ii) such date as the independent inspectors certify to the Trust that the valid requests received by the secretary represent, as of the Request Record Date, shareholders of record entitled to cast not less than the Special Meeting Percentage. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Trust or any shareholder shall not be entitled to contest the validity of any request, whether during or after such five Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

Section 4. NOTICE. Not less than ten nor more than 90 days before each meeting of shareholders, the secretary shall give to each shareholder entitled to vote at such meeting and to each shareholder not entitled to vote who is entitled to notice of the meeting notice in writing or by electronic transmission stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, by mail, by presenting it to such shareholder personally, by leaving it at the shareholder's residence or usual place of business or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the shareholder at the shareholder's address as it appears on the records of the Trust, with postage thereon prepaid. If transmitted electronically, such notice shall be deemed to be given when transmitted to the shareholder by an electronic transmission to any address or number of the shareholder at which the shareholder receives electronic transmissions. The Trust may give a single notice to all shareholders who share an address, which single notice shall be effective as to any shareholder at such address, unless a shareholder objects to receiving such single notice or revokes a prior consent to receiving such single notice. Failure to give notice of any meeting to one or more shareholders, or any irregularity in such notice, shall not affect the validity of any meeting fixed in accordance with this Article II or the validity of any proceedings at any such meeting.

The Trust may postpone or cancel a meeting of shareholders by making a "public announcement" (as defined in Section 13(c)(3) of this Article II) of such postponement or cancellation prior to the meeting. Notice of the date, time and place to which the meeting is postponed shall be given not less than ten days prior to such date and otherwise in the manner set forth in this section.

Section 5. SCOPE OF NOTICE. Subject to the requirements of Section 13 of this Article II, any business of the Trust may be transacted at an annual meeting of shareholders

without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business shall be transacted at a special meeting of shareholders except as specifically designated in the notice for such special meeting.

Section 6. ORGANIZATION. Every meeting of shareholders shall be conducted by an individual appointed by the Board of Trustees to be chairman of the meeting or, in the absence of such appointment or appointed individual, by the chairman of the board or, in the case of a vacancy in the office or absence of the chairman of the board, by one of the following officers present at the meeting in the following order: the vice chairman of the board, if there is one, the chief executive officer, the president, the chief operating officer, the chief financial officer, the secretary, or, in the absence of such officers, a chairman chosen by the shareholders by the vote of a majority of the votes cast by shareholders present in person or by proxy. The secretary, or, in the secretary's absence, an assistant secretary, or, in the absence of both the secretary and assistant secretaries, an individual appointed by the Board of Trustees or, in the absence of such appointment, an individual appointed by the chairman of the meeting shall act as secretary. In the event that the secretary presides as chairman at a meeting of shareholders, an assistant secretary, or, in the absence of all assistant secretaries, an individual appointed by the Board of Trustees or the chairman of the meeting, shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of shareholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of the chairman and without any action by the shareholders, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to shareholders of record of the Trust, their duly authorized proxies and such other individuals as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to shareholders of record of the Trust entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments; (e) determining when and for how long the polls should be opened and when the polls should be closed; (f) maintaining order and security at the meeting; (g) removing any shareholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; (h) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and (i) complying with any state and local laws and regulations concerning safety and security. Unless otherwise determined by the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 7. QUORUM. At any meeting of shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this section shall not affect any requirement under any statute or the Declaration of Trust of the Trust (the "Declaration of Trust") for the vote necessary for the approval of any matter. If such quorum is not established at any meeting of the shareholders, the chairman of the meeting may adjourn the meeting without specifying a date or from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be

present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 8. VOTING.

(a) In any election that is an Uncontested Election (as defined below), a nominee for Trustee shall be elected as a Trustee only if such nominee receives the affirmative vote of a majority of the total votes cast for and against such nominee at a meeting of shareholders duly called and at which a quorum is present. In any election other than an Uncontested Election, Trustees shall be elected by a plurality of votes cast at a meeting of shareholders duly called and at which a quorum is present. For purposes hereof, an “Uncontested Election” shall mean an election in which the number of nominees for election to the Board does not exceed the number of Trustees to be elected, determined as of a date that is 14 days in advance of the date the Trust files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission.

(b) When a quorum is present at any meeting, in an Uncontested Election, any nominee for Trustee who is currently serving on the Board of Trustees who receives a greater number of votes “withheld” from and “against” his or her election than votes “for” such election (a “Majority Withheld Vote”) shall promptly tender his or her resignation following certification of the shareholder vote. The Nominating and Corporate Governance Committee of the Board shall consider the resignation offer and recommend to the Board whether to accept the resignation. The Board will act on the Nominating and Corporate Governance Committee’s recommendation within 90 days following certification of the shareholder vote. Thereafter, the Board will promptly disclose its decision whether to accept the Trustee’s resignation offer (and the reasons for rejecting the resignation offer, if applicable) on a Current Report on Form 8-K. Any Trustee who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Corporate Governance Committee’s recommendation or the Board’s action regarding whether to accept the resignation offer. However, if each member of the Nominating and Corporate Governance Committee received a Majority Withheld Vote at the same election, then the independent Trustees who did not receive a Majority Withheld Vote shall appoint a committee among themselves to consider the resignation offers and recommend to the Board of Trustees whether to accept them. However, if the only Trustees who did not receive a Majority Withheld Vote in the same election constitute three or fewer Trustees, all Trustees may participate in the action regarding whether to accept the resignation offers.

