# 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, 2020**
**or**

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

**For the transition period from** __________ **to** __________

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

# Corporate Office Properties Trust
# Corporate Office Properties, L.P.
(Exact name of registrant as specified in its charter)

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

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

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

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

| Title of each class | 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 20, 2020, 112,183,192 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, 2020 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, 2020, 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.

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. 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 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


| | | PAGE |
|---|---|---|
| **PART I: FINANCIAL INFORMATION** | | |
| Item 1: | Financial Statements: | |
| **Consolidated Financial Statements of Corporate Office Properties Trust** | | |
| | Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019 (unaudited) | 3 |
| | Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 4 |
| | Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 5 |
| | Consolidated Statements of Equity for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 6 |
| | Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (unaudited) | 8 |
| **Consolidated Financial Statements of Corporate Office Properties, L.P.** | | |
| | Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019 (unaudited) | 10 |
| | Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 11 |
| | Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 12 |
| | Consolidated Statements of Equity for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited) | 13 |
| | Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (unaudited) | 15 |
| **Notes to Consolidated Financial Statements (unaudited)** | | 17 |
| Item 2: | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 41 |
| Item 3: | Quantitative and Qualitative Disclosures About Market Risk | 58 |
| Item 4: | Controls and Procedures | 58 |
| **PART II: OTHER INFORMATION** | | |
| Item 1: | Legal Proceedings | 59 |
| Item 1A: | Risk Factors | 59 |
| Item 2: | Unregistered Sales of Equity Securities and Use of Proceeds | 60 |
| Item 3: | Defaults Upon Senior Securities | 60 |
| Item 4: | Mine Safety Disclosures | 60 |
| Item 5: | Other Information | 60 |
| Item 6: | Exhibits | 61 |
| **SIGNATURES** | | 62 |

**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, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Properties, net: | | |
| Operating properties, net | $ 2,888,817 | $ 2,772,647 |
| Projects in development or held for future development | 624,282 | 568,239 |
| Total properties, net | 3,513,099 | 3,340,886 |
| Property - operating right-of-use assets | 31,009 | 27,864 |
| Property - finance right-of-use assets | 40,441 | 40,458 |
| Cash and cash equivalents | 21,596 | 14,733 |
| Investment in unconsolidated real estate joint ventures | 50,457 | 51,949 |
| Accounts receivable, net | 30,404 | 35,444 |
| Deferred rent receivable | 90,493 | 87,736 |
| Intangible assets on real estate acquisitions, net | 24,768 | 27,392 |
| Deferred leasing costs (net of accumulated amortization of $34,878 and $33,782, respectively) | 58,666 | 58,392 |
| Investing receivables (net of allowance for credit losses of $3,976 at June 30, 2020) | 72,333 | 73,523 |
| Prepaid expenses and other assets, net | 78,059 | 96,076 |
| **Total assets** | $ 4,011,325 | $ 3,854,453 |
| **Liabilities and equity** | | |
| Liabilities: | | |
| Debt, net | $ 2,012,019 | $ 1,831,139 |
| Accounts payable and accrued expenses | 149,836 | 148,746 |
| Rents received in advance and security deposits | 30,459 | 33,620 |
| Dividends and distributions payable | 31,302 | 31,263 |
| Deferred revenue associated with operating leases | 8,821 | 7,361 |
| Property - operating lease liabilities | 20,796 | 17,317 |
| Interest rate derivatives | 65,612 | 25,682 |
| Other liabilities | 12,408 | 10,649 |
| Total liabilities | 2,331,253 | 2,105,777 |
| Commitments and contingencies (Note 17) | | |
| Redeemable noncontrolling interests | 23,148 | 29,431 |
| 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 112,183,192 at June 30, 2020 and 112,068,705 at December 31, 2019) | 1,122 | 1,121 |
| Additional paid-in capital | 2,477,977 | 2,481,558 |
| Cumulative distributions in excess of net income | (797,959) | (778,275) |
| Accumulated other comprehensive loss | (64,513) | (25,444) |
| Total Corporate Office Properties Trust's shareholders' equity | 1,616,627 | 1,678,960 |
| Noncontrolling interests in subsidiaries: | | |
| Common units in COPLP | 19,611 | 19,597 |
| Preferred units in COPLP | 8,800 | 8,800 |
| Other consolidated entities | 11,886 | 11,888 |
| Noncontrolling interests in subsidiaries | 40,297 | 40,285 |
| Total equity | 1,656,924 | 1,719,245 |
| **Total liabilities, redeemable noncontrolling interests and equity** | $ 4,011,325 | $ 3,854,453 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Lease revenue | $ 132,147 | $ 131,415 | $ 263,159 | $ 262,318 |
| Other property revenue | 391 | 1,356 | 1,495 | 2,443 |
| Construction contract and other service revenues | 12,236 | 42,299 | 25,917 | 59,249 |
| Total revenues | 144,774 | 175,070 | 290,571 | 324,010 |
| Operating expenses | | | | |
| Property operating expenses | 50,204 | 47,886 | 100,203 | 97,331 |
| Depreciation and amortization associated with real estate operations | 33,612 | 34,802 | 66,208 | 69,598 |
| Construction contract and other service expenses | 11,711 | 41,002 | 24,832 | 57,328 |
| General, administrative and leasing expenses | 8,158 | 9,386 | 15,644 | 18,137 |
| Business development expenses and land carry costs | 1,262 | 870 | 2,380 | 1,983 |
| Total operating expenses | 104,947 | 133,946 | 209,267 | 244,377 |
| Interest expense | (16,797) | (18,475) | (33,637) | (37,149) |
| Interest and other income | 2,282 | 1,849 | 3,487 | 4,135 |
| Credit loss expense | (615) | — | (1,304) | — |
| Gain on sales of real estate | — | 84,469 | 5 | 84,469 |
| Income before equity in income of unconsolidated entities and income taxes | 24,697 | 108,967 | 49,855 | 131,088 |
| Equity in income of unconsolidated entities | 454 | 420 | 895 | 811 |
| Income tax (expense) benefit | (30) | 176 | (79) | (18) |
| Net income | 25,121 | 109,563 | 50,671 | 131,881 |
| Net income attributable to noncontrolling interests: | | | | |
| Common units in COPLP | (284) | (1,339) | (571) | (1,596) |
| Preferred units in COPLP | (77) | (165) | (154) | (330) |
| Other consolidated entities | (1,263) | (1,268) | (2,395) | (2,305) |
| Net income attributable to COPT common shareholders | $ 23,497 | $ 106,791 | $ 47,551 | $ 127,650 |
| Earnings per common share: (1) | | | | |
| Net income attributable to COPT common shareholders - basic | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |
| Net income attributable to COPT common shareholders - diluted | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |

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

See accompanying notes to consolidated financial statements.

