

---

---

**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, 2019**  
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**  
(Address of principal executive offices)

**21046**  
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of beneficial interest, \$0.01 par value	OFC	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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

Corporate Office Properties, L.P.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth 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 26, 2019, 111,949,887 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, 2019 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, 2019, COPT owned 98.6% of the outstanding common units in COPLP; the remaining common units and all of the outstanding COPLP preferred units 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 two operate as an interrelated, consolidated company. COPT is a REIT 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 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, 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 and limited liability companies (“LLCs”); 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 and LLCs. The only other

---

significant differences between the consolidated financial statements of COPT and those of COPLP are assets in connection with a non-qualified elective deferred compensation plan 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, investors and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense;
- and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:
  - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries;
  - Note 8, Prepaid Expenses and Other Assets, Net of COPT and subsidiaries and COPLP and subsidiaries;
  - and
  - Note 16, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries;
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT";
- and
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPLP."

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

---

TABLE OF CONTENTS

FORM 10-Q

	<u>PAGE</u>
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
<u>Item 1: Financial Statements:</u>	
<b><u>Consolidated Financial Statements of Corporate Office Properties Trust</u></b>	
<u>Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Equity for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>8</u>
<b><u>Consolidated Financial Statements of Corporate Office Properties, L.P.</u></b>	
<u>Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018 (unaudited)</u>	<u>10</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>11</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>12</u>
<u>Consolidated Statements of Equity for the Three and Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>13</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018 (unaudited)</u>	<u>15</u>
<b><u>Notes to Consolidated Financial Statements (unaudited)</u></b>	<u>17</u>
<u>Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 4: Controls and Procedures</u>	<u>52</u>
<b><u>PART II: OTHER INFORMATION</u></b>	
<u>Item 1: Legal Proceedings</u>	<u>53</u>
<u>Item 1A: Risk Factors</u>	<u>53</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>53</u>
<u>Item 3: Defaults Upon Senior Securities</u>	<u>54</u>
<u>Item 4: Mine Safety Disclosures</u>	<u>54</u>
<u>Item 5: Other Information</u>	<u>54</u>
<u>Item 6: Exhibits</u>	<u>55</u>
<b><u>SIGNATURES</u></b>	<u>56</u>

**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, 2019	December 31, 2018
<b>Assets</b>		
Properties, net:		
Operating properties, net	\$ 2,719,585	\$ 2,847,265
Projects in development or held for future development	474,787	403,361
Total properties, net	3,194,372	3,250,626
Property - operating right-of-use assets	27,434	—
Property - finance right-of-use assets	40,476	—
Assets held for sale, net	54,448	—
Cash and cash equivalents	46,282	8,066
Investment in unconsolidated real estate joint ventures	65,336	39,845
Accounts receivable	58,189	26,277
Deferred rent receivable	86,707	89,350
Intangible assets on real estate acquisitions, net	31,162	43,470
Deferred leasing costs (net of accumulated amortization of \$33,866 and \$31,994, respectively)	52,227	50,191
Investing receivables	70,656	56,982
Prepaid expenses and other assets, net	76,180	91,198
<b>Total assets</b>	<b>\$ 3,803,469</b>	<b>\$ 3,656,005</b>
<b>Liabilities and equity</b>		
Liabilities:		
Debt, net	\$ 1,784,362	\$ 1,823,909
Accounts payable and accrued expenses	152,196	92,855
Rents received in advance and security deposits	27,477	30,079
Dividends and distributions payable	31,346	30,856
Deferred revenue associated with operating leases	8,161	9,125
Property - operating lease liabilities	16,640	—
Interest rate derivatives	23,547	5,459
Other liabilities	10,826	10,414
Total liabilities	2,054,555	2,002,697
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interests	29,803	26,260
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Common Shares of beneficial interest (\$0.01 par value; 150,000,000 shares authorized; shares issued and outstanding of 111,949,887 at June 30, 2019 and 110,241,868 at December 31, 2018)	1,119	1,102
Additional paid-in capital	2,475,293	2,431,355
Cumulative distributions in excess of net income	(780,667)	(846,808)
Accumulated other comprehensive loss	(23,465)	(238)
Total Corporate Office Properties Trust's shareholders' equity	1,672,280	1,585,411
Noncontrolling interests in subsidiaries:		
Common units in COPLP	21,039	19,168
Preferred units in COPLP	8,800	8,800
Other consolidated entities	16,992	13,669
Noncontrolling interests in subsidiaries	46,831	41,637
Total equity	1,719,111	1,627,048
<b>Total liabilities, redeemable noncontrolling interests and equity</b>	<b>\$ 3,803,469</b>	<b>\$ 3,656,005</b>

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,	
	2019	2018	2019	2018
<b>Revenues</b>				
Lease revenue	\$ 131,415	\$ 127,907	\$ 262,318	\$ 255,040
Other property revenue	1,356	1,255	2,443	2,400
Construction contract and other service revenues	42,299	17,581	59,249	44,779
Total revenues	<u>175,070</u>	<u>146,743</u>	<u>324,010</u>	<u>302,219</u>
<b>Operating expenses</b>				
Property operating expenses	47,886	49,446	97,331	100,397
Depreciation and amortization associated with real estate operations	34,802	33,190	69,598	66,702
Construction contract and other service expenses	41,002	16,941	57,328	43,157
General, administrative and leasing expenses	9,386	7,628	18,137	14,920
Business development expenses and land carry costs	870	1,234	1,983	2,848
Total operating expenses	<u>133,946</u>	<u>108,439</u>	<u>244,377</u>	<u>228,024</u>
Interest expense	(18,475)	(18,945)	(37,149)	(37,729)
Interest and other income	1,849	1,439	4,135	2,798
Gain on sales of real estate	84,469	(23)	84,469	(27)
Income before equity in income of unconsolidated entities and income taxes	<u>108,967</u>	<u>20,775</u>	<u>131,088</u>	<u>39,237</u>
Equity in income of unconsolidated entities	420	373	811	746
Income tax benefit (expense)	176	(63)	(18)	(118)
Net income	<u>109,563</u>	<u>21,085</u>	<u>131,881</u>	<u>39,865</u>
Net income attributable to noncontrolling interests:				
Common units in COPLP	(1,339)	(608)	(1,596)	(1,152)
Preferred units in COPLP	(165)	(165)	(330)	(330)
Other consolidated entities	(1,268)	(878)	(2,305)	(1,799)
Net income attributable to COPT common shareholders	<u>\$ 106,791</u>	<u>\$ 19,434</u>	<u>\$ 127,650</u>	<u>\$ 36,584</u>
<b>Earnings per common share: (1)</b>				
Net income attributable to COPT common shareholders - basic	<u>\$ 0.95</u>	<u>\$ 0.19</u>	<u>\$ 1.15</u>	<u>\$ 0.36</u>
Net income attributable to COPT common shareholders - diluted	<u>\$ 0.95</u>	<u>\$ 0.19</u>	<u>\$ 1.15</u>	<u>\$ 0.36</u>

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

See accompanying notes to consolidated financial statements.

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

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 109,563	\$ 21,085	\$ 131,881	\$ 39,865
Other comprehensive (loss) income				
Unrealized (loss) gain on interest rate derivatives	(13,545)	1,912	(22,390)	6,588
(Gain) loss on interest rate derivatives recognized in interest expense	(557)	(47)	(1,127)	198
Other comprehensive (loss) income	(14,102)	1,865	(23,517)	6,786
Comprehensive income	95,461	22,950	108,364	46,651
Comprehensive income attributable to noncontrolling interests	(2,597)	(1,708)	(3,941)	(3,498)
Comprehensive income attributable to COPT	<u>\$ 92,864</u>	<u>\$ 21,242</u>	<u>\$ 104,423</u>	<u>\$ 43,153</u>

See accompanying notes to consolidated financial statements.

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

	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
<b>For the Three Months Ended June 30, 2018</b>						
Balance at March 31, 2018 (102,150,358 common shares outstanding)	\$ 1,022	\$2,221,427	\$ (813,302)	\$ 7,204	\$ 65,673	\$1,482,024
Common shares issued under forward equity sale agreements (1,100,000 shares)	11	32,240	—	—	—	32,251
Share-based compensation (10,137 shares issued, net of redemptions)	—	1,720	—	—	—	1,720
Redemption of vested equity awards	—	(198)	—	—	—	(198)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	(538)	—	—	538	—
Comprehensive income	—	—	19,434	1,808	1,117	22,359
Dividends	—	—	(28,402)	—	—	(28,402)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	(1,044)	(1,044)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	(221)	—	—	—	(221)
Balance at June 30, 2018 (103,260,495 common shares outstanding)	<u>\$ 1,033</u>	<u>\$2,254,430</u>	<u>\$ (822,270)</u>	<u>\$ 9,012</u>	<u>\$ 66,280</u>	<u>\$1,508,485</u>
<b>For the Three Months Ended June 30, 2019</b>						
Balance at March 31, 2019 (111,939,790 common shares outstanding)	\$ 1,119	\$2,475,497	\$ (856,703)	\$ (9,538)	\$ 45,803	\$1,656,178
Redemption of common units	—	—	—	—	(1)	(1)
Share-based compensation (10,097 shares issued, net of redemptions)	—	1,487	—	—	346	1,833
Redemption of vested equity awards	—	(103)	—	—	—	(103)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	488	—	—	(488)	—
Comprehensive income	—	—	106,791	(13,927)	1,728	94,592
Dividends	—	—	(30,755)	—	—	(30,755)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	(553)	(553)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	(2,076)	—	—	—	(2,076)
Balance at June 30, 2019 (111,949,887 common shares outstanding)	<u>\$ 1,119</u>	<u>\$2,475,293</u>	<u>\$ (780,667)</u>	<u>\$ (23,465)</u>	<u>\$ 46,831</u>	<u>\$1,719,111</u>

See accompanying notes to consolidated financial statements.



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

	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
<b>For the Six Months Ended June 30, 2018</b>						
Balance at December 31, 2017 (101,292,299 common shares outstanding)	\$ 1,013	\$2,201,047	\$ (802,085)	\$ 2,167	\$ 66,165	\$1,468,307
Cumulative effect of accounting change for adoption of hedge accounting guidance	—	—	(276)	276	—	—
Balance at December 31, 2017, as adjusted	1,013	2,201,047	(802,361)	2,443	66,165	1,468,307
Conversion of common units to common shares (53,817 shares)	1	760	—	—	(761)	—
Common shares issued under forward equity sale agreements (1,777,000 shares)	18	52,209	—	—	—	52,227
Share-based compensation (137,379 shares issued, net of redemptions)	1	3,399	—	—	—	3,400
Redemption of vested equity awards	—	(1,525)	—	—	—	(1,525)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	(702)	—	—	702	—
Comprehensive income	—	—	36,584	6,569	2,269	45,422
Dividends	—	—	(56,493)	—	—	(56,493)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	(2,088)	(2,088)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(7)	(7)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	(758)	—	—	—	(758)
Balance at June 30, 2018 (103,260,495 common shares outstanding)	<u>\$ 1,033</u>	<u>\$2,254,430</u>	<u>\$ (822,270)</u>	<u>\$ 9,012</u>	<u>\$ 66,280</u>	<u>\$1,508,485</u>
<b>For the Six Months Ended June 30, 2019</b>						
Balance at December 31, 2018 (110,241,868 common shares outstanding)	\$ 1,102	\$2,431,355	\$ (846,808)	\$ (238)	\$ 41,637	\$1,627,048
Conversion of common units to common shares (5,500 shares)	—	80	—	—	(80)	—
Redemption of common units	—	—	—	—	(1)	(1)
Common shares issued under forward equity sale agreements (1,614,087 shares)	16	46,438	—	—	—	46,454
Share-based compensation (88,432 shares issued, net of redemptions)	1	3,049	—	—	585	3,635
Redemption of vested equity awards	—	(1,920)	—	—	—	(1,920)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	(834)	—	—	834	—
Comprehensive income	—	—	127,650	(23,227)	2,397	106,820
Dividends	—	—	(61,509)	—	—	(61,509)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	(1,103)	(1,103)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	2,570	2,570
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(8)	(8)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	(2,875)	—	—	—	(2,875)
Balance at June 30, 2019 (111,949,887 common shares outstanding)	<u>\$ 1,119</u>	<u>\$2,475,293</u>	<u>\$ (780,667)</u>	<u>\$ (23,465)</u>	<u>\$ 46,831</u>	<u>\$1,719,111</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,	
	2019	2018
<b>Cash flows from operating activities</b>		
Revenues from real estate operations received	\$ 257,832	\$ 262,602
Construction contract and other service revenues received	21,449	18,411
Property operating expenses paid	(83,305)	(83,642)
Construction contract and other service expenses paid	(31,157)	(62,624)
General, administrative, leasing, business development and land carry costs paid	(16,541)	(15,148)
Interest expense paid	(34,896)	(36,155)
Lease incentives paid	(3,228)	(4,825)
Other	1,661	2,093
Net cash provided by operating activities	111,815	80,712
<b>Cash flows from investing activities</b>		
Construction, development and redevelopment	(219,633)	(67,749)
Tenant improvements on operating properties	(7,585)	(18,352)
Other capital improvements on operating properties	(8,920)	(8,584)
Proceeds from property dispositions		
Distribution from unconsolidated real estate joint venture following contribution of properties	129,783	—
Sale of controlling interests in properties	107,517	—
Investing receivables funded	(11,104)	—
Leasing costs paid	(7,632)	(3,838)
Other	3,944	1,715
Net cash used in investing activities	(13,630)	(96,808)
<b>Cash flows from financing activities</b>		
Proceeds from debt		
Revolving Credit Facility	258,000	153,000
Other debt proceeds	10,606	—
Repayments of debt		
Revolving Credit Facility	(308,000)	(109,000)
Scheduled principal amortization	(2,193)	(2,101)
Payments on finance lease liabilities	(110)	(15,379)
Net proceeds from issuance of common shares	46,415	52,277
Common share dividends paid	(61,040)	(55,950)
Distributions paid to noncontrolling interests in COPLP	(1,115)	(2,110)
Redemption of vested equity awards	(1,920)	(1,525)
Other	(44)	(5,370)
Net cash (used in) provided by financing activities	(59,401)	13,842
Net increase (decrease) in cash and cash equivalents and restricted cash	38,784	(2,254)
<b>Cash and cash equivalents and restricted cash</b>		
Beginning of period	11,950	14,831
End of period	\$ 50,734	\$ 12,577