(c) A majority of the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required herein, by statute or by the Declaration of Trust. Unless otherwise provided in the Declaration of Trust, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

(d) For purposes of this Section 8, abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for the purpose of determining the presence of a quorum.

Section 9. PROXIES. A shareholder may cast the votes entitled to be cast by the holder of the shares owned of record by the shareholder in person or by proxy executed by the shareholder or by the shareholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the secretary of the Trust before or at the meeting. No proxy shall be valid more than eleven months after its date, unless otherwise provided in the proxy.

Section 10. VOTING OF SHARES BY CERTAIN HOLDERS. Shares of the Trust registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, general partner, trustee or managing member thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such shares pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such shares. Any trustee or fiduciary may vote shares registered in the name of such person in the capacity of such trustee or fiduciary, either in person or by proxy.

Shares of the Trust directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Trustees may adopt by resolution a procedure by which a shareholder may certify in writing to the Trust that any shares registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date, the time after the record date within which the certification must be received by the Trust; and any other provisions with respect to the procedure which the Trustees consider necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the shareholder of record of the specified shares in place of the shareholder who makes the certification.

Notwithstanding any other provision contained herein or in the Declaration of Trust or these Bylaws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to any acquisition by any person of shares of the Trust. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

Section 11. INSPECTORS. The Trustees or the chairman of the meeting may appoint, before or at the meeting, one or more inspectors for the meeting and any successor to the inspector. The inspectors, if any, shall (i) determine the number of shares of beneficial interest

represented at the meeting in person or by proxy and the validity and effect of proxies, (ii) receive and tabulate all votes, ballots or consents, (iii) report such tabulation to the chairman of the meeting, (iv) hear and determine all challenges and questions arising in connection with the right to vote, and (v) do such acts as are proper to fairly conduct the election or vote. Each such report shall be in writing and signed by the inspector or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof..

Section 12. REPORTS TO SHAREHOLDERS.

The chief executive officer, or if there is no chief executive officer in office, the president or some other executive officer designated by the Trustees shall prepare annually a full and correct statement of the affairs of the Trust, which shall include a balance sheet and a financial statement of operations for the preceding fiscal year. The statement of affairs shall be submitted at the annual meeting of the shareholders and, within 20 days after the annual meeting of shareholders, placed on file at the principal office of the Trust.

Section 13. NOMINATIONS AND PROPOSALS BY SHAREHOLDERS.

(a) Annual Meetings of Shareholders.

(1) Nominations of persons for election or re-election to the Board of Trustees (“Nominations”) and the proposal of business to be considered by the shareholders (“Proposals”) may be made at an annual meeting of shareholders (i) pursuant to the Trust’s notice of meeting, (ii) by or at the direction of the Trustees or (iii) by any shareholder of the Trust who was a shareholder of record both at the time of giving of notice provided for in this Section 13(a) and at the time of the annual meeting, who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with the notice procedures set forth in this Section 13(a).

(2) For a Nomination or a Proposal to be properly brought before an annual meeting by a shareholder pursuant to clause (iii) of paragraph (a) (1) of this Section 13, the record holder of shares intending to make the Nomination or Proposal (the “Proponent”) must have given timely notice thereof in writing to the secretary of the Trust and such Nomination or Proposal must otherwise be a proper matter for action by shareholders. To be timely, a shareholder’s notice shall be delivered to the secretary at the principal offices of the Trust not later than 5:00 p.m., Eastern Time, on the 60th day nor earlier than the 90th day prior to the first anniversary of the date of the preceding year’s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year’s annual meeting, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than 5:00 p.m., Eastern Time, the later of the 60th day prior to the date of such annual meeting, as originally convened, or the tenth day following

the day on which public announcement of the date of such meeting is first made by the Trust. In no event shall the public announcement of a postponement or adjournment of an annual meeting to a later date or time commence a new time period for the giving of a shareholder's notice as described above.

A Proponent's notice shall set forth as to each Nomination or Proposal the Proponent proposes to bring before the annual meeting the following information:

- (i) in the case of a Proposal, a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of such Proponent or any Proponent Associated Person (as defined below), individually or in the aggregate, and in the case of a Nomination, the information described in paragraph (a)(3) of this Section 13 (including a completed and signed questionnaire, representation and agreement as required by paragraph (a)(3) of this Section 13);
- (ii) the name and address of the Proponent as it appears on the Trust's share transfer books, and of the beneficial owners (if any) of the shares registered in the Proponent's name, and the name and address of any Proponent Associated Person;
- (iii) the class, series and number of shares of the Trust that are, directly or indirectly, beneficially owned, held of record or represented by proxy by the Proponent and by any Proponent Associated Person, and a representation that the Proponent will notify the Trust in writing of the class and number of such shares that are, directly or indirectly, beneficially owned, held of record or represented by proxy by the Proponent and by any Proponent Associated Person promptly following the later of the record date or the date notice of the record date is first publicly disclosed;
- (iv) in the case of a Proposal, any material interest of, and any anticipated benefit to, the Proponent (and of the beneficial owners, if any, of the shares registered in the Proponent's name) and any Proponent Associated Person in such Proposal;
- (v) a description of any agreement, arrangement or understanding with respect to such Nomination or Proposal, as the case may be, between or among the Proponent and any of its affiliates or associates, and any Proponent Associated Person, and a representation that the Proponent will notify the Trust in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