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | $ 25,121 | $ 109,563 | $ 50,671 | $ 131,881 |
| Other comprehensive loss: | | | | |
| Unrealized loss on interest rate derivatives | (3,315) | (13,545) | (41,020) | (22,390) |
| Loss (gain) on interest rate derivatives recognized in interest expense | 935 | (557) | 1,066 | (1,127) |
| Total other comprehensive loss | (2,380) | (14,102) | (39,954) | (23,517) |
| Comprehensive income | 22,741 | 95,461 | 10,717 | 108,364 |
| Comprehensive income attributable to noncontrolling interests | (1,556) | (2,597) | (2,235) | (3,941) |
| Comprehensive income attributable to COPT | $ 21,185 | $ 92,864 | $ 8,482 | $ 104,423 |

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 Loss | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|
| For the Three Months Ended June 30, 2019 | | | | | | |
| 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) | $ 1,119 | $2,475,293 | $ (780,667) | $ (23,465) | $ 46,831 | $1,719,111 |
| For the Three Months Ended June 30, 2020 | | | | | | |
| Balance at March 31, 2020 (112,169,463 common shares outstanding) | $ 1,122 | $2,476,677 | $ (790,600) | $ (62,201) | $ 40,188 | $1,665,186 |
| Share-based compensation (13,729 shares issued, net of redemptions) | — | 1,188 | — | — | 548 | 1,736 |
| Redemption of vested equity awards | — | (80) | — | — | — | (80) |
| Adjustments to noncontrolling interests resulting from changes in ownership of COPLP | — | 428 | — | — | (428) | — |
| Comprehensive income | — | — | 23,497 | (2,312) | 439 | 21,624 |
| Dividends | — | — | (30,856) | — | — | (30,856) |
| Distributions to owners of common and preferred units in COPLP | — | — | — | — | (442) | (442) |
| Distributions to noncontrolling interests in other consolidated entities | — | — | — | — | (8) | (8) |
| Adjustment to arrive at fair value of redeemable noncontrolling interests | — | (236) | — | — | — | (236) |
| Balance at June 30, 2020 (112,183,192 common shares outstanding) | $ 1,122 | $2,477,977 | $ (797,959) | $ (64,513) | $ 40,297 | $1,656,924 |

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 Loss | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|
| For the Six Months Ended June 30, 2019 | | | | | | |
| 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) | $ 1,119 | $2,475,293 | $ (780,667) | $ (23,465) | $ 46,831 | $1,719,111 |
| For the Six Months Ended June 30, 2020 | | | | | | |
| Balance at December 31, 2019 (112,068,705 common shares outstanding) | $ 1,121 | $2,481,558 | $ (778,275) | $ (25,444) | $ 40,285 | $1,719,245 |
| Cumulative effect of accounting change for adoption of credit loss guidance | — | — | (5,541) | — | — | (5,541) |
| Balance at December 31, 2019, as adjusted | 1,121 | 2,481,558 | (783,816) | (25,444) | 40,285 | 1,713,704 |
| Conversion of common units to common shares (12,009 shares) | — | 182 | — | — | (182) | — |
| Share-based compensation (102,478 shares issued, net of redemptions) | 1 | 2,171 | — | — | 774 | 2,946 |
| Redemption of vested equity awards | — | (1,572) | — | — | — | (1,572) |
| Adjustments to noncontrolling interests resulting from changes in ownership of COPLP | — | (25) | — | — | 25 | — |
| Comprehensive income | — | — | 47,551 | (39,069) | 160 | 8,642 |
| Dividends | — | — | (61,694) | — | — | (61,694) |
| Distributions to owners of common and preferred units in COPLP | — | — | — | — | (862) | (862) |
| Contributions from noncontrolling interests in other consolidated entities | — | — | — | — | 112 | 112 |
| Distributions to noncontrolling interests in other consolidated entities | — | — | — | — | (15) | (15) |
| Adjustment to arrive at fair value of redeemable noncontrolling interests | — | (4,337) | — | — | — | (4,337) |
| Balance at June 30, 2020 (112,183,192 common shares outstanding) | $ 1,122 | $2,477,977 | $ (797,959) | $ (64,513) | $ 40,297 | $1,656,924 |

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2020** | **2019** |
| **Cash flows from operating activities** | | |
| Revenues from real estate operations received | $ 265,833 | $ 257,832 |
| Construction contract and other service revenues received | 42,149 | 21,449 |
| Property operating expenses paid | (86,934) | (83,305) |
| Construction contract and other service expenses paid | (32,107) | (31,157) |
| General, administrative, leasing, business development and land carry costs paid | (16,969) | (16,541) |
| Interest expense paid | (31,581) | (34,896) |
| Lease incentives paid | (5,611) | (3,228) |
| Other | 1,757 | 1,661 |
| Net cash provided by operating activities | 136,537 | 111,815 |
| **Cash flows from investing activities** | | |
| Development and redevelopment of properties | (185,357) | (219,633) |
| Tenant improvements on operating properties | (16,489) | (7,585) |
| Other capital improvements on operating properties | (11,576) | (8,920) |
| Proceeds from property dispositions | | |
| Distribution from unconsolidated real estate joint venture following contribution of properties | — | 129,783 |
| Sale of properties | — | 107,517 |
| Investing receivables funded | — | (11,104) |
| Leasing costs paid | (8,424) | (7,632) |
| Other | (5,442) | 3,944 |
| Net cash used in investing activities | (227,288) | (13,630) |
| **Cash flows from financing activities** | | |
| Proceeds from debt | | |
| Revolving Credit Facility | 251,000 | 258,000 |
| Other debt proceeds | 189,359 | 10,606 |
| Repayments of debt | | |
| Revolving Credit Facility | (259,000) | (308,000) |
| Scheduled principal amortization | (2,044) | (2,193) |
| Deferred financing costs paid | (1,261) | — |
| Net proceeds from issuance of common shares | — | 46,415 |
| Common share dividends paid | (61,667) | (61,040) |
| Distributions paid to noncontrolling interests in COPLP | (863) | (1,115) |
| Distributions paid to redeemable noncontrolling interests | (12,662) | (687) |
| Redemption of vested equity awards | (1,572) | (1,920) |
| Other | (2,803) | 533 |
| Net cash provided by (used in) financing activities | 98,487 | (59,401) |
| Net increase in cash and cash equivalents and restricted cash | 7,736 | 38,784 |
| **Cash and cash equivalents and restricted cash** | | |
| Beginning of period | 18,130 | 11,950 |
| End of period | $ 25,866 | $ 50,734 |