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,	
	2019	2018
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income	\$ 131,881	\$ 39,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	70,527	67,684
Amortization of deferred financing costs and net debt discounts	1,801	1,648
Increase in deferred rent receivable	(2,419)	(3,470)
Gain on sales of real estate	(84,469)	27
Share-based compensation	3,283	3,132
Other	(2,996)	(777)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(31,846)	8,050
(Increase) decrease in prepaid expenses and other assets, net	(852)	14,718
Increase (decrease) in accounts payable, accrued expenses and other liabilities	29,507	(49,422)
Decrease in rents received in advance and security deposits	(2,602)	(743)
Net cash provided by operating activities	<u>\$ 111,815</u>	<u>\$ 80,712</u>
<b>Reconciliation of cash and cash equivalents and restricted cash:</b>		
Cash and cash equivalents at beginning of period	\$ 8,066	\$ 12,261
Restricted cash at beginning of period	3,884	2,570
Cash and cash equivalents and restricted cash at beginning of period	<u>\$ 11,950</u>	<u>\$ 14,831</u>
Cash and cash equivalents at end of period	\$ 46,282	\$ 8,472
Restricted cash at end of period	4,452	4,105
Cash and cash equivalents and restricted cash at end of period	<u>\$ 50,734</u>	<u>\$ 12,577</u>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Increase in accrued capital improvements, leasing and other investing activity costs	\$ 29,862	\$ 2,909
Finance right-of-use asset contributed by noncontrolling interest in joint venture	\$ 2,570	\$ —
Operating right-of-use assets obtained in exchange for operating lease liabilities	\$ 255	\$ —
Non-cash changes from property dispositions		
Contribution of properties to unconsolidated real estate joint venture	\$ 99,288	\$ —
Investment in unconsolidated real estate joint venture retained in disposition	\$ 26,500	\$ —
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income and noncontrolling interests	\$ (23,585)	\$ 6,719
Dividends/distributions payable	\$ 31,346	\$ 29,449
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 80	\$ 761
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$ 834	\$ 702
Increase in redeemable noncontrolling interests and decrease in equity to adjust redeemable noncontrolling interests to fair value	\$ 2,875	\$ 758

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, 2019	December 31, 2018
<b>Assets</b>		
Properties, net:		
Operating properties, net	\$ 2,719,585	\$ 2,847,265
Projects in development or held for future development	474,787	403,361
<b>Total properties, net</b>	<b>3,194,372</b>	<b>3,250,626</b>
Property - operating right-of-use assets	27,434	—
Property - finance right-of-use assets	40,476	—
Assets held for sale, net	54,448	—
Cash and cash equivalents	46,282	8,066
Investment in unconsolidated real estate joint ventures	65,336	39,845
Accounts receivable	58,189	26,277
Deferred rent receivable	86,707	89,350
Intangible assets on real estate acquisitions, net	31,162	43,470
Deferred leasing costs (net of accumulated amortization of \$33,866 and \$31,994, respectively)	52,227	50,191
Investing receivables	70,656	56,982
Prepaid expenses and other assets, net	71,943	87,330
<b>Total assets</b>	<b>\$ 3,799,232</b>	<b>\$ 3,652,137</b>
<b>Liabilities and equity</b>		
Liabilities:		
Debt, net	\$ 1,784,362	\$ 1,823,909
Accounts payable and accrued expenses	152,196	92,855
Rents received in advance and security deposits	27,477	30,079
Distributions payable	31,346	30,856
Deferred revenue associated with operating leases	8,161	9,125
Property - operating lease liabilities	16,640	—
Interest rate derivatives	23,547	5,459
Other liabilities	6,589	6,546
<b>Total liabilities</b>	<b>2,050,318</b>	<b>1,998,829</b>
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interests	29,803	26,260
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units held by limited partner, 352,000 preferred units outstanding at June 30, 2019 and December 31, 2018	8,800	8,800
Common units, 111,949,887 and 110,241,868 held by the general partner and 1,582,844 and 1,332,886 held by limited partners at June 30, 2019 and December 31, 2018, respectively	1,716,912	1,604,655
Accumulated other comprehensive loss	(23,638)	(121)
<b>Total Corporate Office Properties, L.P.'s equity</b>	<b>1,702,074</b>	<b>1,613,334</b>
Noncontrolling interests in subsidiaries	17,037	13,714
<b>Total equity</b>	<b>1,719,111</b>	<b>1,627,048</b>
<b>Total liabilities, redeemable noncontrolling interests and equity</b>	<b>\$ 3,799,232</b>	<b>\$ 3,652,137</b>

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,	
	2019	2018	2019	2018
<b>Revenues</b>				
Lease revenue	\$ 131,415	\$ 127,907	\$ 262,318	\$ 255,040
Other property revenue	1,356	1,255	2,443	2,400
Construction contract and other service revenues	42,299	17,581	59,249	44,779
Total revenues	<u>175,070</u>	<u>146,743</u>	<u>324,010</u>	<u>302,219</u>
<b>Operating expenses</b>				
Property operating expenses	47,886	49,446	97,331	100,397
Depreciation and amortization associated with real estate operations	34,802	33,190	69,598	66,702
Construction contract and other service expenses	41,002	16,941	57,328	43,157
General, administrative and leasing expenses	9,386	7,628	18,137	14,920
Business development expenses and land carry costs	870	1,234	1,983	2,848
Total operating expenses	<u>133,946</u>	<u>108,439</u>	<u>244,377</u>	<u>228,024</u>
Interest expense	(18,475)	(18,945)	(37,149)	(37,729)
Interest and other income	1,849	1,439	4,135	2,798
Gain on sales of real estate	84,469	(23)	84,469	(27)
Income before equity in income of unconsolidated entities and income taxes	108,967	20,775	131,088	39,237
Equity in income of unconsolidated entities	420	373	811	746
Income tax benefit (expense)	176	(63)	(18)	(118)
Net income	109,563	21,085	131,881	39,865
Net income attributable to noncontrolling interests in consolidated entities	(1,268)	(878)	(2,305)	(1,799)
Net income attributable to COPLP	108,295	20,207	129,576	38,066
Preferred unit distributions	(165)	(165)	(330)	(330)
Net income attributable to COPLP common unitholders	<u>\$ 108,130</u>	<u>\$ 20,042</u>	<u>\$ 129,246</u>	<u>\$ 37,736</u>
<b>Earnings per common unit: (1)</b>				
Net income attributable to COPLP common unitholders - basic	\$ 0.95	\$ 0.19	\$ 1.15	\$ 0.36
Net income attributable to COPLP common unitholders - diluted	<u>\$ 0.95</u>	<u>\$ 0.19</u>	<u>\$ 1.15</u>	<u>\$ 0.36</u>

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

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 109,563	\$ 21,085	\$ 131,881	\$ 39,865
Other comprehensive (loss) income				
Unrealized (loss) gain on interest rate derivatives	(13,545)	1,912	(22,390)	6,588
(Gain) loss on interest rate derivatives recognized in interest expense	(557)	(47)	(1,127)	198
Other comprehensive (loss) income	(14,102)	1,865	(23,517)	6,786
Comprehensive income	95,461	22,950	108,364	46,651
Comprehensive income attributable to noncontrolling interests	(1,268)	(878)	(2,305)	(1,799)
Comprehensive income attributable to COPLP	\$ 94,193	\$ 22,072	\$ 106,059	\$ 44,852

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		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount			
<u>For the Three Months Ended June 30, 2018</u>							
Balance at March 31, 2018	352,000	\$ 8,800	105,347,419	\$1,453,262	\$ 7,370	\$ 12,592	\$ 1,482,024
Issuance of common units resulting from common shares issued under COPT forward equity sale agreements	—	—	1,100,000	32,251	—	—	32,251
Share-based compensation (units net of redemption)	—	—	10,137	1,720	—	—	1,720
Redemptions of vested equity awards	—	—	—	(198)	—	—	(198)
Comprehensive income	—	165	—	20,042	1,865	287	22,359
Distributions to owners of common and preferred units	—	(165)	—	(29,281)	—	—	(29,446)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	—	(221)	—	—	(221)
Balance at June 30, 2018	<u>352,000</u>	<u>\$ 8,800</u>	<u>106,457,556</u>	<u>\$1,477,575</u>	<u>\$ 9,235</u>	<u>\$ 12,875</u>	<u>\$ 1,508,485</u>
<u>For the Three Months Ended June 30, 2019</u>							
Balance at March 31, 2019	352,000	\$ 8,800	113,515,814	\$1,640,272	\$ (9,536)	\$ 16,642	\$ 1,656,178
Redemption of common units	—	—	(44)	(1)	—	—	(1)
Share-based compensation (units net of redemption)	—	—	16,961	1,833	—	—	1,833
Redemptions of vested equity awards	—	—	—	(103)	—	—	(103)
Comprehensive income	—	165	—	108,130	(14,102)	399	94,592
Distributions to owners of common and preferred units	—	(165)	—	(31,143)	—	—	(31,308)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	(4)	(4)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	—	(2,076)	—	—	(2,076)
Balance at June 30, 2019	<u>352,000</u>	<u>\$ 8,800</u>	<u>113,532,731</u>	<u>\$1,716,912</u>	<u>\$ (23,638)</u>	<u>\$ 17,037</u>	<u>\$ 1,719,111</u>

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount			
<u>For the Six Months Ended June 30, 2018</u>							
Balance at December 31, 2017	352,000	\$ 8,800	104,543,177	\$1,445,022	\$ 2,173	\$ 12,312	\$ 1,468,307
Cumulative effect of accounting change for adoption of hedge accounting guidance	—	—	—	(276)	276	—	—
Balance at December 31, 2017, as adjusted	352,000	8,800	104,543,177	1,444,746	2,449	12,312	1,468,307
Issuance of common units resulting from common shares issued under COPT forward equity sale agreements	—	—	1,777,000	52,227	—	—	52,227
Share-based compensation (units net of redemption)	—	—	137,379	3,400	—	—	3,400
Redemptions of vested equity awards	—	—	—	(1,525)	—	—	(1,525)
Comprehensive income	—	330	—	37,736	6,786	570	45,422
Distributions to owners of common and preferred units	—	(330)	—	(58,251)	—	—	(58,581)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	(7)	(7)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	—	(758)	—	—	(758)
Balance at June 30, 2018	<u>352,000</u>	<u>\$ 8,800</u>	<u>106,457,556</u>	<u>\$1,477,575</u>	<u>\$ 9,235</u>	<u>\$ 12,875</u>	<u>\$ 1,508,485</u>
<u>For the Six Months Ended June 30, 2019</u>							
Balance at December 31, 2018	352,000	\$ 8,800	111,574,754	\$1,604,655	\$ (121)	\$ 13,714	\$ 1,627,048
Redemption of common units	—	—	(44)	(1)	—	—	(1)
Issuance of common units resulting from common shares issued under COPT forward equity sale agreements	—	—	1,614,087	46,454	—	—	46,454
Share-based compensation (units net of redemption)	—	—	343,934	3,635	—	—	3,635
Redemptions of vested equity awards	—	—	—	(1,920)	—	—	(1,920)
Comprehensive income	—	330	—	129,246	(23,517)	761	106,820
Distributions to owners of common and preferred units	—	(330)	—	(62,282)	—	—	(62,612)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	2,570	2,570
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	(8)	(8)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	—	(2,875)	—	—	(2,875)
Balance at June 30, 2019	<u>352,000</u>	<u>\$ 8,800</u>	<u>113,532,731</u>	<u>\$1,716,912</u>	<u>\$ (23,638)</u>	<u>\$ 17,037</u>	<u>\$ 1,719,111</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,	
	2019	2018
<b>Cash flows from operating activities</b>		
Revenues from real estate operations received	\$ 257,832	\$ 262,602
Construction contract and other service revenues received	21,449	18,411
Property operating expenses paid	(83,305)	(83,642)
Construction contract and other service expenses paid	(31,157)	(62,624)
General, administrative, leasing, business development and land carry costs paid	(16,541)	(15,148)
Interest expense paid	(34,896)	(36,155)
Lease incentives paid	(3,228)	(4,825)
Other	1,661	2,093
Net cash provided by operating activities	111,815	80,712
<b>Cash flows from investing activities</b>		
Construction, development and redevelopment	(219,633)	(67,749)
Tenant improvements on operating properties	(7,585)	(18,352)
Other capital improvements on operating properties	(8,920)	(8,584)
Proceeds from property dispositions		
Distribution from unconsolidated real estate joint venture following contribution of properties	129,783	—
Sale of controlling interests in properties	107,517	—
Investing receivables funded	(11,104)	—
Leasing costs paid	(7,632)	(3,838)
Other	3,944	1,715
Net cash used in investing activities	(13,630)	(96,808)
<b>Cash flows from financing activities</b>		
Proceeds from debt		
Revolving Credit Facility	258,000	153,000
Other debt proceeds	10,606	—
Repayments of debt		
Revolving Credit Facility	(308,000)	(109,000)
Scheduled principal amortization	(2,193)	(2,101)
Payments on finance lease liabilities	(110)	(15,379)
Net proceeds from issuance of common units	46,415	52,277
Common unit distributions paid	(61,825)	(57,730)
Preferred unit distributions paid	(330)	(330)
Redemption of vested equity awards	(1,920)	(1,525)
Other	(44)	(5,370)
Net cash (used in) provided by financing activities	(59,401)	13,842
Net increase (decrease) in cash and cash equivalents and restricted cash	38,784	(2,254)
<b>Cash and cash equivalents and restricted cash</b>		
Beginning of period	11,950	14,831
End of period	\$ 50,734	\$ 12,577

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,	
	2019	2018
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income	\$ 131,881	\$ 39,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	70,527	67,684
Amortization of deferred financing costs and net debt discounts	1,801	1,648
Increase in deferred rent receivable	(2,419)	(3,470)
Gain on sales of real estate	(84,469)	27
Share-based compensation	3,283	3,132
Other	(2,996)	(777)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(31,846)	8,050
(Increase) decrease in prepaid expenses and other assets, net	(483)	14,296
Increase (decrease) in accounts payable, accrued expenses and other liabilities	29,138	(49,000)
Decrease in rents received in advance and security deposits	(2,602)	(743)
Net cash provided by operating activities	<u>\$ 111,815</u>	<u>\$ 80,712</u>
<b>Reconciliation of cash and cash equivalents and restricted cash:</b>		
Cash and cash equivalents at beginning of period	\$ 8,066	\$ 12,261
Restricted cash at beginning of period	3,884	2,570
Cash and cash equivalents and restricted cash at beginning of period	<u>\$ 11,950</u>	<u>\$ 14,831</u>
Cash and cash equivalents at end of period	\$ 46,282	\$ 8,472
Restricted cash at end of period	4,452	4,105
Cash and cash equivalents and restricted cash at end of period	<u>\$ 50,734</u>	<u>\$ 12,577</u>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Increase in accrued capital improvements, leasing and other investing activity costs	\$ 29,862	\$ 2,909
Finance right-of-use asset contributed by noncontrolling interest in joint venture	\$ 2,570	\$ —
Operating right-of-use assets obtained in exchange for operating lease liabilities	\$ 255	\$ —
Non-cash changes from property dispositions		
Contribution of properties to unconsolidated real estate joint venture	\$ 99,288	\$ —
Investment in unconsolidated real estate joint venture retained in disposition	\$ 26,500	\$ —
(Decrease) increase in fair value of derivatives applied to accumulated other comprehensive income and noncontrolling interests	\$ (23,585)	\$ 6,719
Distributions payable	\$ 31,346	\$ 29,449
Increase in redeemable noncontrolling interests and decrease in equity to adjust redeemable noncontrolling interests to fair value	\$ 2,875	\$ 758

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 in the Greater Washington, DC/Baltimore region with durable Class-A office fundamentals and characteristics (“Regional Office”). As of June 30, 2019, our properties included the following:

- 169 properties totaling 18.9 million square feet comprised of 15.3 million square feet in 147 office properties and 3.7 million square feet in 22 single-tenant data center shell properties (“data center shells”). We owned 13 of these data center shells through unconsolidated real estate joint ventures;
- a wholesale data center with a critical load of 19.25 megawatts;
- 14 properties under construction or redevelopment (nine office properties and five data center shells) that we estimate will total approximately 2.2 million square feet upon completion, including three partially-operational properties; and
- approximately 900 acres of land controlled for future development that we believe could be developed into approximately 1.6 million square feet and 150 acres of other land.