- (vi) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the Proponent's notice by, or on behalf of, the Proponent (or the beneficial owners, if any, of the shares registered in the Proponent's name) or any Proponent Associated Person, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the Proponent or any Proponent Associated Person with respect to securities of (X) the Trust or (Y) any entity that was listed in a peer group in the Compensation Discussion and Analysis of the most recent proxy statement filed by the Trust with the Securities and Exchange Commission (a "Peer Group Company") and a representation that the Proponent will notify the Trust in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;
- (vii) a description of any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Trust), by security holdings or otherwise, of the Proponent, Nominee or any Proponent Associated Person, in the Trust, other than an interest arising from the ownership of shares of the Trust where the Proponent, Nominee or Proponent Associated Person receives no extra or special benefit not shared on a pro rata basis by all other holders of the same class or series;
- (viii) the investment strategy or objective, if any, of the Proponent and any Proponent Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in the Proponent and each such Proponent Associated Person;
- (ix) a representation that the Proponent is a holder of record of shares of the Trust entitled to vote at the annual meeting and that the Proponent or the beneficial owner (if any) of the shares registered in the Proponent's name intends to appear in person or by proxy at the meeting to present such Nomination or Proposal, as the case may be; and
- (x) in the case of a Proposal, a representation that the Proponent or the beneficial owner (if any) of the shares registered in the Proponent's name intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Trust's outstanding shares required to approve the Proposal and/or otherwise to solicit proxies from shareholders in support of the Proposal or a representation that the Proponent (or the

beneficial owners (if any) of the shares registered in the Proponent's name) does not intend to do so.

(3) With respect to each person whom the Proponent proposes to nominate for election or re-election as a Trustee (a "Nominee"), the Proponent's notice shall set forth the following information:

- (i) the name, age, business address and residence address of the Nominee;
- (ii) the principal occupation or employment of the Nominee;
- (iii) the class and number of the shares of the Trust which are owned of beneficially and of record by the Nominee on the date of the Proponent's notice;
- (iv) include a completed questionnaire signed by such nominee, with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Trust upon written request);
- (v) include a written representation and agreement (in the form provided by the Trust upon written request) that the Nominee (1) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the Nominee, if elected as a Trustee of the Trust, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed therein or (B) any Voting Commitment that could limit or interfere with the Nominee's ability to comply, if elected as a Trustee of the Trust, with the Nominee's standard of care under applicable law, (2) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Trust with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Trustee that has not been disclosed therein, and (3) in such nominee's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance with, if elected as a Trustee of the Trust, and will comply with, applicable law and all applicable publicly disclosed corporate governance, conflict of interest, corporate opportunities, confidentiality and share ownership and trading policies and guidelines of the Trust; and
- (vi) set forth such other information concerning the Nominee as would be required to be disclosed in a proxy statement soliciting proxies for the election of the Nominee as a Trustee in an election contest (even if an

election contest is not involved), or that is otherwise required to be disclosed, under the rules of the Securities and Exchange Commission.

The Trust may require any Nominee to furnish such other information as may reasonably be required by the Trust to determine the eligibility of such proposed Nominee to serve as an independent Trustee of the Trust or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such Nominee.

(4) Notwithstanding anything in the second sentence of paragraph (a) (2) of this Section 13 to the contrary, in the event that the number of Trustees to be elected to the Board of Trustees is increased and there is no public announcement by the Trust naming all of the nominees for Trustee or specifying the size of the increased Board of Trustees at least 70 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Section 13(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the Trust not later than the close of business on the tenth day following the day on which such public announcement is first made by the Trust.

(b) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Trust's notice of meeting. Nominations of persons for election to the Board of Trustees may be made at a special meeting of shareholders at which Trustees are to be elected (i) by or at the direction of the Board of Trustees or (ii) provided that the Board of Trustees has determined that Trustees shall be elected at such special meeting, by any shareholder of the Trust who was a shareholder of record both at the time of giving of notice provided for in this Section 13(b) and at the time of the special meeting, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 13(b). In the event the Trust calls a special meeting of shareholders for the purpose of electing one or more Trustees to the Board of Trustees, any such shareholder (also a "Proponent") may nominate a person or persons (as the case may be) for election as a Trustee (also a "Nominee") as specified in the Trust's notice of meeting, if the Proponent's notice containing the information required by paragraphs (a)(2) and (3) of this Section 13 with respect to a Nomination shall be delivered to the Secretary at the principal offices of the Trust not earlier than the 90th day prior to such special meeting and not later than 5:00 p.m., Eastern Time, on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the earlier of the date of the special meeting and or the nominees proposed by the Trustees to be elected at such meeting. In no event shall the public announcement of a postponement or adjournment of a special meeting to a later date or time commence a new time period for the giving of a Proponent's notice as described above.

(c) General.

(1) If information submitted pursuant to this Section 13 by any Proponent shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 13. Any Proponent shall notify the Trust of any inaccuracy or

change (within two Business Days (as defined below) of becoming aware of such inaccuracy or change) in any such information. Upon written request by the secretary or the Board of Trustees, any Proponent shall provide, within five Business Days after delivery of such request (or such other period as may be specified in such request), (A) written verification, satisfactory, in the discretion of the Board of Trustees or any authorized officer of the Trust, to demonstrate the accuracy of any information submitted by the shareholder pursuant to this Section 13 and (B) a written update of any information submitted by the Proponent pursuant to this Section 13 as of an earlier date. If a Proponent fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 13.