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, | |
|---|---|---|
| | 2020 | 2019 |
| **Reconciliation of net income to net cash provided by operating activities:** | | |
| Net income | $ 50,671 | $ 131,881 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and other amortization | 67,075 | 70,527 |
| Amortization of deferred financing costs and net debt discounts | 1,993 | 1,801 |
| Increase in deferred rent receivable | (1,070) | (2,419) |
| Gain on sales of real estate | (5) | (84,469) |
| Share-based compensation | 3,027 | 3,283 |
| Other | (1,263) | (2,996) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 5,039 | (31,846) |
| Decrease (increase) in prepaid expenses and other assets, net | 23,202 | (852) |
| (Decrease) increase in accounts payable, accrued expenses and other liabilities | (8,971) | 29,507 |
| Decrease in rents received in advance and security deposits | (3,161) | (2,602) |
| Net cash provided by operating activities | $ 136,537 | $ 111,815 |
| **Reconciliation of cash and cash equivalents and restricted cash:** | | |
| Cash and cash equivalents at beginning of period | $ 14,733 | $ 8,066 |
| Restricted cash at beginning of period | 3,397 | 3,884 |
| Cash and cash equivalents and restricted cash at beginning of period | $ 18,130 | $ 11,950 |
| Cash and cash equivalents at end of period | $ 21,596 | $ 46,282 |
| Restricted cash at end of period | 4,270 | 4,452 |
| Cash and cash equivalents and restricted cash at end of period | $ 25,866 | $ 50,734 |
| **Supplemental schedule of non-cash investing and financing activities:** | | |
| Increase in accrued capital improvements, leasing and other investing activity costs | $ 12,940 | $ 29,862 |
| 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 | $ 3,381 | $ 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 in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests | $ (39,953) | $ (23,585) |
| Dividends/distributions payable | $ 31,302 | $ 31,346 |
| Decrease in noncontrolling interests and increase in shareholders’ equity in connection with the conversion of common units into common shares | $ 182 | $ 80 |
| Adjustments to noncontrolling interests resulting from changes in COPLP ownership | $ 25 | $ 834 |
| Increase in redeemable noncontrolling interests and decrease in equity to carry redeemable noncontrolling interests at fair value | $ 4,337 | $ 2,875 |

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, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Properties, net: | | |
| Operating properties, net | $ 2,888,817 | $ 2,772,647 |
| Projects in development or held for future development | 624,282 | 568,239 |
| Total properties, net | 3,513,099 | 3,340,886 |
| Property - operating right-of-use assets | 31,009 | 27,864 |
| Property - finance right-of-use assets | 40,441 | 40,458 |
| Cash and cash equivalents | 21,596 | 14,733 |
| Investment in unconsolidated real estate joint ventures | 50,457 | 51,949 |
| Accounts receivable, net | 30,404 | 35,444 |
| Deferred rent receivable | 90,493 | 87,736 |
| Intangible assets on real estate acquisitions, net | 24,768 | 27,392 |
| Deferred leasing costs (net of accumulated amortization of $34,878 and $33,782, respectively) | 58,666 | 58,392 |
| Investing receivables (net of allowance for credit losses of $3,976 at June 30, 2020) | 72,333 | 73,523 |
| Prepaid expenses and other assets, net | 75,527 | 93,016 |
| **Total assets** | $ 4,008,793 | $ 3,851,393 |
| **Liabilities and equity** | | |
| Liabilities: | | |
| Debt, net | $ 2,012,019 | $ 1,831,139 |
| Accounts payable and accrued expenses | 149,836 | 148,746 |
| Rents received in advance and security deposits | 30,459 | 33,620 |
| Distributions payable | 31,302 | 31,263 |
| Deferred revenue associated with operating leases | 8,821 | 7,361 |
| Property - operating lease liabilities | 20,796 | 17,317 |
| Interest rate derivatives | 65,612 | 25,682 |
| Other liabilities | 9,876 | 7,589 |
| Total liabilities | 2,328,721 | 2,102,717 |
| Commitments and contingencies (Note 17) | | |
| Redeemable noncontrolling interests | 23,148 | 29,431 |
| Equity: | | |
| Corporate Office Properties, L.P.'s equity: | | |
| Preferred units held by limited partner, 352,000 preferred units outstanding at June 30, 2020 and December 31, 2019 | 8,800 | 8,800 |
| Common units, 112,183,192 and 112,068,705 held by the general partner and 1,628,421 and 1,482,425 held by limited partners at June 30, 2020 and December 31, 2019, respectively | 1,701,375 | 1,724,159 |
| Accumulated other comprehensive loss | (65,183) | (25,648) |
| Total Corporate Office Properties, L.P.'s equity | 1,644,992 | 1,707,311 |
| Noncontrolling interests in subsidiaries | 11,932 | 11,934 |
| Total equity | 1,656,924 | 1,719,245 |
| **Total liabilities, redeemable noncontrolling interests and equity** | $ 4,008,793 | $ 3,851,393 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Lease revenue | $ 132,147 | $ 131,415 | $ 263,159 | $ 262,318 |
| Other property revenue | 391 | 1,356 | 1,495 | 2,443 |
| Construction contract and other service revenues | 12,236 | 42,299 | 25,917 | 59,249 |
| Total revenues | 144,774 | 175,070 | 290,571 | 324,010 |
| Operating expenses | | | | |
| Property operating expenses | 50,204 | 47,886 | 100,203 | 97,331 |
| Depreciation and amortization associated with real estate operations | 33,612 | 34,802 | 66,208 | 69,598 |
| Construction contract and other service expenses | 11,711 | 41,002 | 24,832 | 57,328 |
| General, administrative and leasing expenses | 8,158 | 9,386 | 15,644 | 18,137 |
| Business development expenses and land carry costs | 1,262 | 870 | 2,380 | 1,983 |
| Total operating expenses | 104,947 | 133,946 | 209,267 | 244,377 |
| Interest expense | (16,797) | (18,475) | (33,637) | (37,149) |
| Interest and other income | 2,282 | 1,849 | 3,487 | 4,135 |
| Credit loss expense | (615) | — | (1,304) | — |
| Gain on sales of real estate | — | 84,469 | 5 | 84,469 |
| Income before equity in income of unconsolidated entities and income taxes | 24,697 | 108,967 | 49,855 | 131,088 |
| Equity in income of unconsolidated entities | 454 | 420 | 895 | 811 |
| Income tax (expense) benefit | (30) | 176 | (79) | (18) |
| Net income | 25,121 | 109,563 | 50,671 | 131,881 |
| Net income attributable to noncontrolling interests in consolidated entities | (1,263) | (1,268) | (2,395) | (2,305) |
| Net income attributable to COPLP | 23,858 | 108,295 | 48,276 | 129,576 |
| Preferred unit distributions | (77) | (165) | (154) | (330) |
| Net income attributable to COPLP common unitholders | $ 23,781 | $ 108,130 | $ 48,122 | $ 129,246 |
| Earnings per common unit: (1) | | | | |
| Net income attributable to COPLP common unitholders - basic | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |
| Net income attributable to COPLP common unitholders - diluted | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |

(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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | $ 25,121 | $ 109,563 | $ 50,671 | $ 131,881 |
| Other comprehensive loss: | | | | |
| Unrealized loss on interest rate derivatives | (3,315) | (13,545) | (41,020) | (22,390) |
| Loss (gain) on interest rate derivatives recognized in interest expense | 935 | (557) | 1,066 | (1,127) |
| Total other comprehensive loss | (2,380) | (14,102) | (39,954) | (23,517) |
| Comprehensive income | 22,741 | 95,461 | 10,717 | 108,364 |
| Comprehensive income attributable to noncontrolling interests | (1,223) | (1,268) | (1,976) | (2,305) |
| Comprehensive income attributable to COPLP | $ 21,518 | $ 94,193 | $ 8,741 | $ 106,059 |

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 Loss | Noncontrolling Interests in Subsidiaries | Total Equity |
|---|---|---|---|---|---|---|---|
| | Units | Amount | Units | Amount | | | |
| For the Three Months Ended June 30, 2019 | | | | | | | |
| 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 | 352,000 | $ 8,800 | 113,532,731 | $1,716,912 | $ (23,638) | $ 17,037 | $ 1,719,111 |
| For the Three Months Ended June 30, 2020 | | | | | | | |
| Balance at March 31, 2020 | 352,000 | $ 8,800 | 113,789,912 | $1,707,395 | $ (62,843) | $ 11,834 | $ 1,665,186 |
| Share-based compensation (units net of redemption) | — | — | 21,701 | 1,736 | — | — | 1,736 |
| Redemptions of vested equity awards | — | — | — | (80) | — | — | (80) |
| Comprehensive loss | — | 77 | — | 23,781 | (2,340) | 106 | 21,624 |
| Distributions to owners of common and preferred units | — | (77) | — | (31,221) | — | — | (31,298) |
| Distributions to noncontrolling interests in subsidiaries | — | — | — | — | — | (8) | (8) |
| Adjustment to arrive at fair value of redeemable noncontrolling interests | — | — | — | (236) | — | — | (236) |
| Balance at June 30, 2020 | 352,000 | $ 8,800 | 113,811,613 | $1,701,375 | $ (65,183) | $ 11,932 | $ 1,656,924 |

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 Loss | Noncontrolling Interests in Subsidiaries | Total Equity |
|---|---|---|---|---|---|---|---|
| | Units | Amount | Units | Amount | | | |
| For the Six Months Ended June 30, 2019 | | | | | | | |
| 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 | 352,000 | $ 8,800 | 113,532,731 | $ 1,716,912 | $ (23,638) | $ 17,037 | $ 1,719,111 |
| For the Six Months Ended June 30, 2020 | | | | | | | |
| Balance at December 31, 2019 | 352,000 | $ 8,800 | 113,551,130 | $ 1,724,159 | $ (25,648) | $ 11,934 | $ 1,719,245 |
| Cumulative effect of accounting change for adoption of credit loss guidance | — | — | — | (5,541) | — | — | (5,541) |
| Balance at December 31, 2019, as adjusted | 352,000 | 8,800 | 113,551,130 | 1,718,618 | (25,648) | 11,934 | 1,713,704 |
| Share-based compensation (units net of redemption) | — | — | 260,483 | 2,946 | — | — | 2,946 |
| Redemptions of vested equity awards | — | — | — | (1,572) | — | — | (1,572) |
| Comprehensive income | — | 154 | — | 48,122 | (39,535) | (99) | 8,642 |
| Distributions to owners of common and preferred units | — | (154) | — | (62,402) | — | — | (62,556) |
| Contributions from noncontrolling interests in subsidiaries | — | — | — | — | — | 112 | 112 |
| Distributions to noncontrolling interests in subsidiaries | — | — | — | — | — | (15) | (15) |
| Adjustment to arrive at fair value of redeemable noncontrolling interests | — | — | — | (4,337) | — | — | (4,337) |
| Balance at June 30, 2020 | 352,000 | $ 8,800 | 113,811,613 | $ 1,701,375 | $ (65,183) | $ 11,932 | $ 1,656,924 |