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, 2019, COPT owned 98.6% of the outstanding COPLP common units (“common units”); the remaining common units and all of the outstanding COPLP preferred units (“preferred units”) were owned by third parties. Common units not owned by COPT carry certain redemption rights. The number of common units owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. However, COPLP’s common units include a special class of unit referred to as profit interest units (“PIUs”) originating from certain share-based compensation awards issued to executives (described further in Note 15) that are subject to vesting and certain tax event criteria, and accordingly may carry different rights to redemption and distributions than non-PIU common 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; similarly, although 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.

When we own an equity investment in an entity and cannot exert significant influence over its operations, we measure the investment at fair value, with changes recognized through net income. For an investment without a readily determinable fair value, we measure the investment at cost, less any impairments, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer.

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, 2018 included in our 2018 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 2018 Annual Report on Form 10-K as updated for our adoption of recent accounting pronouncements discussed below.

### **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, including reclassifications of our revenue from real estate operations in connection with our adoption of new lease guidance described below.

### **Recent Accounting Pronouncements**

In February 2016, the FASB issued guidance setting 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. This guidance requires lessors of real estate to account for leases using an approach substantially equivalent to guidance previously in place for operating leases, direct financing leases and sales-type leases. We adopted this guidance on January 1, 2019 using a modified retrospective transition approach under which we elected to apply the guidance effective January 1, 2019 and not adjust prior comparative reporting periods (except for our presentation of lease revenue discussed below). We elected to apply a package of practical expedients that enabled us to carry forward upon adoption our historical assessments of: expired or existing leases regarding their lease classification and deferred recognition of non-incremental direct leasing costs; and whether any expired or existing contracts are, or contain, leases. We also elected a practical expedient that enabled us to avoid the need to assess whether expired or existing land easements not previously accounted for as leases are, or contain, a lease. In addition, we elected a practical expedient for our rental properties (as lessor) to avoid separating non-lease components that otherwise would need to be accounted for under the recently-adopted revenue accounting guidance (such as tenant reimbursements of property operating expenses) from the associated lease component since (1) the non-lease components have the same timing and pattern of transfer as the associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease; this enables us to account for the combination of the lease component and non-lease components as an operating lease since the lease component is the predominant component of the combined components. Below is a summary of the primary changes in our accounting and reporting that resulted from our adoption of this guidance:

- Property leases in which we are the lessor:
  - Deferral of non-incremental leasing costs: For new or extended tenant leases, we no longer defer recognition of non-incremental leasing costs that we would have deferred under prior accounting guidance (refer to our 2018 Annual Report on Form 10-K in which we reported amounts deferred in 2018, 2017 and 2016).
  - Change in presentation of revenue: Due to our adoption of the practical expedient discussed above to not separate non-lease component revenue from the associated lease component, we are aggregating revenue from our lease components and non-lease components (comprised predominantly of tenant operating expense reimbursements) into the line entitled "lease revenue." We are reporting other revenue from our properties in the line entitled "other property revenue." We recast prior periods for these changes in presentation.
  - Changes in assessment of lease revenue collectability: Changes in our assessment of lease revenue collectability that previously would have resulted in charges to bad debt expense under prior guidance are being recognized as an

adjustment to rental revenue under the new guidance. Such amounts recognized by us in prior periods were not significant.

- Operating expenses paid directly by tenants to third parties: Operating expenses paid directly by tenants to third parties (primarily for real estate taxes) and revenue associated with such tenant payments that would have been recognized under prior guidance will no longer be reported on our Statement of Operations. Such amounts recognized by us in prior periods were not significant.
- Leases (the most significant of which are ground leases) in which we are the lessee:
  - Balance sheet presentation of property operating lease right-of-use assets: Upon adoption on January 1, 2019, we recognized property right-of-use assets and offsetting lease liabilities for existing operating leases totaling \$16 million for the present value of minimum lease payments under these leases, and also reclassified an additional \$11 million in amounts previously presented elsewhere on our balance sheet in connection with these leases to the right-of-use assets. We will recognize additional right-of-use assets and lease liabilities as we enter into new operating leases.
  - Balance sheet presentation of property finance lease right-of-use assets: Property right-of-use assets of finance leases that previously were presented as properties under prior guidance are being presented as property finance right-of-use assets under the new guidance. As a result, we reclassified \$38 million in assets from properties to property finance right-of-use assets upon adoption on January 1, 2019.
  - Segment assets: We changed our definition of segment assets used for our reportable segments to include property right-of-use assets associated with operating properties, net of related lease liabilities.

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 2018, the FASB issued guidance that modifies disclosure requirements for fair value measurements. This guidance is effective for us beginning January 1, 2020. Early adoption is permitted for this guidance, and entities are permitted to early adopt with respect to any removed or modified disclosures while delaying adoption of additional disclosure requirements until the effective date. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued guidance that aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. FASB guidance did not previously address the accounting for such implementation costs. The guidance is effective for us beginning January 1, 2020, 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 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. The assets held in the plan (comprised primarily of mutual funds and equity securities) and the corresponding liability to the participants are measured at fair value on a recurring basis on COPT's consolidated balance sheets using quoted market prices, as are other marketable securities that we hold. The balance of the plan, which was fully funded, totaled \$4.2 million as of June 30, 2019, and is included in the line entitled "prepaid expenses and other assets, net" on COPT's consolidated balance sheets. 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 included in the line entitled "other liabilities" on COPT's consolidated balance sheets. The assets of the plan are classified in Level 1 of the fair value hierarchy, while the offsetting liability 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, 2019, 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. The fair values of our investing receivables, as disclosed in Note 7, were 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 9, we estimated the fair values 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 7 for investing receivables, Note 9 for debt and Note 10 for interest rate derivatives.

#### COPT and Subsidiaries

The table below sets forth financial assets and liabilities of COPT and subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2019 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 4,212	\$ —	\$ —	\$ 4,212
Other	25	—	—	25
Interest rate derivatives (1)	—	120	—	120
<b>Total assets</b>	<b>\$ 4,237</b>	<b>\$ 120</b>	<b>\$ —</b>	<b>\$ 4,357</b>
<b>Liabilities:</b>				
Deferred compensation plan liability (2)	\$ —	\$ 4,237	\$ —	\$ 4,237
Interest rate derivatives	—	23,547	—	23,547
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 27,784</b>	<b>\$ —</b>	<b>\$ 27,784</b>

(1) Included in the line entitled "prepaid expenses and other assets, net" on COPT's consolidated balance sheet.

(2) 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 subsidiaries that are accounted for at fair value on a recurring basis as of June 30, 2019 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Interest rate derivatives (1)	\$ —	\$ 120	\$ —	\$ 120
<b>Liabilities:</b>				
Interest rate derivatives	\$ —	\$ 23,547	\$ —	\$ 23,547

(1) Included in the line entitled "prepaid expenses and other assets, net" on COPLP's consolidated balance sheet.

## 4. Properties, Net

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

	June 30, 2019	December 31, 2018
Land	\$ 460,138	\$ 503,274
Buildings and improvements	3,208,558	3,241,894
Less: Accumulated depreciation	(949,111)	(897,903)
Operating properties, net	\$ 2,719,585	\$ 2,847,265

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

	June 30, 2019	December 31, 2018
Land	\$ 296,809	\$ 207,760
Development in progress, excluding land	177,978	195,601
Projects in development or held for future development	\$ 474,787	\$ 403,361

As of June 30, 2019, we were under contract to sell controlling interests in two data center shell properties in Virginia; we expect this sale to occur in the fourth quarter of 2019. The table below sets forth the components of assets held for sale on our consolidated balance sheet as of June 30, 2019 for these properties (in thousands):

Properties, net	\$ 53,386
Deferred rent receivable	1,028
Deferred leasing costs, net	34
Assets held for sale, net	\$ 54,448

## 2019 Dispositions

On June 20, 2019, through a series of transactions, we sold a 90% interest in seven data center shell properties in Virginia based on an aggregate property value of \$265.0 million and retained a 10% interest in the properties through BREIT COPT DC JV LLC ("BREIT-COPT"), a newly-formed joint venture. Our partner in the joint venture acquired the 90% interest from us for \$238.5 million. We account for our interest in the joint venture using the equity method of accounting as described further in Note 6. We recognized a gain on sale of \$84.5 million.

## 2019 Construction Activities

During the six months ended June 30, 2019, we placed into service 777,000 square feet in seven newly-constructed properties (including two partially-operational properties) and 10,000 in one partially-operational property under redevelopment. As of June 30, 2019, we had 13 properties under construction (including two partially-operational properties), or which we were contractually committed to construct, that we estimate will total 2.1 million square feet upon completion and one partially-operational property under redevelopment that we estimate will total 106,000 square feet upon completion.

## 5. Leases

### Lessor arrangements

We lease real estate properties, comprised primarily of office properties and data center shells, to third parties. As of June 30, 2019, these leases, which may encompass all, or a portion of, a property, had remaining terms spanning from one month to 15 years and averaging approximately five years. These leases usually include options under which the tenant may renew its lease based on market rates at the time of renewal, which are then typically subject to further negotiation. These leases occasionally provide the tenant with an option to terminate its lease early usually for a defined termination fee. While a significant portion of our portfolio is leased to the United States Government, and the majority of those leases consist of a series of one-year renewal options, or provide for early termination rights, we have concluded that exercise of existing renewal options, or continuation of such leases without exercising early termination rights, is reasonably assured for virtually all of these leases.

Most of our lease revenue is from fixed contractual payments defined under the lease that, in most cases, escalate annually over the term of the lease. Our lease revenue also includes variable lease payments predominantly for tenant reimbursements of property operating expenses and lease termination fees. Property operating expense reimbursement structures vary, with some tenants responsible for all of a property's expenses, while others are responsible for their share of a property's expense only to the extent such expenses exceed amounts defined in the lease (which are derived from the property's historical expense levels). Lease termination fees in most cases result from a tenant's exercise of an existing right under a lease, and are usually equal to a defined percentage of the remaining rents due under the lease and/or the remaining unamortized lease origination costs (including tenant improvements and lease commissions).

The table below sets forth our allocation of lease revenue recognized between fixed contractual payments and variable lease payments (in thousands):

Lease revenue	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Fixed contractual payments	\$ 104,768	\$ 210,103
Variable lease payments	26,647	52,215
	<u>\$ 131,415</u>	<u>\$ 262,318</u>



Fixed contractual payments due under our property leases were as follows (in thousands):

Year Ending December 31,	June 30, 2019	December 31, 2018
2019 (1)	\$ 201,662	\$ 400,617
2020	356,626	337,646
2021	299,046	280,369
2022	262,281	246,329
2023	211,966	194,888
Thereafter	586,076	523,932
	<u>\$ 1,917,657</u>	<u>\$ 1,983,781</u>

(1) As of June 30, 2019, represents the six months ending December 31, 2019.

#### Lessee arrangements

We lease from third parties land underlying certain properties that we are operating or developing. These ground leases have long durations with remaining terms ranging from 30 years (excluding extension options) to 97 years. As of June 30, 2019, our balance sheet included \$67.9 million in right-of-use assets associated with ground leases that included:

- \$37.8 million for land on which we are developing an office property in Washington, DC through our Stevens Investors, LLC joint venture, virtually all of the rent on which was previously paid. This lease has a 97-year remaining term, and we possess a bargain purchase option that we expect to exercise in 2020;
- \$10.4 million for land underlying office properties in Washington, DC under two leases with remaining terms of approximately 80 years;
- \$6.5 million for land underlying a parking garage in Baltimore, Maryland under a lease with a remaining term of 30 years and an option to renew for an additional 48 years that was included in the term used in determining the asset balance;
- \$6.7 million for land in a research park in College Park, Maryland under four leases through our M Square Associates, LLC joint venture all of the rent on which was previously paid. These leases had remaining terms ranging from 64 years to 75 years;
- \$4.2 million for land in a business park in Huntsville, Alabama under nine leases through our LW Redstone Company, LLC joint venture, with remaining terms ranging from 44 to 50 years and options to renew for an additional 25 years that were not included in the term used in determining the asset balance; and
- \$2.3 million for other land in our Fort Meade/BW Corridor sub-segment under two leases with remaining terms of approximately 49 years all of the rent on which was previously paid.

As of June 30, 2019, our balance sheet also included right-of-use lease assets totaling \$1.3 million in connection with vehicles and office equipment that we lease from third parties.

In determining operating right-of-use assets and lease liabilities for our existing operating leases upon our adoption of the new lease guidance discussed further in Note 2, as well as for new operating leases in the current period, we were required to estimate an appropriate incremental borrowing rate on a fully-collateralized basis for the terms of the leases. Since the terms under our ground leases are significantly longer than the terms of borrowings available to us on a fully-collateralized basis, our estimate of this rate required significant judgment, and considered factors such as interest rates available to us on a fully-collateralized basis for shorter-termed debt and U.S. Treasury rates.