(2) Only such persons who are nominated in accordance with the procedures set forth in this Section 13 shall be eligible to serve as Trustees and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 13. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 13 and, if any proposed nomination or business is not in compliance with this Section 13, to declare that such nomination or proposal shall be disregarded.

(3) For purposes of this Section 13, (i) "Proponent Associated Person" of any shareholder shall mean (A) any person acting in concert with, the Proponent, (B) any beneficial owner of shares of beneficial interest of the Trust owned of record or beneficially by such shareholder (other than a shareholder that is a depository), (C) any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Proponent or Proponent Associated Person, and (D) any person known by the Proponent to be supporting the Proponent's position with respect to the Nomination or the Proposal, as the case may be, on the date of the Proponent's notice to the Secretary; (ii) "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Trust with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act; and (iii) "the date of the proxy statement" shall have the same meaning as "the date of the company's proxy statement released to shareholders" as used in Rule 14a-8(e) promulgated under the Exchange Act, as interpreted by the Securities and Exchange Commission from time to time.

(4) The requirements of this Section 13 shall apply to any business to be brought before an annual meeting by a shareholder, whether such business is to be included in the Trust's proxy statement pursuant to Rule 14a-8 of the Exchange Act or presented to shareholders by means of an independently financed proxy solicitation. Notwithstanding the foregoing provisions of this Section 13, a shareholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 13. Nothing in this Section 13 shall be deemed to affect any rights of shareholders to request inclusion of proposals in, or the right of the Trust to omit a

proposal from, the Trust's proxy statement pursuant to Rule 14a-8 under the Exchange Act. Nothing in this Section 13 shall require disclosure of revocable proxies received by the Proponent or any Proponent Associated Person pursuant to a solicitation of proxies after the filing of an effective Schedule 14A by the Proponent or any Proponent Associated Person under Section 14(a) of the Exchange Act.

Section 14. INFORMAL ACTION BY SHAREHOLDERS. Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth such action, is signed by each shareholder entitled to vote on the matter and any other shareholder entitled to notice of a meeting of shareholders (but not to vote thereat) has waived in writing any right to dissent from such action, and such consent and waiver are filed with the minutes of proceedings of the shareholders.

Section 15. VOTING BY BALLOT. Voting on any question or in any election may be viva voce unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

Section 16. DEFINITION OF BUSINESS DAY. For purposes of this Article II, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Maryland are authorized or obligated by law or executive order to close.

ARTICLE III

TRUSTEES

Section 1. GENERAL POWERS; QUALIFICATIONS; TRUSTEES HOLDING OVER. The business and affairs of the Board of Trust shall be managed under the direction of its Trustees. A Trustee shall be an individual at least 21 years of age who is not under legal disability. In case of failure to elect Trustees at an annual meeting of the shareholders, the Trustees holding over shall continue to direct the management of the business and affairs of the Trust until their successors are elected and qualify.

Section 2. NUMBER. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Trustees may establish, increase or decrease the number of Trustees. The tenure of office of a Trustee shall not be affected by any decrease in the number of Trustees. At each annual meeting of shareholders, Trustees elected to succeed those Trustees whose terms expire shall be elected for a term of office to expire at the next succeeding annual meeting of shareholders after their election.

Section 3. ANNUAL AND REGULAR MEETINGS. An annual meeting of the Trustees shall be held immediately after and at the same place as the annual meeting of shareholders, no notice other than this Bylaw being necessary. In the event such annual meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as

hereinafter provided for special meetings of the Trustees. The Trustees may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Trustees without other notice than such resolution.

Section 4. SPECIAL MEETINGS. Special meetings of the Trustees may be called by or at the request of the chairman of the board, the chief executive officer, the president or by a majority of the Trustees then in office. The person or persons authorized to call special meetings of the Trustees may fix any place, either within or without the State of Maryland, as the place for holding any special meeting of the Trustees called by them. The Trustees may provide, by resolution, the time and place for the holding of special meetings of the Trustees without other notice than such resolution.

Section 5. NOTICE. Notice of any special meeting shall be given by written notice delivered personally, by electronic transmission, by facsimile, by courier or overnight delivery service or mailed to each Trustee at his or her business or residence address. Personally delivered notices, or notices delivered by courier or overnight delivery service shall be given at least two days prior to the meeting. Notice by mail shall be given at least five days prior to the meeting. Telephone, electronic transmission or facsimile notice shall be given at least 24 hours prior to the meeting. If mailed, notice shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. If given by courier or overnight delivery service, notice shall be deemed to be given when delivered to the courier or overnight delivery service. Telephone notice shall be deemed given when the Trustee is personally given such notice in a telephone call to which he or she is a party. Electronic transmission and facsimile notice shall be deemed given upon completion of the transmission of the message to the number or e-mail or other electronic address or number given to the Trust by the Trustee and, with respect to a facsimile, confirmation of transmission or receipt. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Trustees need be stated in the notice, unless specifically required by statute or these Bylaws.

Section 6. QUORUM. A majority of the Trustees shall constitute a quorum for transaction of business at any meeting of the Trustees, provided that, if less than a majority of such Trustees is present at such meeting, a majority of the Trustees present may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to applicable law, the Declaration of Trust or these Bylaws, the vote of a majority or other percentage of a particular group of Trustees is required for action, a quorum must also include a majority or such other percentage of such group.

The Trustees present at a meeting which has been duly called and at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough Trustees to leave fewer than required to establish a quorum.