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, | |
|---|---|---|
| | 2020 | 2019 |
| **Cash flows from operating activities** | | |
| Revenues from real estate operations received | $ 265,833 | $ 257,832 |
| Construction contract and other service revenues received | 42,149 | 21,449 |
| Property operating expenses paid | (86,934 ) | (83,305 ) |
| Construction contract and other service expenses paid | (32,107 ) | (31,157 ) |
| General, administrative, leasing, business development and land carry costs paid | (16,969 ) | (16,541 ) |
| Interest expense paid | (31,581 ) | (34,896 ) |
| Lease incentives paid | (5,611 ) | (3,228 ) |
| Other | 1,757 | 1,661 |
| Net cash provided by operating activities | 136,537 | 111,815 |
| **Cash flows from investing activities** | | |
| Development and redevelopment of properties | (185,357 ) | (219,633 ) |
| Tenant improvements on operating properties | (16,489 ) | (7,585 ) |
| Other capital improvements on operating properties | (11,576 ) | (8,920 ) |
| Proceeds from property dispositions | | |
| Distribution from unconsolidated real estate joint venture following contribution of properties | — | 129,783 |
| Sale of properties | — | 107,517 |
| Investing receivables funded | — | (11,104 ) |
| Leasing costs paid | (8,424 ) | (7,632 ) |
| Other | (5,442 ) | 3,944 |
| Net cash used in investing activities | (227,288 ) | (13,630 ) |
| **Cash flows from financing activities** | | |
| Proceeds from debt | | |
| Revolving Credit Facility | 251,000 | 258,000 |
| Other debt proceeds | 189,359 | 10,606 |
| Repayments of debt | | |
| Revolving Credit Facility | (259,000 ) | (308,000 ) |
| Scheduled principal amortization | (2,044 ) | (2,193 ) |
| Deferred financing costs paid | (1,261 ) | — |
| Net proceeds from issuance of common units | — | 46,415 |
| Common unit distributions paid | (62,376 ) | (61,825 ) |
| Distributions paid to redeemable noncontrolling interests | (12,662 ) | (687 ) |
| Redemption of vested equity awards | (1,572 ) | (1,920 ) |
| Other | (2,957 ) | 203 |
| Net cash provided by (used in) financing activities | 98,487 | (59,401 ) |
| Net increase in cash and cash equivalents and restricted cash | 7,736 | 38,784 |
| **Cash and cash equivalents and restricted cash** | | |
| Beginning of period | 18,130 | 11,950 |
| End of period | $ 25,866 | $ 50,734 |

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, | |
|---|---|---|
| | **2020** | **2019** |
| **Reconciliation of net income to net cash provided by operating activities:** | | |
| Net income | $ 50,671 | $ 131,881 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and other amortization | 67,075 | 70,527 |
| Amortization of deferred financing costs and net debt discounts | 1,993 | 1,801 |
| Increase in deferred rent receivable | (1,070) | (2,419) |
| Gain on sales of real estate | (5) | (84,469) |
| Share-based compensation | 3,027 | 3,283 |
| Other | (1,263) | (2,996) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 5,039 | (31,846) |
| Decrease (increase) in prepaid expenses and other assets, net | 22,674 | (483) |
| (Decrease) increase in accounts payable, accrued expenses and other liabilities | (8,443) | 29,138 |
| Decrease in rents received in advance and security deposits | (3,161) | (2,602) |
| Net cash provided by operating activities | $ 136,537 | $ 111,815 |
| **Reconciliation of cash and cash equivalents and restricted cash:** | | |
| Cash and cash equivalents at beginning of period | $ 14,733 | $ 8,066 |
| Restricted cash at beginning of period | 3,397 | 3,884 |
| Cash and cash equivalents and restricted cash at beginning of period | $ 18,130 | $ 11,950 |
| Cash and cash equivalents at end of period | $ 21,596 | $ 46,282 |
| Restricted cash at end of period | 4,270 | 4,452 |
| Cash and cash equivalents and restricted cash at end of period | $ 25,866 | $ 50,734 |
| **Supplemental schedule of non-cash investing and financing activities:** | | |
| Increase in accrued capital improvements, leasing and other investing activity costs | $ 12,940 | $ 29,862 |
| 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 | $ 3,381 | $ 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 in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests | $ (39,953) | $ (23,585) |
| Distributions payable | $ 31,302 | $ 31,346 |
| Increase in redeemable noncontrolling interests and decrease in equity to carry redeemable noncontrolling interests at fair value | $ 4,337 | $ 2,875 |

See accompanying notes to consolidated financial statements.

## 1. Organization

Corporate Office Properties Trust ("COPT") and subsidiaries (collectively, the "Company") is a fully-integrated and self-managed real estate investment trust ("REIT"). Corporate Office Properties, L.P. ("COPLP") and subsidiaries (collectively, the "Operating Partnership") is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, "we", "us" and "our" as used herein refer to each of the Company and the Operating Partnership. We own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support the United States Government ("USG") 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, 2020, our properties included the following:

- 174 properties totaling 19.8 million square feet comprised of 15.6 million square feet in 150 office properties and 4.2 million square feet in 24 single-tenant data center shell properties ("data center shells"). We owned 15 of these data center shells through unconsolidated real estate joint ventures;
- a wholesale data center with a critical load of 19.25 megawatts;
- 11 properties under development (nine office properties and two data center shells), including one partially-operational property, and expansions of three fully-operational properties that we estimate will total approximately 1.9 million square feet upon completion; and
- approximately 900 acres of land controlled for future development that we believe could be developed into approximately 11.5 million square feet and 43 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, development and construction 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, 2020, 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 that of COPT common shareholders. In the case of any series of preferred units held by COPT, there would be a series of preferred shares of beneficial interest ("preferred shares") in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units.

COPT's common shares are publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "OFC".

Because COPLP is managed by COPT, and COPT conducts substantially all of its operations through COPLP, we refer to COPT's executive officers as COPLP's executive officers; 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, 2019 included in our 2019 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 2019 Annual Report on Form 10-K as updated for our adoption of recent accounting pronouncements discussed below.

**Reclassifications**

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

**Recent Accounting Pronouncements**

Effective January 1, 2020, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") that changes how entities measure credit losses for most financial assets and certain other instruments 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 applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables (excluding those arising from operating leases), loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g. loan commitments and guarantees). Under this guidance, we recognize an estimate of our expected credit losses on these asset types as an allowance, as the guidance requires that financial assets be measured on an amortized cost basis and be presented at the net amount expected to be collected. We adopted this guidance effective January 1, 2020 using the modified retrospective transition method under which we recognized a $5.5 million allowance for credit losses by means of a cumulative-effect adjustment to cumulative distributions in excess of net income of the Company (or common units of the Operating Partnership), and did not adjust prior comparative reporting periods. Our consolidated statements of operations reflect adjustments for changes in our expected credit losses occurring subsequent to adoption of this guidance.

Effective January 1, 2020, we adopted guidance issued by the FASB that modifies disclosure requirements for fair value measurements. The resulting changes in disclosure did not have a material impact on our consolidated financial statements.