Our right-of-use assets consisted of the following (in thousands):

Leases	Balance Sheet Location	June 30, 2019
Right-of-use assets		
Operating leases - Property	Property - operating right-of-use assets	\$ 27,434
Finance leases		
Property	Property - finance right-of-use assets	40,476
Vehicles and office equipment	Prepaid expenses and other assets, net	1,272
Total finance lease right-of-use assets		<u>41,748</u>
Total right-of-use assets		<u>\$ 69,182</u>

Lease liabilities consisted of the following (in thousands):

Leases	Balance Sheet Location	June 30, 2019
Lease liabilities		
Operating leases - Property	Property - operating lease liabilities	\$ 16,640
Finance leases	Other liabilities	1,228
Total lease liabilities		<u>\$ 17,868</u>

The table below sets forth the weighted average terms and discount rates of our leases as of June 30, 2019:

Weighted average remaining lease term	
Operating leases	69 years
Finance leases	2 years
Weighted average discount rate	
Operating leases	7.35%
Finance leases	3.12%

The table below presents our total lease cost (in thousands):

Lease cost	Statement of Operations Location	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Operating lease cost			
Property leases	Property operating expenses	\$ 413	\$ 826
Vehicles and office equipment	General, administrative and leasing expenses	18	35
Finance lease cost			
Amortization of vehicles and office equipment right-of-use assets	General, administrative and leasing expenses	116	229
Amortization of property right-of-use assets	Property operating expenses	12	12
Interest on lease liabilities	Interest expense	3	7
		<u>\$ 562</u>	<u>\$ 1,109</u>

The table below presents the effect of lease payments on our consolidated statement of cash flows (in thousands):

Supplemental cash flow information	For the Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 550
Operating cash flows for financing leases	\$ 7
Financing cash flows for financing leases	\$ 110

Payments on leases as of June 30, 2019 were due as follows (in thousands):

Year Ending December 31,	Operating leases	Finance leases	Total
2019 (1)	\$ 554	\$ 118	\$ 672
2020	1,126	862	1,988
2021	1,111	202	1,313
2022	1,129	64	1,193
2023	1,134	—	1,134
Thereafter	99,187	—	99,187
Total lease payments	104,241	1,246	105,487
Less: Amount representing interest	(87,601)	(18)	(87,619)
Lease liability	<u>\$ 16,640</u>	<u>\$ 1,228</u>	<u>\$ 17,868</u>

(1) Represents the six months ending December 31, 2019.

Future minimum rental payments on leases as of December 31, 2018 were due as follows (in thousands):

Year Ending December 31,	Operating leases	Finance leases	Total
2019	\$ 1,101	\$ 219	\$ 1,320
2020	1,110	844	1,954
2021	1,094	184	1,278
2022	1,115	49	1,164
2023	1,119	—	1,119
Thereafter	83,373	—	83,373
Total lease payments	\$ 88,912	1,296	90,208
Less: Amount representing interest	N/A	(24)	(24)
Total	N/A	\$ 1,272	\$ 90,184

## 6. Real Estate Joint Ventures

### Consolidated Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures as of June 30, 2019 (dollars in thousands):

Entity	Date Acquired	Nominal Ownership %	Location	June 30, 2019 (1)		
				Total Assets	Encumbered Assets	Total Liabilities
LW Redstone Company, LLC	3/23/2010	85%	Huntsville, Alabama	\$ 198,389	\$ 74,977	\$ 69,841
M Square Associates, LLC	6/26/2007	50%	College Park, Maryland	80,912	46,159	44,295
Stevens Investors, LLC	8/11/2015	95%	Washington, DC	99,436	98,979	30,718
				\$ 378,737	\$ 220,115	\$ 144,854

(1) Excludes amounts eliminated in consolidation.

### Unconsolidated Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in unconsolidated real estate joint ventures accounted for using the equity method of accounting (dollars in thousands):

Entity	Date Acquired	Nominal Ownership %	Number of Properties	Carrying Value of Investment (1)	
				June 30, 2019	December 31, 2018
GI-COPT DC Partnership LLC	7/21/2016	50%	6	\$ 38,790	\$ 39,845
BREIT COPT DC JV LLC	6/20/2019	10%	7	26,546	—
			13	\$ 65,336	\$ 39,845

(1) Included in the line entitled "investment in unconsolidated real estate joint ventures" on our consolidated balance sheets.

These joint ventures operate triple-net leased, single-tenant data center shell properties in Virginia.

As described further in Note 4, on June 20, 2019, we sold a 90% interest in seven triple-net leased, single-tenant data center shell properties in Virginia and retained a 10% interest in the properties through BREIT-COPT, a newly-formed joint venture. We concluded that the joint venture is a variable interest entity. Under the terms of the joint venture agreement, we and our partner receive returns in proportion to our investments, and our maximum exposure to losses is limited to our investment, subject to certain indemnification obligations with respect to nonrecourse debt secured by the properties. The nature of our involvement in the activities of the joint venture does not give us power over decisions that significantly affect its economic performance.

## 7. Investing Receivables

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

	June 30, 2019	December 31, 2018
Notes receivable from the City of Huntsville	\$ 56,563	\$ 53,961
Other investing loans receivable	14,093	3,021
	<u>\$ 70,656</u>	<u>\$ 56,982</u>

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 6) and carry an interest rate of 9.95%. Our other investing loans receivable carry an interest rate of 8.0%.

We did not have an allowance for credit losses in connection with our investing receivables as of June 30, 2019 or December 31, 2018. The fair value of these receivables was approximately \$74 million as of June 30, 2019 and \$58 million as of December 31, 2018.

## 8. Prepaid Expenses and Other Assets, Net

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

	June 30, 2019	December 31, 2018
Lease incentives, net	\$ 23,487	\$ 21,258
Construction contract costs incurred in excess of billings	12,629	3,189
Furniture, fixtures and equipment, net (1)	8,252	8,630
Non-real estate equity investments	6,023	5,940
Prepaid expenses	5,855	25,658
Restricted cash	4,452	3,884
Deferred financing costs, net (2)	4,190	4,733
Deferred tax asset, net (3)	2,164	2,084
Interest rate derivatives	120	5,617
Other assets	4,771	6,337
Total for COPLP and subsidiaries	<u>71,943</u>	<u>87,330</u>
Marketable securities in deferred compensation plan	4,237	3,868
Total for COPT and subsidiaries	<u>\$ 76,180</u>	<u>\$ 91,198</u>

(1) Includes \$1.3 million in finance right-of-use assets as of June 30, 2019.

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

(3) Includes a valuation allowance of \$2.1 million as of June 30, 2019 and \$2.7 million as of December 31, 2018.

## 9. Debt, Net

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

	Carrying Value (1) as of		June 30, 2019	
	June 30, 2019	December 31, 2018	Stated Interest Rates	Scheduled Maturity
<b>Mortgage and Other Secured Debt:</b>				
Fixed rate mortgage debt (2)	\$ 145,285	\$ 147,141	3.82% - 7.87% (3)	2019-2026
Variable rate secured debt (4)	34,514	23,282	LIBOR + 1.85% to 2.35% (5)	2020-2022
Total mortgage and other secured debt	179,799	170,423		
Revolving Credit Facility	163,000	213,000	LIBOR + 0.775% to 1.45% (6)	March 2023 (7)
Term Loan Facility (8)	248,490	248,273	LIBOR + 0.85% to 1.65% (9)	2022
<b>Unsecured Senior Notes</b>				
3.600%, \$350,000 aggregate principal	348,207	347,986	3.60% (10)	May 2023
5.250%, \$250,000 aggregate principal	247,391	247,136	5.25% (11)	February 2024
3.700%, \$300,000 aggregate principal	299,068	298,815	3.70% (12)	June 2021
5.000%, \$300,000 aggregate principal	297,304	297,109	5.00% (13)	July 2025
Unsecured note payable	1,103	1,167	0% (14)	May 2026
Total debt, net	\$ 1,784,362	\$ 1,823,909		

- The carrying values of our debt other than the Revolving Credit Facility reflect net deferred financing costs of \$6.3 million as of June 30, 2019 and \$7.2 million as of December 31, 2018.
- Certain of the fixed rate mortgages carry interest rates that, upon assumption, were above or below market rates 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 \$248,000 as of June 30, 2019 and \$281,000 as of December 31, 2018.
- The weighted average interest rate on our fixed rate mortgage debt was 4.17% as of June 30, 2019.
- Includes a construction loan with \$87.4 million in remaining borrowing capacity as of June 30, 2019.
- The weighted average interest rate on our variable rate secured debt was 4.66% as of June 30, 2019.
- The weighted average interest rate on the Revolving Credit Facility was 3.52% as of June 30, 2019.
- The facility matures in March 2023, with the ability for us to further extend such maturity by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.075% of the total availability under the facility for each extension period.
- As of June 30, 2019, we have the ability to borrow an additional \$150.0 million in the aggregate under this facility, provided that there is no default under the facility and subject to the approval of the lenders. In addition, in connection with our Revolving Credit Facility, we have the ability to borrow up to \$500.0 million under new term loans from the facility's lender group provided that there is no default under the facility and subject to the approval of the lenders.
- The interest rate on this loan was 3.69% as of June 30, 2019.
- The carrying value of these notes reflects an unamortized discount totaling \$1.2 million as of June 30, 2019 and \$1.4 million as of December 31, 2018. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.
- The carrying value of these notes reflects an unamortized discount totaling \$2.4 million as of June 30, 2019 and \$2.6 million as of December 31, 2018. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.
- The carrying value of these notes reflects an unamortized discount totaling \$741,000 as of June 30, 2019 and \$943,000 as of December 31, 2018. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.
- The carrying value of these notes reflects an unamortized discount totaling \$2.3 million as of June 30, 2019 and \$2.4 million as of December 31, 2018. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.
- This note carries an interest rate that, upon assumption, was below market rates and it therefore was recorded at its fair value based on applicable effective interest rates. The carrying value of this note reflects an unamortized discount totaling \$258,000 as of June 30, 2019 and \$294,000 as of December 31, 2018.

All debt is owed by COPLP. While COPT is not directly obligated by any debt, it has guaranteed COPLP'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, 2019, we were within the compliance requirements of these financial covenants.

We capitalized interest costs of \$2.4 million in the three months ended June 30, 2019, \$1.4 million in the three months ended June 30, 2018, \$4.4 million in the six months ended June 30, 2019 and \$2.8 million in the six months ended June 30, 2018.

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

	June 30, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Fixed-rate debt				
Unsecured Senior Notes	\$ 1,191,970	\$ 1,226,750	\$ 1,191,046	\$ 1,219,603
Other fixed-rate debt	146,388	148,395	148,308	147,106
Variable-rate debt	446,004	450,417	484,555	486,497
	<u>\$ 1,784,362</u>	<u>\$ 1,825,562</u>	<u>\$ 1,823,909</u>	<u>\$ 1,853,206</u>

## 10. 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, 2019	December 31, 2018
\$ 100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	\$ 58	\$ 472
12,637 (1)	1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	62	239
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(975)	1,968
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	(985)	1,967
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	(499)	971
75,000	3.1760%	Three-Month LIBOR	6/30/2020	6/30/2030	(7,965)	(2,676)
75,000	3.1920%	Three-Month LIBOR	6/30/2020	6/30/2030	(8,074)	(2,783)
75,000	2.7440%	Three-Month LIBOR	6/30/2020	6/30/2030	(5,049)	—
					<u>\$ (23,427)</u>	<u>\$ 158</u>

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

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, 2019	December 31, 2018
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets, net	\$ 120	\$ 5,617
Interest rate swaps designated as cash flow hedges	Interest rate derivatives (liabilities)	\$ (23,547)	\$ (5,459)

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

Derivatives in Hedging Relationships	Amount of (Loss) Gain Recognized in AOCL on Derivatives				Amount of Gain (Loss) Reclassified from AOCL into Interest Expense on Statement of Operations			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018	2019	2018	2019	2018
Interest rate derivatives	\$ (13,545)	\$ 1,912	\$ (22,390)	\$ 6,588	\$ 557	\$ 47	\$ 1,127	\$ (198)

Over the next 12 months, we estimate that approximately \$1.6 million in losses will be reclassified from accumulated other comprehensive loss ("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, 2019, we are not in default with any of these provisions. As of June 30, 2019, the fair value of interest rate derivatives in a liability position related to these agreements was \$23.6 million, excluding the effects of accrued interest and credit valuation adjustments. As of June 30, 2019, we had not

posted any collateral related to these agreements. If we breach any of these provisions, we could be required to settle our obligations under the agreements at their termination value, which was \$23.5 million as of June 30, 2019.

## 11. Redeemable Noncontrolling Interests

Our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC (discussed further in Note 6), 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 sheets. The table below sets forth the activity for these redeemable noncontrolling interests (in thousands):

	<u>For the Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 26,260	\$ 23,125
Contributions from noncontrolling interests	—	143
Distributions to noncontrolling interests	(876)	(711)
Net income attributable to noncontrolling interests	1,544	1,229
Adjustment to arrive at fair value of interests	2,875	758
Ending balance	<u>\$ 29,803</u>	<u>\$ 24,544</u>

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, occupancy projections and estimated operating and development expenditures.

## 12. Equity

COPT issued 1.6 million common shares under its forward equity sale agreements for net proceeds of \$46.5 million on March 27, 2019, after which it had no remaining capacity under the agreements. COPT contributed the net proceeds from this issuance to COPLP in exchange for an equal number of units in COPLP.

As of June 30, 2019, COPT had remaining capacity under its at-the-market stock offering program equal to an aggregate gross sales price of \$300 million in common share sales.

During the six months ended June 30, 2019, certain COPLP limited partners converted 5,500 common units in COPLP for an equal number of common shares in COPT.

We declared dividends per COPT common share and distributions per COPLP common unit of \$0.275 in the three months ended June 30, 2019 and 2018 and \$0.55 in the six months ended June 30, 2019 and 2018.