Section 7. VOTING. The action of a majority of the Trustees present at a meeting at which a quorum is present shall be the action of the Trustees, unless the concurrence of a greater proportion is required for such action by applicable law, the Declaration of Trust or these

Bylaws. If enough Trustees have withdrawn from a meeting to leave fewer than required to establish a quorum, but the meeting is not adjourned, the action of the majority of that number of Trustees necessary to constitute a quorum at such meeting shall be the action of the Trustees, unless the concurrence of a greater proportion is required for such action by applicable law, the Declaration of Trust or these Bylaws.

Section 8. TELEPHONE MEETINGS. Trustees may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 9. CONSENT BY TRUSTEES WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Trustees may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each Trustee and is filed with the minutes of proceedings of the Trustees.

Section 10. VACANCIES. If for any reason any or all the Trustees cease to be Trustees, such event shall not terminate the Trust or affect these Bylaws or the powers of the remaining Trustees hereunder (even if fewer than two Trustees remain). Any vacancy (including a vacancy created by an increase in the number of Trustees) shall be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the Trustees. Any individual so elected as Trustee shall hold office for the unexpired term of the Trustee he or she is replacing.

Section 11. COMPENSATION. Trustees shall not receive any stated salary for their services as Trustees but, by resolution of the Trustees, may receive compensation per year and/or per meeting and/or per visit to real property owned or to be acquired by the Trust and for any service or activity they performed or engaged in as Trustees. Trustees may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Trustees or of any committee thereof; and for their expenses, if any, in connection with each property visit and any other service or activity performed or engaged in as Trustees; but nothing herein contained shall be construed to preclude any Trustees from serving the Trust in any other capacity and receiving compensation therefor.

Section 12. REMOVAL OF TRUSTEES. The shareholders may, at any time, remove any Trustee only in the manner provided in the Declaration of Trust.

Section 13. LOSS OF DEPOSITS. No Trustee shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or shares have been deposited.

Section 14. SURETY BONDS. Unless required by law, no Trustee shall be obligated to give any bond or surety or other security for the performance of any of his or her duties.

Section 15. RELIANCE. Each Trustee and officer of the Trust shall, in the performance of his or her duties with respect to the Trust, be entitled to rely on any information, opinion,

report or statement, including any financial statement or other financial data, prepared or presented by an officer or employee of the Trust whom the Trustee or officer reasonably believes to be reliable and competent in the matters presented, by a lawyer, certified public accountant or other person, as to a matter which the Trustee or officer reasonably believes to be within the person's professional or expert competence, or, with respect to a Trustee, by a committee of the Trustees on which the Trustee does not serve, as to a matter within its designated authority, if the Trustee reasonably believes the committee to merit confidence.

Section 16. INTERESTED TRUSTEE TRANSACTIONS. Section 2-419 of the Maryland General Corporation Law (the "MGCL") shall be available for and apply to any contract or other transaction between the Trust and any of its Trustees or between the Trust and any other trust, corporation, firm or other entity in which any of its Trustees is a trustee or director or has a material financial interest.

Section 17. CERTAIN RIGHTS OF TRUSTEES, OFFICERS, EMPLOYEES AND AGENTS. The Trustees shall have no responsibility to devote their full time to the affairs of the Trust. Any Trustee or officer, employee or agent of the Trust (other than a full-time officer, employee or agent of the Trust), in his or her personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar or in addition to those of or relating to the Trust.

Section 18. RATIFICATION. The Trustees or the shareholders may ratify and make binding on the Trust any action or inaction by the Trust or its officers to the extent that the Trustees or the shareholders could have originally authorized the matter. Moreover, any action or inaction questioned in any shareholders' derivative proceeding or any other proceeding on the ground of lack of authority, defective or irregular execution, adverse interest of a Trustee, officer or shareholder, non-disclosure, miscomputation, the application of improper principles or practices of accounting, or otherwise, may be ratified, before or after judgment, by the Trustees or by the shareholders, and if so ratified, shall have the same force and effect as if the questioned action or inaction had been originally duly authorized, and such ratification shall be binding upon the Trust and its shareholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned action or inaction.

Section 19. EMERGENCY PROVISIONS. Notwithstanding any other provision in the Declaration of Trust or these Bylaws, this Section 19 shall apply during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Trustees under Article III of these Bylaws cannot readily be obtained (an "Emergency"). During any Emergency, unless otherwise provided by the Trustees, (i) a meeting of the Trustees or a committee thereof may be called by any Trustee or officer by any means feasible under the circumstances; (ii) notice of any meeting of the Trustees during such an Emergency may be given less than 24 hours prior to the meeting to as many Trustees and by such means as may be feasible at the time, including publication, television or radio, and (iii) the number of Trustees necessary to constitute a quorum shall be one-third of the entire Trustees.

ARTICLE IV

COMMITTEES

Section 1. NUMBER, TENURE AND QUALIFICATIONS. The Trustees may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and other committees, composed of one or more Trustees, to serve at the pleasure of the Trustees.

Section 2. POWERS. The Trustees may delegate to committees appointed under Section 1 of this Article any of the powers of the Trustees.

Section 3. MEETINGS. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another Trustee to act in the place of such absent member. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Trustees.

One-third, but not less than two (if there are two or more members of the committee), of the members of any committee shall be present in person at any meeting of such committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority present shall be the act of such committee. The Board of Trustees may designate a chairman of any committee, and such chairman or any two (if there are two or more members of the committee) members of any committee may fix the time and place of its meetings unless the Board shall otherwise provide. In the absence or disqualification of any member of any such committee, the members thereof present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another Trustee to act at the meeting in the place of such absent or disqualified members.