Effective January 1, 2020, we adopted guidance issued by the FASB 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. Our adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued guidance containing practical expedients for reference rate reform related activities pertaining to debt, leases, derivatives and other contracts. The guidance is optional and may be adopted over time as reference rate reform activities occur. During the six months ended June 30, 2020, we elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We will continue to evaluate the impact of this guidance and may apply other elections as applicable as additional changes in the market occur.

In April 2020, the FASB issued a Staff Q&A document that addressed the accounting for lease accounting guidance for lease concessions resulting from the COVID-19 pandemic. Under existing lease guidance, we would normally have to determine, on a lease-by-lease basis, if a lease concession was the result of a new arrangement reached with the tenant (treated as a lease modification) or if such a concession was implemented pursuant to enforceable rights and obligations within the existing lease agreement (and, therefore, not treated as a lease modification). The Staff Q&A document enabled us to bypass the lease-by-lease analysis for lease concessions resulting from the COVID-19 pandemic, and instead elect to either apply the lease modification accounting framework or not, with such elections applied consistently to leases with similar characteristics and similar circumstances. Entities may make the elections for any lessor-provided concessions related to the effects of the COVID-19 pandemic (such as deferrals of lease payments or reduced future lease payments) as long as the concession does not result in a substantial increase in the rights of the lessor or the obligations of the lessee. We chose to apply the elections available under the Staff Q&A to restructurings of lease payment terms granted by us to tenants, the effect of which did not have a material impact on our consolidated financial statements.

**Credit Losses, Financial Assets and Other Instruments**

As discussed above, effective January 1, 2020, we adopted guidance issued by the FASB that changed how we measure credit losses for most financial assets and certain other instruments not measured at fair value through net income from an incurred loss model to an expected loss approach. Our items within the scope of this guidance included the following:

- investing receivables, as disclosed in Note 7;
- tenant notes receivable;
- other assets comprised of non-lease revenue related accounts receivable (primarily from construction contract services) and contract assets from unbilled construction contract revenue; and
- off-balance sheet credit exposures.

Under this guidance, we recognize an estimate of our expected credit losses on these items as an allowance, as the guidance requires that financial assets be measured on an amortized cost basis and be presented at the net amount expected to be collected (or as a separate liability in the case of off-balance sheet credit exposures). The allowance represents the portion of the amortized cost basis that we do not expect to collect (or loss we expect to incur in the case of off-balance sheet credit exposures) due to credit over the contractual life based on available information relevant to assessing the collectability of cash flows, which includes consideration of past events, current conditions and reasonable and supportable forecasts of future economic conditions (including consideration of asset- or borrower-specific factors). The guidance requires the allowance for expected credit losses to reflect the risk of loss, even when that risk is remote. An allowance for credit losses is measured and recorded upon the initial recognition of a financial asset (or off-balance sheet credit exposure), regardless of whether it is originated or purchased. Quarterly, the expected losses are re-estimated, considering any cash receipts and changes in risks or assumptions, with resulting adjustments recognized in the line entitled “credit loss expense” on our consolidated statements of operations.

We estimate expected credit losses for in-scope items using historical loss rate information developed for varying classifications of credit risk and contractual lives. Due to our limited quantity of items within the scope of this guidance and the unique risk characteristics of such items, we individually assign each in-scope item a credit risk classification. The credit risk classifications assigned by us are determined based on credit ratings assigned by ratings agencies (as available) or are internally-developed based on available financial information, historical payment experience, credit documentation, other publicly available information and current economic trends. In addition, for certain items in which the risk of credit loss is affected by the economic performance of a real estate development project, we develop probability weighted scenario analyses for varying levels of performance in estimating our credit loss allowance (applicable to our notes receivable from the City of Huntsville disclosed in Note 7 and a tax incremental financing obligation disclosed in Note 17).

The table below sets forth the activity for the allowance for credit losses (in thousands):

| | For the Six Months Ended June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Investing Receivables | Tenant Notes Receivable (1) | Other Assets (2) | Off-Balance Sheet Credit Exposures (3) | Total |
| December 31, 2019 | $ — | $ 97 | $ — | $ — | $ 97 |
| Cumulative effect of change for adoption of credit loss guidance | 3,732 | 325 | 144 | 1,340 | 5,541 |
| Credit loss expense | 244 | 719 | 25 | 316 | 1,304 |
| June 30, 2020 | $ 3,976 | $ 1,141 | $ 169 | $ 1,656 | $ 6,942 |

(1) Included in the line entitled “accounts receivable, net” on our consolidated balance sheets.
(2) The balance as of June 30, 2020 included $104,000 in the line entitled “accounts receivable, net” and $65,000 in the line entitled “prepaid expenses and other assets, net” on our consolidated balance sheets.
(3) Included in the line entitled “other liabilities” on our consolidated balance sheets.

The following table presents the amortized cost basis of our investing receivables and tenants notes receivable by credit risk classification, by origination year as of June 30, 2020 (in thousands):

| | Origination Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 and Earlier | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Investing receivables: | | | | | | | |
| Credit risk classification: | | | | | | | |
| Investment grade | $ 61,329 | $ — | $ 887 | $ — | $ — | $ — | $ 62,216 |
| Non-investment grade | 3,020 | — | — | — | 11,073 | — | 14,093 |
| Total | $ 64,349 | $ — | $ 887 | $ — | $ 11,073 | $ — | $ 76,309 |
| Tenant notes receivable: | | | | | | | |
| Credit risk classification: | | | | | | | |
| Investment grade | $ — | $ 68 | $ — | $ 1,069 | $ 95 | $ — | $ 1,232 |
| Non-investment grade | 97 | 202 | — | 178 | 2,067 | 1,600 | 4,144 |
| Total | $ 97 | $ 270 | $ — | $ 1,247 | $ 2,162 | $ 1,600 | $ 5,376 |

Our investment grade credit risk classification represents entities with investment grade credit ratings from ratings agencies (such as Standard & Poor’s Ratings Services, Moody’s Investors Service, Inc. or Fitch Ratings Ltd.), meaning that they are considered to have at least an adequate capacity to meet their financial commitments, with credit risk ranging from minimal to moderate. Our non-investment grade credit risk classification represents entities with either no credit agency credit ratings or ratings deemed to be sub-investment grade; we believe that there is significantly more credit risk associated with this classification. The credit risk classifications of our investing receivables and tenant notes receivable were last updated in June 2020.