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

### 13. Information by Business Segment

We have the following reportable segments: Defense/IT Locations; Regional Office; 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, right-of-use assets, net of related lease liabilities, 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 Property Segments**

**Defense/Information Technology Locations**

	<b>Fort Meade/BW Corridor</b>	<b>Northern Virginia Defense/IT</b>	<b>Lackland Air Force Base</b>	<b>Navy Support Locations</b>	<b>Redstone Arsenal</b>	<b>Data Center Shells</b>	<b>Total Defense/IT Locations</b>	<b>Regional Office</b>	<b>Wholesale Data Center</b>	<b>Other</b>	<b>Total</b>
<b>Three Months Ended June 30, 2019</b>											
Revenues from real estate operations	\$ 61,659	\$ 13,912	\$ 12,104	\$ 8,185	\$ 3,968	\$ 8,624	\$ 108,452	\$ 15,018	\$ 8,560	\$ 741	\$ 132,771
Property operating expenses	(19,344)	(4,694)	(6,648)	(3,286)	(1,599)	(759)	(36,330)	(7,590)	(3,618)	(348)	(47,886)
UJV NOI allocable to COPT	—	—	—	—	—	1,251	1,251	—	—	—	1,251
NOI from real estate operations	\$ 42,315	\$ 9,218	\$ 5,456	\$ 4,899	\$ 2,369	\$ 9,116	\$ 73,373	\$ 7,428	\$ 4,942	\$ 393	\$ 86,136
Additions to long-lived assets	\$ 7,499	\$ 1,703	\$ —	\$ 928	\$ 536	\$ —	\$ 10,666	\$ 4,870	\$ 95	\$ 34	\$ 15,665
Transfers from non-operating properties	\$ 1,338	\$ 20	\$ 1,833	\$ —	\$ 5,576	\$ 92,844	\$ 101,611	\$ —	\$ —	\$ —	\$ 101,611
<b>Three Months Ended June 30, 2018</b>											
Revenues from real estate operations	\$ 61,993	\$ 13,118	\$ 12,382	\$ 8,127	\$ 3,652	\$ 5,955	\$ 105,227	\$ 15,296	\$ 8,105	\$ 534	\$ 129,162
Property operating expenses	(20,099)	(4,909)	(7,494)	(3,431)	(1,509)	(799)	(38,241)	(7,169)	(4,150)	114	(49,446)
UJV NOI allocable to COPT	—	—	—	—	—	1,202	1,202	—	—	—	1,202
NOI from real estate operations	\$ 41,894	\$ 8,209	\$ 4,888	\$ 4,696	\$ 2,143	\$ 6,358	\$ 68,188	\$ 8,127	\$ 3,955	\$ 648	\$ 80,918
Additions to long-lived assets	\$ 8,151	\$ 1,186	\$ —	\$ 1,450	\$ 351	\$ —	\$ 11,138	\$ 5,361	\$ 81	\$ 188	\$ 16,768
Transfers from non-operating properties	\$ 3,035	\$ 352	\$ —	\$ 3	\$ 26	\$ 29,675	\$ 33,091	\$ —	\$ 1,133	\$ —	\$ 34,224
<b>Six Months Ended June 30, 2019</b>											
Revenues from real estate operations	\$ 124,342	\$ 28,743	\$ 23,665	\$ 16,340	\$ 7,907	\$ 15,978	\$ 216,975	\$ 29,851	\$ 16,431	\$ 1,504	\$ 264,761
Property operating expenses	(41,679)	(9,986)	(12,607)	(6,690)	(3,138)	(1,112)	(75,212)	(15,006)	(6,456)	(657)	(97,331)
UJV NOI allocable to COPT	—	—	—	—	—	2,470	2,470	—	—	—	2,470
NOI from real estate operations	\$ 82,663	\$ 18,757	\$ 11,058	\$ 9,650	\$ 4,769	\$ 17,336	\$ 144,233	\$ 14,845	\$ 9,975	\$ 847	\$ 169,900
Additions to long-lived assets	\$ 11,434	\$ 3,150	\$ —	\$ 5,945	\$ 836	\$ —	\$ 21,365	\$ 8,859	\$ 251	\$ 44	\$ 30,519
Transfers from non-operating properties	\$ 6,378	\$ 4,529	\$ 8,336	\$ —	\$ 9,211	\$ 112,632	\$ 141,086	\$ —	\$ —	\$ —	\$ 141,086
Segment assets at June 30, 2019	\$ 1,274,336	\$ 398,586	\$ 146,475	\$ 187,172	\$ 115,222	\$ 307,676	\$ 2,429,467	\$ 393,110	\$ 209,787	\$ 3,776	\$ 3,036,140
<b>Six Months Ended June 30, 2018</b>											
Revenues from real estate operations	\$ 124,775	\$ 25,679	\$ 23,825	\$ 15,997	\$ 7,285	\$ 11,786	\$ 209,347	\$ 30,580	\$ 16,182	\$ 1,331	\$ 257,440
Property operating expenses	(41,703)	(9,632)	(14,092)	(6,735)	(2,949)	(1,593)	(76,704)	(15,047)	(8,408)	(238)	(100,397)
UJV NOI allocable to COPT	—	—	—	—	—	2,401	2,401	—	—	—	2,401
NOI from real estate operations	\$ 83,072	\$ 16,047	\$ 9,733	\$ 9,262	\$ 4,336	\$ 12,594	\$ 135,044	\$ 15,533	\$ 7,774	\$ 1,093	\$ 159,444
Additions to long-lived assets	\$ 15,272	\$ 3,126	\$ —	\$ 2,558	\$ 430	\$ —	\$ 21,386	\$ 9,245	\$ 117	\$ 315	\$ 31,063
Transfers from non-operating properties	\$ 20,221	\$ 693	\$ —	\$ —	\$ 470	\$ 30,789	\$ 52,173	\$ —	\$ 2,145	\$ —	\$ 54,318
Segment assets at June 30, 2018	\$ 1,269,525	\$ 396,139	\$ 126,956	\$ 190,537	\$ 106,374	\$ 330,622	\$ 2,420,153	\$ 396,847	\$ 221,239	\$ 4,213	\$ 3,042,452

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,	
	2019	2018	2019	2018
Segment revenues from real estate operations	\$ 132,771	\$ 129,162	\$ 264,761	\$ 257,440
Construction contract and other service revenues	42,299	17,581	59,249	44,779
<b>Total revenues</b>	<b>\$ 175,070</b>	<b>\$ 146,743</b>	<b>\$ 324,010</b>	<b>\$ 302,219</b>

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,	
	2019	2018	2019	2018
UJV NOI allocable to COPT	\$ 1,251	\$ 1,202	\$ 2,470	\$ 2,401
Less: Income from UJV allocable to COPT attributable to depreciation and amortization expense and interest expense	(830)	(828)	(1,657)	(1,652)
Add: Equity in loss of unconsolidated non-real estate entities	(1)	(1)	(2)	(3)
<b>Equity in income of unconsolidated entities</b>	<b>\$ 420</b>	<b>\$ 373</b>	<b>\$ 811</b>	<b>\$ 746</b>

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,	
	2019	2018	2019	2018
Construction contract and other service revenues	\$ 42,299	\$ 17,581	\$ 59,249	\$ 44,779
Construction contract and other service expenses	(41,002)	(16,941)	(57,328)	(43,157)
<b>NOI from service operations</b>	<b>\$ 1,297</b>	<b>\$ 640</b>	<b>\$ 1,921</b>	<b>\$ 1,622</b>

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
NOI from real estate operations	\$ 86,136	\$ 80,918	\$ 169,900	\$ 159,444
NOI from service operations	1,297	640	1,921	1,622
Interest and other income	1,849	1,439	4,135	2,798
Gain on sales of real estate	84,469	(23)	84,469	(27)
Equity in income of unconsolidated entities	420	373	811	746
Income tax benefit (expense)	176	(63)	(18)	(118)
Depreciation and other amortization associated with real estate operations	(34,802)	(33,190)	(69,598)	(66,702)
General, administrative and leasing expenses	(9,386)	(7,628)	(18,137)	(14,920)
Business development expenses and land carry costs	(870)	(1,234)	(1,983)	(2,848)
Interest expense	(18,475)	(18,945)	(37,149)	(37,729)
Less: UJV NOI allocable to COPT included in equity in income of unconsolidated entities	(1,251)	(1,202)	(2,470)	(2,401)
Net income	\$ 109,563	\$ 21,085	\$ 131,881	\$ 39,865

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

	June 30, 2019	June 30, 2018
Segment assets	\$ 3,036,140	\$ 3,042,452
Operating properties lease liabilities included in segment assets	16,502	—
Non-operating property assets	523,801	431,661
Other assets	227,026	138,249
Total COPT consolidated assets	\$ 3,803,469	\$ 3,612,362

The accounting policies of the segments are the same as those used to prepare our consolidated financial statements. In the segment reporting presented above, we did not allocate interest expense, depreciation and amortization, 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.

#### 14. Construction Contract and Other Service Revenues

We disaggregate our construction contract and other service revenues by compensation arrangement and by service type as we believe it best depicts the nature, timing and uncertainty of our revenue. The table below reports construction contract and other service revenues by compensation arrangement (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Construction contract revenues:				
Guaranteed maximum price	\$ 25,792	\$ 9,539	\$ 38,148	\$ 30,025
Firm fixed price	1,335	6,288	3,660	12,723
Cost-plus fee	14,969	1,496	17,029	1,554
Other	203	258	412	477
	\$ 42,299	\$ 17,581	\$ 59,249	\$ 44,779

The table below reports construction contract and other service revenues by service type (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Construction contract revenues:				
Construction	\$ 42,010	\$ 16,668	\$ 58,499	\$ 42,583
Design	86	655	338	1,719
Other	203	258	412	477
	<u>\$ 42,299</u>	<u>\$ 17,581</u>	<u>\$ 59,249</u>	<u>\$ 44,779</u>

We recognized an increase (decrease) in revenue of \$(14,000) and \$10,000 in the three months ended June 30, 2019 and 2018, respectively, and \$18,000 and \$319,000 in the six months ended June 30, 2019 and 2018, respectively, from performance obligations satisfied (or partially satisfied) in previous periods.

Accounts receivable related to our construction contract services is included in accounts receivable, net on our consolidated balance sheets. The beginning and ending balances of accounts receivable related to our construction contracts were as follows (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
Beginning balance	\$ 6,701	\$ 4,577
Ending balance	\$ 34,837	\$ 4,805

The increase in the accounts receivable balance reported above for the six months ended June 30, 2019 was due primarily to significant amounts billed near the end of the period.

Contract assets, which we refer to herein as construction costs in excess of billings, are included in prepaid expenses and other assets, net reported on our consolidated balance sheets. The beginning and ending balances of our contract assets were as follows (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
Beginning balance	\$ 3,189	\$ 4,884
Ending balance	\$ 12,629	\$ 4,158

Contract liabilities are included in other liabilities reported on our consolidated balance sheets. Changes in contract liabilities were as follows (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
Beginning balance	\$ 568	\$ 27,402
Ending balance	\$ 156	\$ 515
Portion of beginning balance recognized in revenue during:		
Three months ended June 30	\$ 6	\$ 7,999
Six months ended June 30	\$ 445	\$ 27,296

The change in the contract liabilities balance reported above for the six months ended June 30, 2018 was due primarily to our satisfaction of performance obligations during the period on a contract on which we previously received advance payments from a customer.

Revenue allocated to the remaining performance obligations under existing contracts as of June 30, 2019 that will be recognized as revenue in future periods was \$48.4 million, approximately \$41 million of which we expect to recognize during the remainder of 2019.

We have no deferred incremental costs incurred to obtain or fulfill our construction contracts or other service revenues and had no impairment losses on construction contracts receivable or unbilled construction revenue in the three or six months ended June 30, 2019 and 2018.

## 15. Share-Based Compensation

### Restricted Shares

During the six months ended June 30, 2019, certain employees and non-employee members of our Board of Trustees (“Trustees”) were granted a total of 171,520 restricted common shares with an aggregate grant date fair value of \$4.5 million (weighted average of \$26.22 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 employee remains 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, 2019, forfeiture restrictions lapsed on 171,028 previously issued common shares; these shares had a weighted average grant date fair value of \$28.03 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$4.5 million.

### Deferred Share Awards

During the six months ended June 30, 2019, certain non-employee Trustees were granted a total of 3,432 deferred share awards with an aggregate grant date fair value of \$95,000 (\$27.60 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, 2019, we issued 3,097 common shares in settlement of deferred share awards; these shares had a grant date fair value of \$26.77 per share, and the aggregate intrinsic value of the shares on the settlement date was \$86,000.

### Performance Share Awards (“PSUs”)

We issued 44,757 common shares on January 18, 2019 to executives in settlement of PSUs granted in 2016, representing 57% of the target award for those PSUs.

### PIUs

Commencing in 2019, we offered our executives and Trustees the opportunity to select PIUs as a form of long-term compensation in lieu of, or in combination with, other forms of share-based compensation awards (restricted shares, deferred share awards and PSUs). PIUs are a special class of common unit structured to qualify as “profit interests” for tax purposes. Our executives and certain of our Trustees selected PIUs as their form of share-based compensation for their 2019 grants. We granted two forms of PIUs: time-based PIUs (“TB-PIUs”); and performance-based PIUs (“PB-PIUs”). TB-PIUs are subject to forfeiture restrictions until the end of the requisite service period, at which time the TB-PIUs automatically convert into vested PIUs. PB-PIUs are subject to a market condition in that the number of earned awards are determined at the end of the performance period (as described further below) and then settled in vested PIUs. Vested PIUs carry substantially the same rights to redemption and distributions as non-PIU common units.

#### TB-PIUs

During the six months ended June 30, 2019, our executives and certain non-employee Trustees were granted a total of 61,820 TB-PIUs with an aggregate grant date fair value of \$1.6 million (weighted average of \$26.01 per TB-PIU). TB-PIUs granted to executives vest in equal one-third increments over a three-year period beginning on the first anniversary of the date of grant. TB-PIUs granted to non-employee Trustees vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position. Prior to vesting, TB-PIUs carry substantially the same rights to distributions as non-PIU common units but carry no redemption rights.

## PB-PIUs

On January 1, 2019, we granted our executives 193,682 PB-PIUs with a three-year performance period concluding on the earlier of December 31, 2021 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 earned awards 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:

<u>Percentile Rank</u>	<u>Earned Awards Payout %</u>
75th or greater	100% of PB-PIUs granted
50th (target)	50% of PB-PIUs granted
25th	25% of PB-PIUs granted
Below 25th	0% of PB-PIUs 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 awards will be interpolated between the ranges set forth in the table above to reflect any performance between the listed percentiles. During the performance period, PB-PIUs carry rights to distributions equal to 10% of the distribution rights of non-PIU common units but carry no redemption rights.

At the end of the performance period, we will settle the award by issuing vested PIUs equal to the number of earned awards in settlement of the award plan and paying cash equal to the excess, if any, of: the aggregate distributions that would have been paid with respect to vested PIUs issued in settlement of the earned awards through the date of settlement had such vested PIUs been issued on the grant date; over the aggregate distributions made on the PB-PIUs during the performance period. If a performance period ends due to a sale event or qualified termination, the number of earned awards 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 PB-PIUs are forfeited.

These PB-PIUs had an aggregate grant date fair value of \$2.4 million (\$12.47 per PB-PIU) which is being recognized over the performance period. The grant date fair value was computed using a Monte Carlo model that included the following assumptions: baseline common share value of \$21.03; expected volatility for common shares of 21.0%; and a risk-free interest rate of 2.51%.