Each committee shall keep minutes of its proceedings and shall report the same to the Board of Trustees at the next succeeding meeting, and any action by the committee shall be subject to revision and alteration by the Board of Trustees, provided that no rights of third persons shall be affected by any such revision or alteration.

Section 4. TELEPHONE MEETINGS. Members of a committee of the Trustees may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 5. CONSENT BY COMMITTEES WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of a committee of the Trustees may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

Section 6. VACANCIES. Subject to the provisions hereof, the Board of Trustees shall have the power at any time to change the membership of any committee, to fill any vacancy, to

designate an alternate member to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE V

OFFICERS

Section 1. GENERAL PROVISIONS. The officers of the Trust shall include a president, a secretary and a treasurer and may include a chairman of the board, a vice chairman of the board, a chief executive officer, a chief operating officer, a chief financial officer, one or more vice presidents, one or more assistant secretaries and one or more assistant treasurers. In addition, the Trustees may from time to time elect such other officers with such powers and duties as they shall deem necessary or desirable. The officers of the Trust shall be elected by the Trustees, except that the chief executive officer or president may from time to time appoint one or more vice presidents, assistant secretaries and assistant treasurers or other officers. Each officer shall hold office until his or her successor is elected and qualifies or until his or her death, resignation or removal in the manner hereinafter provided. Any two or more offices except president and vice president may be held by the same person. In their discretion, the Trustees may leave unfilled any office except that of president and secretary. Election of an officer or agent shall not of itself create contract rights between the Trust and such officer or agent.

Section 2. REMOVAL AND RESIGNATION. Any officer or agent of the Trust may be removed, with or without cause, by the Trustees if in their judgment the best interests of the Trust would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Trust may resign at any time by delivering his or her resignation to the Trustees, the chairman of the board, the chief executive officer, the president or the secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Trust.

Section 3. VACANCIES. A vacancy in any office may be filled by the Trustees for the balance of the term.

Section 4. CHIEF EXECUTIVE OFFICER. The Trustees may designate a chief executive officer. The chief executive officer shall have general responsibility for implementation of the policies of the Trust, as determined by the Trustees, and for the management of the business and affairs of the Trust. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Trustees or by these Bylaws to some other officer or agent of the Trust or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of chief executive officer and such other duties as may be prescribed by the Trustees from time to time.

Section 5. CHIEF OPERATING OFFICER. The Trustees may designate a chief operating officer. The chief operating officer shall have the responsibilities and duties as determined by the Trustees or the chief executive officer.

Section 6. CHIEF FINANCIAL OFFICER. The Trustees may designate a chief financial officer. The chief financial officer shall have the responsibilities and duties as determined by the Trustees or the chief executive officer.

Section 7. CHAIRMAN AND VICE CHAIRMAN OF THE BOARD. The Trustees may designate from among its members a chairman of the board and a vice chairman of the board. The chairman of the board shall preside over the meetings of the Trustees. In the absence of the chairman of the board, the vice chairman of the board shall preside at such meetings at which he or she shall be present. The chairman of the board and the vice chairman of the board shall perform such other duties as may be assigned to him or her by the Trustees.

Section 8. PRESIDENT. In the absence of a chief executive officer, the president shall in general supervise and control all of the business and affairs of the Trust. In the absence of a designation of a chief operating officer by the Trustees, the president shall be the chief operating officer. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Trustees or by these Bylaws to some other officer or agent of the Trust or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Trustees from time to time.

Section 9. VICE PRESIDENTS. In the absence of the president or in the event of a vacancy in such office, the vice president (or in the event there is more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president; and shall perform such other duties as from time to time may be assigned to such vice president by the chief executive officer, chief operating officer, the president or the Trustees. The Trustees may designate one or more vice presidents as executive vice president, senior vice president, or as vice president for particular areas of responsibility.

Section 10. SECRETARY. The secretary shall (a) keep the minutes of the proceedings of the shareholders, the Trustees and committees of the Trustees in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the trust records and of the seal of the Trust; (d) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (e) have general charge of the share transfer books of the Trust; and (f) in general perform such other duties as from time to time may be assigned to him or her by the chief executive officer, the chief operating officer, the president or by the Trustees.

Section 11. TREASURER. The treasurer shall have the custody of the funds and securities of the Trust, shall keep full and accurate accounts of receipts and disbursements in

books belonging to the Trust, shall deposit all moneys and other valuable effects in the name and to the credit of the Trust in such depositories as may be designated by the Trustees and in general perform such other duties as from time to time may be assigned to him or her by the chief executive officer, the president or the Trustees. In the absence of a designation of a chief financial officer by the Trustees, the treasurer shall be the chief financial officer of the Trust.

The treasurer shall disburse the funds of the Trust as may be ordered by the Trustees, taking proper vouchers for such disbursements, and shall render to the president and Trustees, at the regular meetings of the Trustees or whenever it may so require, an account of all his or her transactions as treasurer and of the financial condition of the Trust.

Section 12. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or treasurer, respectively, or by the chief executive officer, the president or the Trustees.

Section 13. COMPENSATION. The compensation of the officers shall be fixed from time to time by or under the authority of the Trustees and no officer shall be prevented from receiving such compensation by reason of the fact that he or she is also a Trustee.

ARTICLE VI

CONTRACTS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Trustees may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Trust and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document executed by an authorized person shall be valid and binding upon the Trust when duly authorized or ratified by action of the Trustees.