An insignificant portion of the investing and tenant notes receivables set forth above was past due, which we define as being delinquent by more than three months from the due date.

When we believe that collection of interest income on an investing or tenant note receivable is not probable, we place the receivable on nonaccrual status, meaning interest income is recognized when payments are received rather than on an accrual basis. Notes receivable on nonaccrual status as of June 30, 2020 and December 31, 2019 were not significant. We did not recognize any interest income during the three and six months ended June 30, 2020 on notes receivable on nonaccrual status.

We write off receivables when we believe the facts and circumstances indicate that continued pursuit of collection is no longer warranted. When cash is received in connection with receivables for which we have previously recognized credit losses, we recognize reductions in our credit loss expense.

## 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, prior to December 31, 2019, permitted participants to defer up to 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. The Company froze additional entry into the plan effective December 31, 2019. 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 and totaled $2.5 million as of June 30, 2020, is included in the line entitled "prepaid expenses and other assets, net" on COPT's consolidated balance sheets along with an insignificant amount of other marketable securities. The offsetting liability associated with the plan is adjusted to fair value at the end of each accounting period based on the fair value of the plan assets and reported in "other liabilities" on COPT's consolidated balance sheets. The assets of the plan 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, 2020, 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 value of our unsecured senior notes based on quoted market rates for publicly-traded debt (categorized within Level 2 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

For additional fair value information, please refer to Note 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, 2020 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Marketable securities in deferred compensation plan (1) | | | | |
| Mutual funds | $ 2,512 | $ — | $ — | $ 2,512 |
| Other | 20 | — | — | 20 |
| Mutual funds (1) | 7 | — | — | 7 |
| Total assets | $ 2,539 | $ — | $ — | $ 2,539 |
| Liabilities: | | | | |
| Deferred compensation plan liability (2) | $ — | $ 2,532 | $ — | $ 2,532 |
| Interest rate derivatives | — | 65,612 | — | 65,612 |
| Total liabilities | $ — | $ 68,144 | $ — | $ 68,144 |

(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, 2020 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs(Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual funds (1) | $ 7 | $ — | $ — | $ 7 |
| Liabilities: | | | | |
| Interest rate derivatives | $ — | $ 65,612 | $ — | $ 65,612 |

(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, 2020 | December 31, 2019 |
|---|---|---|
| Land | $ 502,609 | $ 472,976 |
| Buildings and improvements | 3,451,302 | 3,306,791 |
| Less: Accumulated depreciation | (1,065,094) | (1,007,120) |
| Operating properties, net | $ 2,888,817 | $ 2,772,647 |

**2020 Development Activities**

During the six months ended June 30, 2020, we placed into service 621,000 square feet in four newly-developed properties and 21,000 square feet in a redeveloped property. As of June 30, 2020, we had 11 properties under development, including one partially-operational property, and expansions of three fully-operational properties that we estimate will total 1.9 million 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, 2020, 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.

Our lease revenue is comprised of: fixed lease revenue, including contractual rent billings under leases recognized on a straight-line basis over lease terms and amortization of lease incentives and above- and below- market lease intangibles; and variable lease revenue, including tenant expense recoveries, lease termination revenue and other revenue from tenants that is not fixed under the lease. The table below sets forth our allocation of lease revenue recognized between fixed and variable lease revenue (in thousands):

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| **Lease revenue** | **2020** | **2019** | **2020** | **2019** |
| Fixed | $ 103,993 | $ 104,193 | $ 208,102 | $ 208,837 |
| Variable | 28,154 | 27,222 | 55,057 | 53,481 |
| | $ 132,147 | $ 131,415 | $ 263,159 | $ 262,318 |

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

| Year Ending December 31, | June 30, 2020 | December 31, 2019 |
|---|---|---|
| 2020 (1) | $ 203,627 | $ 388,310 |
| 2021 | 372,518 | 336,482 |
| 2022 | 335,187 | 299,356 |
| 2023 | 281,094 | 245,661 |
| 2024 | 231,731 | 195,246 |
| Thereafter | 634,608 | 474,741 |
| | $ 2,058,765 | $ 1,939,796 |

(1) As of June 30, 2020, represents the six months ending December 31, 2020.

### Lessee arrangements

As of June 30, 2020, our balance sheet included $71.5 million in right-of-use assets associated primarily with land leased from third parties underlying certain properties that we are operating or developing. The land leases have long durations with remaining terms ranging from 29 (excluding extension options) to 96 years, and 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 96-year remaining term, and we possess a bargain purchase option that we expect to exercise in 2021;
- $10.2 million for land underlying operating office properties in Washington, DC under two leases with remaining terms of approximately 80 years;
- $6.4 million for land underlying a parking garage in Baltimore, Maryland under a lease with a remaining term of 29 years and an option to renew for an additional 49 years that was included in the term used in determining the asset balance;
- $6.6 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 63 to 74 years;
- $8.1 million for land in a business park in Huntsville, Alabama under 11 leases through our LW Redstone Company, LLC joint venture, with remaining terms ranging from 43 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 underlying operating properties in our Fort Meade/BW Corridor sub-segment under two leases with remaining terms of approximately 48 years, all of the rent on which was previously paid.

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

| Leases | Balance Sheet Location | June 30, 2020 | December 31, 2019 |
|---|---|---|---|
| Right-of-use assets | | | |
| Operating leases - Property | Property - operating right-of-use assets | $ 31,009 | $ 27,864 |
| Finance leases - Property | Property - finance right-of-use assets | 40,441 | 40,458 |
| Total right-of-use assets | | $ 71,450 | $ 68,322 |

Property lease liabilities consisted of the following (in thousands):

| Leases | Balance Sheet Location | June 30, 2020 | December 31, 2019 |
|---|---|---|---|
| Lease liabilities | | | |
| Operating leases - Property | Property - operating lease liabilities | $ 20,796 | $ 17,317 |
| Finance leases - Property | Other liabilities | 688 | 702 |
| Total lease liabilities | | $ 21,484 | $ 18,019 |

The table below sets forth the weighted average terms and discount rates of our property leases as of June 30, 2020:

| | |
|---|---|
| Weighted average remaining lease term | |
| Operating leases | 65 years |
| Finance leases | < 1 year |
| Weighted average discount rate | |
| Operating leases | 7.22 % |
| Finance leases | 3.62 % |