## **16. Earnings Per Share (“EPS”) and Earnings Per Unit (“EPU”)**

### **COPT and Subsidiaries EPS**

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

- the denominator is increased to include: (1) the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into common shares were converted; and (2) the effect of dilutive potential common shares outstanding during the period attributable to COPT’s forward equity sale agreements, redeemable noncontrolling interests and our 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 add 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,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income attributable to COPT	\$ 106,791	\$ 19,434	\$ 127,650	\$ 36,584
Income attributable to share-based compensation awards	(364)	(117)	(413)	(234)
Numerator for basic EPS on net income attributable to COPT common shareholders	106,427	19,317	127,237	36,350
Preferred unit distributions	165	—	—	—
Redeemable noncontrolling interests	902	—	66	—
Common units in the Operating Partnership	—	—	1,515	—
Income attributable to share-based compensation awards	18	—	22	—
Numerator for diluted EPS on net income attributable to COPT common shareholders	\$ 107,512	\$ 19,317	\$ 128,840	\$ 36,350
<b>Denominator (all weighted averages):</b>				
Denominator for basic EPS (common shares)	111,557	101,789	110,759	101,397
Dilutive convertible preferred units	176	—	—	—
Dilutive effect of common units	—	—	1,329	—
Dilutive effect of share-based compensation awards	310	119	289	131
Dilutive effect of redeemable noncontrolling interests	1,062	—	130	—
Denominator for diluted EPS (common shares)	113,105	101,908	112,507	101,528
Basic EPS	\$ 0.95	\$ 0.19	\$ 1.15	\$ 0.36
Diluted EPS	\$ 0.95	\$ 0.19	\$ 1.15	\$ 0.36

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,	
	2019	2018	2019	2018
Conversion of common units	1,327	3,197	—	3,208
Conversion of redeemable noncontrolling interests	—	—	907	—
Conversion of Series I preferred units	—	176	176	176

The following securities were also excluded from the computation of diluted EPS because their effect was antidilutive:

- weighted average shares related to COPT's forward equity sale agreements for the three months ended June 30, 2018 of 6.8 million, and for the six months ended June 30, 2019 and 2018 of 758,000 and 7.1 million, respectively;
- weighted average restricted shares and deferred share awards for the three months ended June 30, 2019 and 2018 of 425,000 and 458,000, respectively, and for the six months ended June 30, 2019 and 2018 of 444,000 and 451,000, respectively;
- weighted average options for the three months ended June 30, 2019 and 2018 of 17,000 and 47,000, respectively, and for the six months ended June 30, 2019 and 2018 of 23,000 and 53,000, respectively; and
- weighted average unvested PIUs of 59,000 and 39,000 for the three and six months ended June 30, 2019, 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 COPT's forward equity sale agreements, redeemable noncontrolling interests and our 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 add 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,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income attributable to COPLP	\$ 108,295	\$ 20,207	\$ 129,576	\$ 38,066
Preferred unit distributions	(165)	(165)	(330)	(330)
Income attributable to share-based compensation awards	(438)	(117)	(494)	(234)
Numerator for basic EPU on net income attributable to COPLP common unitholders	107,692	19,925	128,752	37,502
Redeemable noncontrolling interests	902	—	66	—
Income attributable to share-based compensation awards	18	—	22	—
Dilutive effective of preferred units	165	—	—	—
Numerator for diluted EPU on net income attributable to COPLP common unitholders	\$ 108,777	\$ 19,925	\$ 128,840	\$ 37,502
<b>Denominator (all weighted averages):</b>				
Denominator for basic EPU (common units)	112,884	104,986	112,088	104,605
Dilutive convertible preferred units	176	—	—	—
Dilutive effect of redeemable noncontrolling interests	1,062	—	130	—
Dilutive effect of share-based compensation awards	310	119	289	131
Denominator for diluted EPU (common units)	114,432	105,105	112,507	104,736
Basic EPU	\$ 0.95	\$ 0.19	\$ 1.15	\$ 0.36
Diluted EPU	\$ 0.95	\$ 0.19	\$ 1.15	\$ 0.36

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 Shares Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Conversion of redeemable noncontrolling interests	—	—	907	—
Conversion of Series I preferred units	—	176	176	176

The following securities were also excluded from the computation of diluted EPU because their effect was antidilutive:

- weighted average shares related to COPT's forward equity sale agreements for the three months ended June 30, 2018 of 6.8 million, and for the six months ended June 30, 2019 and 2018 of 758,000 and 7.1 million, respectively;
- weighted average restricted units and deferred share awards for the three months ended June 30, 2019 and 2018 of 425,000 and 458,000, respectively, and for the six months ended June 30, 2019 and 2018 of 444,000 and 451,000, respectively;
- weighted average options for the three months ended June 30, 2019 and 2018 of 17,000 and 47,000, respectively, and for the six months ended June 30, 2019 and 2018 of 23,000 and 53,000, respectively; and
- weighted average unvested PIUs of 59,000 and 39,000 for the three and six months ended June 30, 2019, respectively.



## 17. Commitments and Contingencies

### Litigation and Claims

In the normal course of business, we are subject to legal actions and other claims. We record losses for specific legal proceedings and claims when we determine that a loss is probable and the amount of loss can be reasonably estimated. Management believes that it is reasonably possible that we could incur losses pursuant to such claims but do not believe such losses would materially affect our financial position, liquidity or results of operations. 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.

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.

### Tax Incremental Financing Obligation

Anne Arundel County, Maryland issued tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as the National Business Park. These bonds had a remaining principal balance of approximately \$35 million as of June 30, 2019. The real estate taxes on increases in assessed values post-bond issuance of properties in development districts encompassing the National Business Park are transferred to a special fund pledged to the repayment of the bonds. While we are obligated to fund, through a special tax, any future shortfalls between debt service of the bonds and real estate taxes available to repay the bonds, as of June 30, 2019, we do not expect any such future fundings will be required.

### Contractual Obligations

We had amounts remaining to be incurred under various contractual obligations as of June 30, 2019 that included the following (excluding amounts incurred and therefore reflected as liabilities reported on our consolidated balance sheets):

- development and redevelopment obligations of \$174.0 million;
- tenant and other capital improvements of \$51.8 million;
- third party construction obligations of \$15.4 million; and
- other obligations of \$1.7 million.

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

### Overview

During the six months ended June 30, 2019:

- we finished the period with our office and data center shell portfolio 92.7% occupied;
- we placed into service 787,000 square feet in seven newly-constructed properties and one redeveloped property that were 100.0% leased as of June 30, 2019;
- we sold a 90% interest in seven data center shell properties based on an aggregate property value of \$265.0 million and retained a 10% interest in the properties through BREIT-COPT, a newly-formed joint venture. Our partner in the joint venture acquired the 90% interest from us for \$238.5 million, most of which was used by us to repay borrowings under our Revolving Credit Facility that funded development costs; and
- COPT issued 1.6 million common shares under its forward equity sale agreements for net proceeds of \$46.5 million. COPT contributed the net proceeds from these issuances to COPLP in exchange for an equal number of units in COPLP. The proceeds were used primarily to repay borrowings under our Revolving Credit Facility that funded development costs.

With regard to our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Quarterly Report on Form 10-Q, amounts disclosed include information pertaining to properties owned through unconsolidated real estate joint ventures except for amounts reported for Annualized Rental Revenue, which represent the portion attributable to our ownership interest.

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 Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "could," "believe," "anticipate," "expect," "estimate," "plan" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or reduced or delayed 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;
- possible adverse changes in tax laws;
- the dilutive effects of issuing additional common shares;
- our ability to achieve projected results;
- security breaches relating to cyber attacks, cyber intrusions or other factors; and
- environmental requirements.

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

## Occupancy and Leasing

### Office and Data Center Shell Portfolio

The tables below set forth occupancy information pertaining to our portfolio of office and data center shell properties:

	June 30, 2019	December 31, 2018
Occupancy rates at period end		
Total	92.7%	93.0%
Defense/IT Locations:		
Fort Meade/BW Corridor	90.8%	91.1%
Northern Virginia Defense/IT	87.6%	91.3%
Lackland Air Force Base	100.0%	100.0%
Navy Support Locations	90.9%	90.5%
Redstone Arsenal	98.7%	99.0%
Data Center Shells	100.0%	100.0%
Total Defense/IT Locations	93.3%	93.6%
Regional Office	89.3%	89.2%
Other	72.1%	77.2%
Average contractual annual rental rate per square foot at period end (1)	\$ 29.32	\$ 30.04

- (1) Includes estimated expense reimbursements.

	Rentable Square Feet	Occupied Square Feet
	(in thousands)	
December 31, 2018	18,094	16,821
Vacated upon lease expiration (1)	—	(483)
Occupancy for new leases (2)	—	472
Constructed or redeveloped	787	787
Other changes	64	(37)
June 30, 2019	18,945	17,560

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

During the six months ended June 30, 2019, we completed 2.5 million square feet of leasing, including: renewed leases on 950,000 square feet, representing 77.8% of the square footage of our lease expirations (including the effect of early renewals); 1.2 million square feet of development and redevelopment space; and 371,000 square feet of vacant space.

### Wholesale Data Center

Our 19.25 megawatt wholesale data center was 82.1% leased as of June 30, 2019 and 87.6% leased as of December 31, 2018. Based on recent discussions with certain tenants of this property, we expect that the leased percentage of this property will decline to approximately 77% by December 31, 2019.

## 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:

- office and data center shell properties:
  - stably owned and 100% operational throughout the current and prior year reporting periods. We define these as changes from “Same Properties”;
  - constructed or redeveloped and placed into service that were not 100% operational throughout the current and prior year reporting periods; and
  - disposed; and
- our wholesale data center.

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 net income, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures. A reconciliation of NOI from real estate operations and NOI from service operations to net income reported on the consolidated statements of operations of COPT and subsidiaries is provided in Note 13 to our consolidated financial statements.

### Comparison of Statements of Operations for the Three Months Ended June 30, 2019 and 2018

	For the Three Months Ended June 30,		
	2019	2018	Variance
	(in thousands)		
<b>Revenues</b>			
Revenues from real estate operations	\$ 132,771	\$ 129,162	\$ 3,609
Construction contract and other service revenues	42,299	17,581	24,718
Total revenues	175,070	146,743	28,327
<b>Operating expenses</b>			
Property operating expenses	47,886	49,446	(1,560)
Depreciation and amortization associated with real estate operations	34,802	33,190	1,612
Construction contract and other service expenses	41,002	16,941	24,061
General, administrative and leasing expenses	9,386	7,628	1,758
Business development expenses and land carry costs	870	1,234	(364)
Total operating expenses	133,946	108,439	25,507
Interest expense	(18,475)	(18,945)	470
Interest and other income	1,849	1,439	410
Gain on sales of real estate	84,469	(23)	84,492
Equity in income of unconsolidated entities	420	373	47
Income tax benefit (expense)	176	(63)	239
Net income	\$ 109,563	\$ 21,085	\$ 88,478

	For the Three Months Ended June 30,		
	2019	2018	Variance
(Dollars in thousands, except per square foot data)			
<b>Revenues</b>			
Same Properties revenues			
Lease revenue, excluding lease termination revenue	\$ 113,503	\$ 113,612	\$ (109)
Lease termination revenue	285	558	(273)
Other property revenue	1,303	1,216	87
Same Properties total revenues	115,091	115,386	(295)
Constructed and redeveloped properties placed in service	5,677	1,625	4,052
Wholesale data center	8,560	8,105	455
Dispositions	3,437	3,775	(338)
Other	6	271	(265)
	<u>132,771</u>	<u>129,162</u>	<u>3,609</u>
<b>Property operating expenses</b>			
Same Properties	(43,028)	(44,611)	1,583
Constructed and redeveloped properties placed in service	(821)	(178)	(643)
Wholesale data center	(3,618)	(4,150)	532
Dispositions	(422)	(577)	155
Other	3	70	(67)
	<u>(47,886)</u>	<u>(49,446)</u>	<u>1,560</u>
<b>UJV NOI allocable to COPT</b>			
Same Properties	1,205	1,202	3
Other	46	—	46
	<u>1,251</u>	<u>1,202</u>	<u>49</u>
<b>NOI from real estate operations</b>			
Same Properties	73,268	71,977	1,291
Constructed and redeveloped properties placed in service	4,856	1,447	3,409
Wholesale data center	4,942	3,955	987
Dispositions	3,015	3,198	(183)
Other	55	341	(286)
	<u>\$ 86,136</u>	<u>\$ 80,918</u>	<u>\$ 5,218</u>
<b>Same Properties NOI from real estate operations by segment</b>			
Defense/IT Locations	\$ 65,454	\$ 63,264	\$ 2,190
Regional Office	7,430	8,125	(695)
Other	384	588	(204)
	<u>\$ 73,268</u>	<u>\$ 71,977</u>	<u>\$ 1,291</u>
<b>Same Properties rent statistics</b>			
Average occupancy rate	92.0%	90.9%	1.1%
Average straight-line rent per occupied square foot (1)	\$ 6.49	\$ 6.47	\$ 0.02

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

Our Same Properties pool consisted of 150 properties, comprising 86.3% of our office and data center shell portfolio's square footage as of June 30, 2019. This pool of properties changed from the pool used for purposes of comparing 2018 and 2017 in our 2018 Annual Report on Form 10-K due to the addition of nine properties placed in service and 100% operational on or before January 1, 2018 and the removal of six properties in which we sold a 90% interest in June 2019.

Our NOI from constructed and redeveloped properties placed in service included 12 properties and land under a long-term contract placed in service in 2018 and 2019.

*NOI from Service Operations*

	For the Three Months Ended June 30,		
	2019	2018	Variance
(in thousands)			
Construction contract and other service revenues	\$ 42,299	\$ 17,581	\$ 24,718
Construction contract and other service expenses	41,002	16,941	24,061
NOI from service operations	<u>\$ 1,297</u>	<u>\$ 640</u>	<u>\$ 657</u>

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

*General, administrative and leasing expenses*

General, administrative and leasing expenses increased in large part due to: higher legal and professional expenses and information technology related expenses; and our adoption of lease accounting guidance in the current period under which we no longer defer recognition of non-incremental leasing costs.

*Gain on sales of real estate*

The gain on sales of real estate in the current period was due to our sale of 40% interest in seven data center shell properties.

Comparison of Statements of Operations for the Six Months Ended June 30, 2019 and 2018

	For the Six Months Ended June 30,		
	2019	2018	Variance
(in thousands)			
<b>Revenues</b>			
Revenues from real estate operations	\$ 264,761	\$ 257,440	\$ 7,321
Construction contract and other service revenues	59,249	44,779	14,470
Total revenues	324,010	302,219	21,791
<b>Operating expenses</b>			
Property operating expenses	97,331	100,397	(3,066)
Depreciation and amortization associated with real estate operations	69,598	66,702	2,896
Construction contract and other service expenses	57,328	43,157	14,171
General, administrative and leasing expenses	18,137	14,920	3,217
Business development expenses and land carry costs	1,983	2,848	(865)
Total operating expenses	244,377	228,024	16,353
Interest expense	(37,149)	(37,729)	580
Interest and other income	4,135	2,798	1,337
Gain on sales of real estate	84,469	(27)	84,496
Equity in income of unconsolidated entities	811	746	65
Income tax expense	(18)	(118)	100
Net income	<u>\$ 131,881</u>	<u>\$ 39,865</u>	<u>\$ 92,016</u>

NOI from Real Estate Operations

	For the Six Months Ended June 30,		
	2019	2018	Variance
(Dollars in thousands, except per square foot data)			
<b>Revenues</b>			
Same Properties revenues			
Lease revenue, excluding lease termination revenue	\$ 227,632	\$ 225,801	\$ 1,831
Lease termination revenue	806	1,566	(760)
Other property revenue	2,345	2,328	17
Same Properties total revenues	230,783	229,695	1,088
Constructed and redeveloped properties placed in service	10,122	3,253	6,869
Wholesale data center	16,431	16,182	249
Dispositions	7,208	7,784	(576)
Other	217	526	(309)
	<u>264,761</u>	<u>257,440</u>	<u>7,321</u>
<b>Property operating expenses</b>			
Same Properties	(88,213)	(90,209)	1,996
Constructed and redeveloped properties placed in service	(1,680)	(629)	(1,051)
Wholesale data center	(6,456)	(8,408)	1,952
Dispositions	(1,023)	(1,219)	196
Other	41	68	(27)
	<u>(97,331)</u>	<u>(100,397)</u>	<u>3,066</u>
<b>UJV NOI allocable to COPT</b>			
Same Properties	2,424	2,401	23
Other	46	—	46
	<u>2,470</u>	<u>2,401</u>	<u>69</u>
<b>NOI from real estate operations</b>			
Same Properties	144,994	141,887	3,107
Constructed and redeveloped properties placed in service	8,442	2,624	5,818
Wholesale data center	9,975	7,774	2,201
Dispositions	6,185	6,565	(380)
Other	304	594	(290)
	<u>\$ 169,900</u>	<u>\$ 159,444</u>	<u>\$ 10,456</u>
<b>Same Properties NOI from real estate operations by segment</b>			
Defense/IT Locations	\$ 129,352	\$ 125,435	\$ 3,917
Regional Office	14,847	15,438	(591)
Other	795	1,014	(219)
	<u>\$ 144,994</u>	<u>\$ 141,887</u>	<u>\$ 3,107</u>
<b>Same Properties rent statistics</b>			
Average occupancy rate	92.0%	90.9%	1.1%
Average straight-line rent per occupied square foot (1)	\$ 12.98	\$ 12.89	\$ 0.09

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

Our NOI from constructed and redeveloped properties placed in service included 12 properties and land under a long-term contract placed in service in 2018 and 2019.