Section 2. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Trust shall be signed by such officer or agent of the Trust in such manner as shall from time to time be determined by the Trustees.

Section 3. DEPOSITS. All funds of the Trust not otherwise employed shall be deposited or invested from time to time to the credit of the Trust as the Trustees, the chief executive officer, the chief financial officer, or any other officer designated by the Trustees may determine.

ARTICLE VII

SHARES

Section 1. CERTIFICATES. Except as may be otherwise provided by the Trustees, shareholders of the Trust are not entitled to certificates representing the shares of beneficial

interest held by them. In the event that the Trust issues shares of beneficial interest represented by certificates, such certificates shall be in such form as prescribed by the Trustees or a duly authorized officer, shall contain the statements and information required by the Maryland REIT Law (the "MRL") and shall be signed by the officers of the Trust in the manner permitted by the MRL. In the event that the Trust issues shares of beneficial interest without certificates, to the extent then required by the MRL, the Trust shall provide to the record holders of such shares a written statement of the information required by the MRL to be included on share certificates. There shall be no differences in the rights and obligations of shareholders based on whether or not their shares are represented by certificates.

Section 2. TRANSFERS. All transfers of shares shall be made on the books of the Trust, by the holder of the shares, in person or by his or her attorney, in such manner as the Trustees or any officer of the Trust may prescribe and, if such shares are certificated, upon surrender of certificates duly endorsed. The issuance of a new certificate upon the transfer of certificated shares is subject to the determination of the Trustees that such shares shall no longer be represented by certificates. Upon the transfer of any uncertificated shares, to the extent then required by the MRL, the Trust shall provide to record holders of such shares a written statement of the information required by the MRL to be included on share certificates.

The Trust shall be entitled to treat the holder of record of any share or shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Notwithstanding the foregoing, transfers of shares of beneficial interest of the Trust will be subject in all respects to the Declaration of Trust and all of the terms and conditions contained therein.

Section 3. REPLACEMENT CERTIFICATE. Any officer of the Trust may direct a new certificate to be issued in place of any certificate or certificates theretofore issued by the Trust alleged to have been lost, destroyed, stolen or mutilated, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, destroyed, stolen or mutilated; provided, however, if such shares have ceased to be certificated, no new certificate shall be issued unless requested in writing by such shareholder and the Trustees has determined that such certificates may be issued. Unless otherwise determined by an officer of the Trust, the owner of such lost, destroyed, stolen or mutilated certificate or certificates, or his or her legal representative, shall be required, as a condition precedent to the issuance of a new certificate or certificates, to give the Trust a bond in such sums as it may direct as indemnity against any claim that may be made against the Trust.

Section 4. FIXING OF RECORD DATE. The Trustees may set, in advance, a record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or determining shareholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of shareholders

for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of shareholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of shareholders of record is to be held or taken.

When a record date for the determination of shareholders entitled to notice of and to vote at any meeting of shareholders has been set as provided in this section, such record date shall continue to apply to the meeting if adjourned or postponed, except if the meeting is adjourned to a date more than 120 days or postponed to a date more than 90 days after the record date originally fixed for the meeting, in which case a new record date for such meeting may be determined as set forth herein.

Section 5. SHARE LEDGER. The Trust shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each shareholder and the number of shares of each class held by such shareholder.

Section 6. FRACTIONAL SHARES; ISSUANCE OF UNITS. The Trustees may authorize the Trust to issue fractional shares or authorize the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Declaration of Trust or these Bylaws, the Trustees may issue units consisting of different securities of the Trust. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Trust, except that the Trustees may provide that for a specified period securities of the Trust issued in such unit may be transferred on the books of the Trust only in such unit.

ARTICLE VIII

ACCOUNTING YEAR

The Trustees shall have the power, from time to time, to fix the fiscal year of the Trust by a duly adopted resolution.

ARTICLE IX

DISTRIBUTIONS

Section 1. AUTHORIZATION. Dividends and other distributions upon the shares of beneficial interest of the Trust may be authorized by the Trustees, subject to the provisions of law and the Declaration of Trust. Dividends and other distributions may be paid in cash, property or shares of the Trust, subject to the provisions of law and the Declaration of Trust.

Section 2. CONTINGENCIES. Before payment of any dividends or other distributions, there may be set aside out of any assets of the Trust available for dividends or other distributions such sum or sums as the Trustees may from time to time, in their absolute discretion, think

proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Trust or for such other purpose as the Trustees shall determine and the Trustees may modify or abolish any such reserve.

ARTICLE X

INVESTMENT POLICY

Subject to the provisions of the Declaration of Trust, the Board of Trustees may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Trust as it shall deem appropriate in its sole discretion.

ARTICLE XI

SEAL

Section 1. SEAL. The Trustees may authorize the adoption of a seal by the Trust. The seal shall have inscribed thereon the name of the Trust and the year of its formation. The Trustees may authorize one or more duplicate seals and provide for the custody thereof.

Section 2. AFFIXING SEAL. Whenever the Trust is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word “(SEAL)” adjacent to the signature of the person authorized to execute the document on behalf of the Trust.