*NOI from Service Operations*

	For the Six Months Ended June 30,		
	2019	2018	Variance
	(in thousands)		
Construction contract and other service revenues	\$ 59,249	\$ 44,779	\$ 14,470
Construction contract and other service expenses	57,328	43,157	14,171
NOI from service operations	<u>\$ 1,921</u>	<u>\$ 1,622</u>	<u>\$ 299</u>

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

*General, administrative and leasing expenses*

General, administrative and leasing expenses increased in large part due to: higher legal and professional expenses and information technology related expenses; and our adoption of lease accounting guidance in the current period under which we no longer defer recognition of non-incremental leasing costs.

*Gain on sales of real estate*

The gain on sales of real estate in the current period was due to our sale of a 90% interest in seven data center shell properties.

Funds from Operations

Funds from operations ("FFO") is defined as net income computed using GAAP, excluding gains on sales and impairment losses of real estate (net of associated income tax) and real estate-related depreciation and amortization. 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 on sales and impairment losses of real estate (net of associated income tax), and 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 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 share-based compensation awards. 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; 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, interest expense and gains on debt extinguishment; loss on interest rate derivatives; demolition costs on redevelopment and nonrecurring improvements; executive transition costs; issuance costs associated with redeemed preferred shares; and certain other expenses that we believe are not closely correlated with our operating performance. 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 adopted, retrospectively effective January 1, 2019, Nareit’s 2018 Whitepaper Restatement, which changed the prior definition of FFO to also exclude gains on sales and impairment losses of properties other than previously depreciated operating properties, net of associated income tax. This adoption affected our reporting for FFO, Basic FFO, Diluted FFO and Diluted FFO per share.

The table below sets forth the computation of the above stated measures for the three and six months ended June 30, 2019 and 2018, 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,	
	2019	2018	2019	2018
	(Dollars and shares in thousands, except per share data)			
Net income	\$ 109,563	\$ 21,085	\$ 131,881	\$ 39,865
Add: Real estate-related depreciation and amortization	34,802	33,190	69,598	66,702
Add: Depreciation and amortization on UJV allocable to COPT	566	564	1,132	1,127
Less: Gain on sales of real estate	(84,469)	23	(84,469)	27
FFO	60,462	54,862	118,142	107,721
Less: Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Less: FFO allocable to other noncontrolling interests	(1,188)	(753)	(2,159)	(1,697)
Basic and diluted FFO allocable to share-based compensation awards	(229)	(224)	(414)	(437)
Basic FFO available to common share and common unit holders	58,880	53,720	115,239	105,257
Redeemable noncontrolling interests	33	—	942	—
Diluted FFO available to common share and common unit holders	58,913	53,720	116,181	105,257
Executive transition costs	—	213	4	376
Demolition costs on redevelopment and nonrecurring improvements	—	9	44	48
Non-comparable professional and legal expenses	311	—	311	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	(2)	(1)	(2)	(2)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$ 59,222	\$ 53,941	\$ 116,538	\$ 105,679
Weighted average common shares	111,557	101,789	110,759	101,397
Conversion of weighted average common units	1,327	3,197	1,329	3,208
Weighted average common shares/units - Basic FFO	112,884	104,986	112,088	104,605
Dilutive effect of share-based compensation awards	310	119	289	131
Redeemable noncontrolling interests	136	—	1,037	—
Weighted average common shares/units - Diluted FFO	113,330	105,105	113,414	104,736
Diluted FFO per share	\$ 0.52	\$ 0.51	\$ 1.02	\$ 1.00
Diluted FFO per share, as adjusted for comparability	\$ 0.52	\$ 0.51	\$ 1.03	\$ 1.01
Denominator for diluted EPS	113,105	101,908	112,507	101,528
Weighted average common units	1,327	3,197	—	3,208
Redeemable noncontrolling interests	(926)	—	907	—
Dilutive convertible preferred units	(176)	—	—	—
Denominator for diluted FFO per share measures	113,330	105,105	113,414	104,736

## Property Additions

The table below sets forth the major components of our additions to properties for the six months ended June 30, 2019 (in thousands):

Construction, development and redevelopment	\$ 249,424
Tenant improvements on operating properties (1)	11,567
Capital improvements on operating properties	8,864
	<u>\$ 269,855</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 from operating activities increased \$31.1 million when comparing the six months ended June 30, 2019 and 2018 due primarily to our payment in 2018 of construction costs on a contract that the customer pre-funded to us in prior years.

Net cash flow used in investing activities decreased \$83.2 million when comparing the six months ended June 30, 2019 and 2018 due primarily to \$237.3 million in proceeds from our sale in 2019 of a 90% interest in properties that was offset in part by a \$151.9 increase in cash outlays for construction, development and redevelopment in the current period.

Net cash flow used in financing activities in the six months ended June 30, 2019 was \$59.4 million, and included the following:

- dividends and/or distributions to equity holders of \$62.2 million; and
- net debt repayments of \$41.6 million; offset in part by
- net proceeds from the issuance of common shares (or units) of \$46.4 million.

Net cash flow provided by financing activities in the six months ended June 30, 2018 was \$13.8 million, and included the following:

- net proceeds from debt borrowings of \$41.9 million; and
- net proceeds from the issuance of common shares (or units) of \$52.3 million; offset in part by
- dividends and/or distributions to equity holders of \$58.1 million; and
- payments on a capital lease obligation of \$15.4 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 occasionally issues public equity 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, 2019, COPT owned 98.6% of the outstanding common units in COPLP; the remaining common units and all of the outstanding preferred units 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 9 of the notes to consolidated financial statements included 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 that the Operating Partnership's sources of working capital, specifically its cash flow from operations, and borrowings available under its Revolving Credit Facility, 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 to 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, development activities and acquisitions.

#### **Liquidity and Capital Resources of COPLP**

COPLP's 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 COPLP to continue to use cash flow provided by operations as the primary source to meet its short-term capital needs, including property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, distributions to its security holders and improvements to existing properties. As of June 30, 2019, COPLP had \$46.3 million in cash and cash equivalents.

COPLP's senior unsecured debt is currently rated investment grade by the three major rating agencies. We aim to maintain an investment grade rating to enable COPLP to use debt comprised of unsecured, primarily fixed-rate debt (including the effect of interest rate swaps) from public markets and banks. COPLP also uses secured nonrecourse debt from institutional lenders and banks for joint venture financing. In addition, COPLP periodically raises equity from COPT when COPT accesses the public equity markets by issuing common and/or preferred shares.

COPLP uses its Revolving Credit Facility to initially finance much of its investing activities. COPLP subsequently pays down the facility using cash available from operations and proceeds from long-term borrowings, equity issuances and sales of interests in properties. The lenders' aggregate commitment under the facility is \$800.0 million, with the ability for COPLP to increase the lenders' aggregate commitment to \$1.25 billion, provided that there is no default under the facility and subject to the approval of the lenders. The facility matures in March 2023, and may be extended by two six-month periods at COPLP's option, provided that there is no default under the facility and COPLP pays an extension fee of 0.075% of the total availability under the facility for each extension period. As of June 30, 2019, the maximum borrowing capacity under this facility totaled \$800.0 million, of which \$637.0 million was available.

COPT has an equity program in place under which it may offer and sell common shares in at-the-market stock offerings having an aggregate gross sales price of up to \$300 million. Under this program, COPT may also, at its discretion, sell common shares under forward equity sales agreements. The use of a forward equity sales agreement would enable us to lock in a price on a sale of common shares when the agreement is executed but defer receiving the proceeds from the sale until a later date.

We believe that COPLP's liquidity and capital resources are adequate for its near-term and longer-term requirements without necessitating property sales. However, we were under contract to sell controlling interests in two data center shell properties in Virginia for \$67 million; we expect this sale to occur in the fourth quarter of 2019.

The following table summarizes our contractual obligations as of June 30, 2019 (in thousands):

	For the Periods Ending December 31,							Total
	2019	2020	2021	2022	2023	Thereafter		
<b>Contractual obligations (1)</b>								
<b>Debt (2)</b>								
Balloon payments due upon maturity	\$ —	\$ 12,132	\$ 300,000	\$ 274,572	\$ 576,578	\$ 613,252	\$ 1,776,534	
Scheduled principal payments (3)	2,194	4,024	3,875	4,032	3,012	3,633	20,770	
Interest on debt (3)(4)	37,474	74,590	67,517	61,946	37,125	27,566	306,218	
Development and redevelopment obligations (5)(6)	159,789	13,504	703	—	—	—	173,996	
Third-party construction obligations (6)(7)	7,585	7,852	—	—	—	—	15,437	
Tenant and other capital improvements (3)(6)(8)	12,926	29,090	9,827	—	—	—	51,843	
Finance leases (principal and interest) (3)	118	862	202	64	—	—	1,246	
Operating leases (3)	554	1,126	1,111	1,129	1,134	99,187	104,241	
Other obligations (3)	124	192	178	178	178	800	1,650	
<b>Total contractual cash obligations</b>	<b>\$ 220,764</b>	<b>\$ 143,372</b>	<b>\$ 383,413</b>	<b>\$ 341,921</b>	<b>\$ 618,027</b>	<b>\$ 744,438</b>	<b>\$ 2,451,935</b>	

- (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 \$12.9 million. As of June 30, 2019, maturities included \$163.0 million in 2023 that may be extended to 2024, subject to certain conditions.
- (3) We expect to pay these items using cash flow from operations.
- (4) Represents interest costs for our outstanding debt as of June 30, 2019 for the terms of such debt. For variable rate debt, the amounts reflected above used June 30, 2019 interest rates on variable rate debt in computing interest costs for the terms of such debt. We expect to pay these items using cash flow from operations.
- (5) Represents contractual obligations pertaining to new development and redevelopment activities.
- (6) 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.
- (7) 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.
- (8) Represents contractual obligations pertaining to capital expenditures for our operating properties. We expect to pay these costs primarily using cash flow from operating activities.

We expect to spend approximately \$190 million on construction and development costs and approximately \$45 million on improvements and leasing costs for operating properties (including the commitments set forth in the table above) during the remainder of 2019. We expect to fund the construction and development costs initially using primarily borrowings under our Revolving Credit Facility. We expect to fund improvements to existing operating properties using cash flow from operating activities.

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, 2019, 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, 2019.

#### **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, 2019 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

	For the Periods Ending December 31,						Total
	2019	2020	2021	2022	2023	Thereafter	
Debt:							
Fixed rate debt (1)	\$ 1,995	\$ 3,718	\$ 303,875	\$ 4,033	\$ 416,590	\$ 616,885	\$ 1,347,096
Weighted average interest rate	4.33%	3.96%	3.70%	3.98%	3.70%	5.00%	4.30%
Variable rate debt (2)	\$ 199	\$ 12,438	\$ —	\$ 274,571	\$ 163,000	\$ —	\$ 450,208
Weighted average interest rate (3)	4.29%	4.29%	—%	3.79%	3.52%	—%	3.71%

- (1) Represents principal maturities only and therefore excludes net discounts and deferred financing costs of \$12.9 million.
- (2) As of June 30, 2019, maturities included \$163.0 million in 2023 that may be extended to 2024, subject to certain conditions.
- (3) The amounts reflected above used interest rates as of June 30, 2019 for variable rate debt.

The fair value of our debt was \$1.8 billion as of June 30, 2019. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$51 million as of June 30, 2019.

See Note 10 to our consolidated financial statements for information pertaining to interest rate swap contracts in place as of June 30, 2019 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 \$1.0 million in the six months ended June 30, 2019 if the applicable LIBOR rate was 1% higher.

## Item 4. Controls and Procedures

### COPT

- (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of COPT's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that COPT's disclosure controls and procedures as of June 30, 2019 were functioning effectively to provide reasonable assurance that the information required to be disclosed 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 its 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 COPT'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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of COPLP's disclosure controls and procedures (as defined in Rule 15d-15(e) under the Exchange Act) as of June 30, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that COPLP's disclosure controls and procedures as of June 30, 2019 were functioning effectively to provide reasonable assurance that the information required to be disclosed 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 its 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 COPLP'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**

**We may suffer adverse effects from changes in the method of determining LIBOR or the replacement of LIBOR with an alternative interest rate.** Our variable-rate debt and interest rate swaps use as a reference rate the London Interbank Offered Rate ("LIBOR"), as calculated for U.S. dollar ("USD-LIBOR"). The Chief Executive of the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced the FCA's intention to cease sustaining LIBOR after 2021. He has also indicated that market participants should expect LIBOR to be subsequently discontinued and should proceed with preparations for transitioning to an alternative reference rate. The Federal Reserve Board convened the Alternative Reference Rates Committee ("ARRC") to identify a set of alternative reference rates for possible use as market benchmarks. Based on the ARRC's recommendation, the Federal Reserve Bank of New York began publishing the Secured Overnight Financing Rate ("SOFR") and two other alternative rates beginning in April 2018. Since then, certain derivative products and debt securities tied to SOFR have been introduced, and various industry groups are developing transition plans to SOFR as the new market benchmark. While we have been closely monitoring developments in the LIBOR transition, we are not able to predict whether LIBOR will actually cease to be available after 2021 or whether SOFR will become the market benchmark in its place. Any changes announced or adopted by the FCA or other governing bodies in the method used for determining LIBOR rates may result in a sudden or prolonged increase or decrease in reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although our variable rate debt and interest rate swaps will likely provide for alternative methods of calculating the interest rate if LIBOR is not reported, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher or lower than if the LIBOR rate were to remain available in its current form.