ARTICLE XII

INDEMNIFICATION AND ADVANCE OF EXPENSES

To the maximum extent permitted by Maryland law in effect from time to time, the Trust shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former Trustee or officer of the Trust and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or (b) any individual who, while a Trustee or officer of the Trust and at the request of the Trust, serves or has served as a Trustee, director, officer, member, manager or partner of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. The rights to indemnification and advance of expenses provided by the Declaration of Trust and these Bylaws shall vest immediately upon election of a Trustee or officer. The Trust may, with the approval of its Trustees, provide such indemnification and advance for expenses to an individual who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust. The indemnification and payment or reimbursement of expenses provided in these Bylaws shall not be deemed exclusive of or limit in any way other rights to which any

person seeking indemnification or payment or reimbursement of expenses may be or may become entitled under any bylaw, resolution, insurance, agreement or otherwise.

Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Declaration of Trust or these Bylaws inconsistent with this Article, shall apply to or affect in any respect the applicability of the preceding paragraph with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

ARTICLE XIII

WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the Declaration of Trust or these Bylaws or pursuant to applicable law, a waiver thereof in writing or by electronic transmission, given by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

ARTICLE XIV

AMENDMENT OF BYLAWS

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

ARTICLE XV

MISCELLANEOUS

All references to the Declaration of Trust shall include all amendments and supplements thereto and any other documents filed with the State Department of Assessments and Taxation related thereto.

Corporate Office Properties Trust
Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
(Dollars in thousands)

	<u>Six Months Ended June 30, 2017</u>
Earnings:	
Income before equity in income of unconsolidated entities and income taxes	\$ 36,690
Gain on sales of real estate	4,250
Combined fixed charges and preferred share dividends (from below)	48,181
Amortization of capitalized interest	1,301
Distributed income of equity investees	750
Subtract:	
Capitalized interest (from below)	(3,142)
Preferred share dividends included in fixed charges	(6,219)
Preferred unit distributions included in fixed charges	(330)
Preferred distributions of other consolidated entities	(8)
Total earnings	<u>\$ 81,473</u>
Combined Fixed Charges and Preferred Share Dividends:	
Combined fixed charges and preferred share dividends:	
Interest expense	\$ 38,157
Capitalized interest (internal and external)	3,142
Interest included in rental expense	325
Preferred share dividends	6,219
Preferred unit distributions	330
Preferred distributions of other consolidated entities	8
Total combined fixed charges and preferred share dividends	<u>\$ 48,181</u>
Ratio of earnings to combined fixed charges and preferred share dividends	<u>1.69</u>

For purposes of calculating the above ratios, earnings were computed by adding fixed charges (excluding capitalized interest), gain on sales of real estate (excluding discontinued operations) amortization of capitalized interest and distributed income of equity investees to income before noncontrolling interests, equity in income of unconsolidated entities and income taxes. Fixed charges consist of interest costs and capitalized amortization of debt issuance costs.

Corporate Office Properties, L.P.

Ratio of Earnings to Fixed Charges

(Dollars in thousands)

	Six Months Ended June 30, 2017
Earnings:	
Income before equity in income of unconsolidated entities and income taxes	\$ 36,690
Gain on sales of real estate	4,250
Fixed charges (from below)	41,632
Amortization of capitalized interest	1,301
Distributed income of equity investees	750
Subtract:	
Capitalized interest (from below)	(3,142)
Preferred distributions of other consolidated entities	(8)
Total earnings	<u>\$ 81,473</u>
Fixed charges:	
Interest expense	\$ 38,157
Capitalized interest (internal and external)	3,142
Interest included in rental expense	325
Preferred distributions of other consolidated entities	8
Total fixed charges	<u>\$ 41,632</u>
Ratio of earnings to fixed charges	<u>1.96</u>

For purposes of calculating the above ratios, earnings were computed by adding fixed charges (excluding capitalized interest), gain on sales of real estate (excluding discontinued operations) amortization of capitalized interest and distributed income of equity investees to income before noncontrolling interests, equity in income of unconsolidated entities and income taxes. Fixed charges consist of interest costs and capitalized amortization of debt issuance costs.

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934CERTIFICATIONS

I, Stephen E. Budorick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corporate Office Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2017/s/ Stephen E. BudorickStephen E. Budorick
President and Chief Executive Officer

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATIONS

I, Anthony Mifsud, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corporate Office Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2017

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

CORPORATE OFFICE PROPERTIES, L.P.

CERTIFICATIONS REQUIRED BY
RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934CERTIFICATIONS

I, Stephen E. Budorick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corporate Office Properties, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2017

/s/ Stephen E. Budorick

Stephen E. Budorick

President and Chief Executive Officer

CORPORATE OFFICE PROPERTIES, L.P.

CERTIFICATIONS REQUIRED BY
RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934CERTIFICATIONS

I, Anthony Mifsud, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corporate Office Properties, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2017

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of Corporate Office Properties Trust (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen E. Budorick, President and Chief Executive Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen E. Budorick

Stephen E. Budorick

President and Chief Executive Officer

Date: July 31, 2017

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of Corporate Office Properties Trust (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Mifsud, Chief Financial Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

Date: July 31, 2017

CORPORATE OFFICE PROPERTIES, L.P.

CERTIFICATIONS REQUIRED BY

RULE 15d-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of Corporate Office Properties, L.P. (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen E. Budorick, President and Chief Executive Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen E. Budorick

Stephen E. Budorick

President and Chief Executive Officer

Date: July 31, 2017

CORPORATE OFFICE PROPERTIES, L.P.

CERTIFICATIONS REQUIRED BY

RULE 15d-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of Corporate Office Properties, L.P. (the "Company") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Mifsud, Chief Financial Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

Date: July 31, 2017