There have been no other material changes to the risk factors included in our 2018 Annual Report on Form 10-K.

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

- (a) Not applicable
- (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**

On September 23, 2004, COPT and TRC Associates Limited Partnership (“TRC”) entered into the Seventeenth Amendment to Second Amended and Restated Limited Partnership Agreement (the “Seventeenth Amendment”) of COPLP. The Seventeenth Amendment was entered into in connection with the issuance by COPLP to TRC on September 23, 2004 of 352,000 Series I preferred units in COPLP (the “Series I Units”) valued at \$8.8 million. The Series I Units are convertible into common units on a basis of 0.5 common units for each Series I Unit. TRC was entitled to a priority annual cumulative return equal to 7.5% of their liquidation preference through September 22, 2019, with annual cumulative preferred return increases for each subsequent five-year period, subject to certain maximum limits. The Series I Units were also redeemable by COPLP at COPLP’s option any time after September 22, 2019.

The COPLP Second Amended and Restated Limited Partnership Agreement, as amended by all amendments thereto including the Seventeenth Amendment, was amended and restated effective December 5, 2018 by the Third Amended and Restated Limited Partnership Agreement of COPLP. On July 31, 2019, COPT and TRC entered into the First Amendment to the Third Amended and Restated Limited Partnership Agreement (as so amended, the “Amended Agreement”) of COPLP to amend the terms thereof relating to the Series I Units. The Amended Agreement includes provisions to:

- reduce the priority annual cumulative return on the Series I Units from and after September 23, 2019 to 3.5% of their liquidation value and eliminate provisions for future increases;
- extend the earliest date that COPLP may redeem the Series I Units. Under the Amended Agreement, the Series I Units are redeemable by COPLP effective on or after January 1, 2020, provided that COPLP provides notice to TRC six months prior to the effective date of the redemption; and
- establish that COPLP provide notice to TRC for defined periods of time in advance of COPLP’s sale of a defined property or repayment or refinancing of certain defined debt. Following receipt of such notice, in certain defined instances, TRC will have the ability to require COPLP to redeem the Series I Units at par.

The description of the terms of the Amended Agreement included herein is a summary, which does not purport to be complete and is qualified in its entirety by reference to the copy thereof attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.



**Item 6. Exhibits**

(a) Exhibits:

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
<a href="#">10.1</a>	<a href="#">Indenture, dated as of April 8, 2019, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Registration Statement on Form S-3 (Commission File No. 333-230764) and incorporated herein by reference).</a>
<a href="#">10.2</a>	<a href="#">First Amendment to Third Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P. dated July 31, 2019 (filed herewith).</a>
<a href="#">31.1</a>	<a href="#">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).</a>
<a href="#">31.2</a>	<a href="#">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).</a>
<a href="#">31.3</a>	<a href="#">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).</a>
<a href="#">31.4</a>	<a href="#">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).</a>
<a href="#">32.1</a>	<a href="#">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).</a>
<a href="#">32.2</a>	<a href="#">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).</a>
<a href="#">32.3</a>	<a href="#">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).</a>
<a href="#">32.4</a>	<a href="#">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).</a>
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 their 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: August 5, 2019

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: August 5, 2019

**FIRST AMENDMENT  
TO  
THIRD AMENDED AND RESTATED  
LIMITED PARTNERSHIP AGREEMENT  
OF  
CORPORATE OFFICE PROPERTIES, L.P.**

THIS First Amendment to Third Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P. (the “Amendment”), a Delaware limited partnership (the “Partnership” or the “Operating Partnership”), is made and entered into as of July 31, 2019 (the “Effective Date”), by and between the undersigned parties.

**RECITALS**

A. The Operating Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Third Amended and Restated Limited Partnership Agreement dated as of December 5, 2018 (as amended, modified and revised, the “Partnership Agreement”).

B. The sole general partner of the Operating Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the “General Partner”).

C. The Operating Partnership, General Partner and TRC Associates Limited Partnership, a Delaware limited partnership (“TRCALP”), entered into and are parties to that certain Contribution Agreement dated as of August 26, 2004 (the “Contribution Agreement”) pursuant to which, among other things, TRCALP contributed all of its membership interests in TRC Pinnacle Towers, L.L.C., a Virginia limited liability company, to the Operating Partnership in exchange for 352,000 Series I Preferred Units (the “Series I Preferred Units”) in the Operating Partnership (collectively, the “Transaction”).

D. The rights, preferences and privileges of the Series I Preferred Units are specifically set forth in that certain Seventeenth Amendment to the Second Amended and Restated Limited Partnership Agreement of the Operating Partnership dated as of September 23, 2004 by and between the General Partner and TRCALP (the “17th Amendment”).

E. The Operating Partnership, General Partner and TRCALP have executed and delivered that certain First Amendment to Tax Protection Agreement dated as of the Effective Date, for purposes of restructuring certain terms related to the Series I Preferred Units and the Transaction (the “Restructuring”).

F. The parties hereto desire to amend the Partnership Agreement in connection with the Restructuring as more particularly set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual premises set forth herein, the parties hereto, intending to be legally bound hereby, hereby amend the Partnership Agreement as follows, effective as of the Effective Date (unless such other date is expressly specified herein):

1. Recitals; Acknowledgment. The foregoing recitals to this Amendment are hereby incorporated in and made a part of this Amendment. The parties acknowledge and agree that except as expressly amended or modified by this Amendment, the terms of the 17<sup>th</sup> Amendment, and the terms of the Series I Preferred Units as set forth in the 17<sup>th</sup> Amendment, shall apply to the Partnership Agreement and such Series I Preferred Units shall be a series of Preferred Units under the Partnership Agreement, in full force and effect in accordance with the terms and conditions thereof, except as so amended or modified. In the event of any inconsistency between the provisions of this Amendment and the 17<sup>th</sup> Amendment, on the one hand, and the Partnership Agreement, including any related exhibits and schedules thereto, on the other hand, the provisions of this Amendment and the 17<sup>th</sup> Amendment, as applicable, shall prevail.

2. Capitalized Terms. All capitalized terms used but not defined herein shall have the meaning ascribed to them in the Partnership Agreement.

3. Priority Return Percentage.

(a) The following sentence shall be added after the last sentence in Section 4.1 of the 17<sup>th</sup> Amendment:

“Thereafter, the Priority Return Percentage from and after September 23, 2019 shall be 3.50% per year.”

(b) Sections 4.2 through 4.6 of the 17<sup>th</sup> Amendment shall be deleted in their entirety and each replaced with the following: “Intentionally Omitted.”

4. Redemption of Series I Preferred Units. Section 6 of the 17<sup>th</sup> Amendment is hereby deleted in its entirety and replaced with the following:

“6. Redemption.

6.1 The then outstanding Series I Preferred Units shall be redeemable effective on or after January 1, 2020 by the Operating Partnership, in whole but not in part, at par (i.e., in an amount equal to their Liquidation Preference) by written notice (the “Redemption Notice”) given to the holders of the Series I Preferred Units; provided, Series I Preferred Units for which a Conversion Notice has been given to the General Partner prior to the exercise by the Operating Partnership of such redemption option shall not be redeemable by the Operating Partnership. The Redemption Notice must be given at least six (6) months prior to the effective date of the redemption (accordingly, the Redemption Notice may not be given prior to July 1, 2019). If the redemption contemplated by a Redemption Notice is not completed within nine (9) months after the date of the Redemption Notice, a redemption may not be effected without sending a new Redemption Notice in accordance with the foregoing. Each holder of a Series I Preferred Unit may, by written notice given to the General Partner within fifteen (15) calendar days after receipt by such holder of notice of the Operating Partnership’s exercise of its redemption option under this Section 6, give to the General Partner a Conversion Notice with respect to the Series I Preferred Units held by such Series I Unit Recipient. In such event, the Operating Partnership’s exercise of its option to redeem the Series I Preferred Units which is the subject of such Conversion Notice shall then

be automatically revoked and such Series I Preferred Units shall then be converted to common Partnership Units in accordance with the terms of the Partnership Agreement, including this Amendment.

6.2 The Partnership shall provide the holders of the Series I Preferred Units at least six (6) months' prior written notice of any Sale. In the event of the consummation of a Sale (a "Sale Closing"), (i) the Partnership shall give written notice of the Sale Closing (the "Sale Notice") to the holders of the Series I Preferred Units; and (ii) the holders of the Series I Preferred Units shall have the right to require the Partnership to redeem all of the then outstanding Series I Preferred Units on the following terms and conditions: (a) the Series I Preferred Units shall be redeemed at par (i.e., in an amount equal to their Liquidation Preference), (b) the Series I Preferred Unit Holders must give written notice to the Operating Partnership of their exercise of the right of redemption set forth in this Section 6.2 not later than the third (3<sup>rd</sup>) business day immediately following the date of the holder's receipt of the Sale Notice, and (c) the redemption contemplated by this Section 6.2 and the required payment to the holders of Series I Preferred Units shall be completed not later than the sixth (6<sup>th</sup>) business day immediately following the holder's receipt of the Sale Notice. For purposes hereof, "Sale" means any direct or indirect sale, exchange, transfer or other disposition of a Protected Property (as defined in that certain Tax Protection Agreement entered into as of September 23, 2004, by and among the General Partner, the Operating Partnership and TRCALP, as amended (as amended, the "TPA")) or any interest therein (without regard to whether such disposition is voluntary or involuntary) in a transaction that would cause any of the Protected Partners (as defined in the TPA) (or Indirect Owners (as defined in the TPA)) to recognize any Protected Gain (as defined in the TPA). Without limiting the foregoing, the term "sale, exchange, transfer or other disposition" by the Operating Partnership shall be deemed to include:

- (a) any direct or indirect disposition by any direct or indirect Subsidiary (as defined in the TPA) of the Protected Property or any interest therein;
- (b) any direct or indirect disposition by the Operating Partnership of the Protected Property (or any direct or indirect interest therein) that is subject to Section 704(c)(1)(B) of the Code and the Treasury Regulations thereunder; and
- (c) any distribution by the Operating Partnership to a Protected Partner that is subject to Section 737 of the Code and the Treasury Regulations thereunder;

Without limiting the foregoing, a disposition shall include any transfer, voluntary or involuntary, in a foreclosure proceeding, pursuant to a deed in lieu of foreclosure, or in a bankruptcy proceeding."

6.3 The Partnership shall provide the holders of the Series I Preferred Units at least forty-five (45) days' prior written notice (the "Anticipated Guaranteed Debt Refinance/Repayment Transaction Notice") of a repayment (other than at its scheduled maturity date) or refinancing (a "Guaranteed Debt Refinance/Repayment Transaction") of all or any portion of the Guaranteed Debt (as defined in the TPA). Each Anticipated Guaranteed Debt Refinance/Repayment Transaction Notice shall include a list of all Qualified Indebtedness (as defined in the TPA). In the event of the consummation of a

Guaranteed Debt Refinance/Repayment Transaction (the “Guaranteed Debt Refinance/Repayment Closing”), where the Partner Guarantor (as defined in the TPA) has not entered into a Qualified VS Guarantee (as defined in the TPA) with respect to other/replacement Qualified Indebtedness of the Operating Partnership on or prior to the date of the Guaranteed Debt Refinance/Repayment Closing, then the holders of the Series I Preferred Units shall have the right to require the Partnership to redeem all of the then outstanding Series I Preferred Units on the following terms and conditions: (a) the Series I Preferred Units shall be redeemed at par (i.e., in an amount equal to their Liquidation Preference), (b) the Series I Preferred Unit Holders must give written notice to the Operating Partnership of their exercise of the right of redemption set forth in this Section 6.3 not later than the third (3<sup>rd</sup>) business day immediately following the holder’s receipt of written notice of the Guaranteed Debt Refinance/Repayment Closing, and (c) the redemption contemplated by this Section 6.3 and the required payment to the holders of Series I Preferred Units shall be completed not later than the sixth (6<sup>th</sup>) business day immediately following the holder’s receipt of the notice of the Guaranteed Debt Refinance/Repayment Closing.

6.4. In the event of a conflict between the terms of the Partnership Agreement and this Amendment with respect to the Series I Preferred Units, the terms of this Amendment shall govern.

6.5 All notices to holders of the Series I Preferred Units sent pursuant to Section 6.2 and Section 6.3 shall be sent in accordance with the terms and conditions of Section 12.4 of the Partnership Agreement and by email, addressed as follows:

c/o Rubenstein Partners  
Cira Centre  
2929 Arch Street, 28<sup>th</sup> Floor  
Philadelphia, PA 19104-2868  
Attn.: Senior Managing Principal  
Email: [drubenstein@rubensteinpartners.com](mailto:drubenstein@rubensteinpartners.com)  
Attn: Chief Operating Officer  
Email: [eschiela@rubensteinpartners.com](mailto:eschiela@rubensteinpartners.com)  
Attn: General Counsel  
Email: [rbbalderson@rubensteinpartners.com](mailto:rbbalderson@rubensteinpartners.com)

With a required copy to:

Cozen O’Connor  
One Liberty Place  
1650 Market Street  
Philadelphia, PA 19103  
Attn: Thomas Gallagher, Esq.  
Email: [ThomasGallagher@cozen.com](mailto:ThomasGallagher@cozen.com)

5. Reporting. The parties agree to file all information and other tax returns consistent with the foregoing and to account for the Series I Preferred Units as equity of the Operating Partnership for all tax and accounting purposes.

6. Ratification. Except as otherwise expressly provided herein, all of the terms and conditions of the Partnership Agreement, including the 17th Amendment, are ratified and shall remain unchanged and continue in full force and effect.

7. Governing Law. The interpretation and construction of this Amendment, and all matters relating thereto, shall be governed by the laws of the State of Delaware, without regard to the choice of law provisions thereof.

8. Counterparts. This Amendment may be executed in one or more counterparts, all of which shall be considered one and the same instrument and each of which shall be deemed an original.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this Amendment as of the Effective Date.

**GENERAL PARTNER:**

**CORPORATE OFFICE PROPERTIES TRUST,**  
a Maryland Real Estate Investment Trust

By: /s/ Anthony Mifsud  
Name: Anthony Mifsud  
Title: Executive Vice President

**TRCALP:**

**TRC ASSOCIATES LIMITED PARTNERSHIP,**  
a Delaware limited partnership

By: TRCALP GP, LLC, its General Partner

By: /s/ David B. Rubenstein  
Name: David B. Rubenstein  
Title: Senior Managing Principal and President

**[Signature Page to First Amendment to Third Amended and Restated Limited Partnership Agreement]**



## 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: August 5, 2019/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: August 5, 2019

/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: August 5, 2019

/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: August 5, 2019

/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, 2019, 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: August 5, 2019

**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, 2019, 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: August 5, 2019

**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, 2019, 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: August 5, 2019

**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, 2019, 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: August 5, 2019