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

| Lease cost | Statement of Operations Location | For the Three Months Ended June 30, 2020 | For the Three Months Ended June 30, 2019 | For the Six Months Ended June 30, 2020 | For the Six Months Ended June 30, 2019 |
|---|---|---|---|---|---|
| Operating lease cost | | | | | |
| Property leases | Property operating expenses | $ 445 | $ 413 | $ 876 | $ 826 |
| Finance lease cost | | | | | |
| Amortization of property right-of-use assets | Property operating expenses | 9 | 12 | 18 | 12 |
| | | $ 454 | $ 425 | $ 894 | $ 838 |

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

| Supplemental cash flow information | For the Six Months Ended June 30, 2020 | 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 | $ 541 | $ 550 |
| Financing cash flows for financing leases | $ 14 | $ 4 |

Payments on property leases were due as follows (in thousands):

| | As of June 30, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| Year Ending December 31, | Operating leases | Finance leases | Total | Operating leases | Finance leases | Total |
| 2020 (1) | $ 636 | $ 660 | $ 1,296 | $ 1,092 | $ 674 | $ 1,766 |
| 2021 | 1,328 | 14 | 1,342 | 1,138 | 14 | 1,152 |
| 2022 | 1,352 | 14 | 1,366 | 1,162 | 14 | 1,176 |
| 2023 | 1,358 | — | 1,358 | 1,167 | — | 1,167 |
| 2024 | 1,363 | — | 1,363 | 1,173 | — | 1,173 |
| Thereafter | 113,780 | — | 113,780 | 100,609 | — | 100,609 |
| Total lease payments | 119,817 | 688 | 120,505 | 106,341 | 702 | 107,043 |
| Less: Amount representing interest | (99,021) | — | (99,021) | (89,024) | — | (89,024) |
| Lease liability | $ 20,796 | $ 688 | $ 21,484 | $ 17,317 | $ 702 | $ 18,019 |

(1) As of June 30, 2020, represents the six months ending December 31, 2020.

## 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, 2020 (dollars in thousands):

| | | | | June 30, 2020 (1) | | |
|---|---|---|---|---|---|---|
| Entity | Date Acquired | Nominal Ownership % | Location | Total Assets | Encumbered Assets | Total Liabilities |
| LW Redstone Company, LLC | 3/23/2010 | 85% | Huntsville, Alabama | $ 335,040 | $ 111,380 | $ 107,223 |
| M Square Associates, LLC | 6/26/2007 | 50% | College Park, Maryland | 92,946 | 62,725 | 56,153 |
| Stevens Investors, LLC | 8/11/2015 | 95% | Washington, DC | 141,952 | 141,234 | 69,982 |
| | | | | $ 569,938 | $ 315,339 | $ 233,358 |

(1) Excludes amounts eliminated in consolidation.

In March 2020, the LW Redstone Company, LLC joint venture agreement was amended to change the distribution terms to allow the venture to distribute financing proceeds to satisfy our partner’s cumulative preferred return and to provide our partner a priority preferred return on its invested capital.

### 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):

| | | | | Carrying Value of Investment (1) | |
|---|---|---|---|---|---|
| Entity | Date Acquired | Nominal Ownership % | Number of Properties | June 30, 2020 | December 31, 2019 |
| GI-COPT DC Partnership LLC | 7/21/2016 | 50% | 6 | $ 36,720 | $ 37,816 |
| BREIT COPT DC JV LLC | 6/20/2019 | 10% | 9 | 13,737 | 14,133 |
| | | | 15 | $ 50,457 | $ 51,949 |

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

In May 2020, the GI-COPT DC Partnership LLC joint venture agreement was amended to reflect our agreement to initially fund the costs of expanding certain of the joint venture’s existing operating properties. Following our completion of, and the tenant’s commencement of rent payments on, the property expansion, the joint venture will reimburse us for the lesser of the actual development costs of the expansion or $6 million using proceeds from proportional capital contributions by us and our partner.

## 7. Investing Receivables

Investing receivables consisted of the following (in thousands):

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Notes receivable from the City of Huntsville | $ 62,216 | $ 59,427 |
| Other investing loans receivable | 14,093 | 14,096 |
| Amortized cost basis | 76,309 | 73,523 |
| Allowance for credit losses | (3,976) | — |
| Investing receivables, net | $ 72,333 | $ 73,523 |

The balances above include accrued interest receivable, net of allowance for credit losses, of$1.9 million as of June 30, 2020 and $4.7 million as of December 31, 2019.

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%.

The fair value of these receivables was approximately$77 million as of June 30, 2020 and $74 million as of December 31, 2019.

## 8. Prepaid Expenses and Other Assets, Net

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

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Lease incentives, net | $ 29,092 | $ 28,433 |
| Furniture, fixtures and equipment, net | 9,015 | 7,823 |
| Non-real estate equity investments | 6,726 | 6,705 |
| Prepaid expenses | 6,600 | 18,835 |
| Construction contract costs in excess of billings, net | 5,508 | 17,223 |
| Restricted cash | 4,270 | 3,397 |
| Deferred financing costs, net (1) | 3,069 | 3,633 |
| Deferred tax asset, net (2) | 2,249 | 2,328 |
| Other assets | 8,998 | 4,639 |
| Total for COPLP and subsidiaries | 75,527 | 93,016 |
| Marketable securities in deferred compensation plan | 2,532 | 3,060 |
| Total for COPT and subsidiaries | $ 78,059 | $ 96,076 |

(1) Represents deferred costs, net of accumulated amortization, attributable to our Revolving Credit Facility and interest rate derivatives.
(2) Includes a valuation allowance of $533,000 as of June 30, 2020 and $480,000 as of December 31, 2019.

## 9. Debt, Net

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

| | Carrying Value (1) as of | | June 30, 2020 | |
|---|---|---|---|---|
| | June 30, 2020 | December 31, 2019 | Stated Interest Rates | Scheduled Maturity |
| Mortgage and Other Secured Debt: | | | | |
| Fixed rate mortgage debt (2) | $ 141,729 | $ 143,430 | 3.82% - 4.62% (3) | 2023-2026 |
| Variable rate secured debt (4) | 108,392 | 68,055 | LIBOR + 1.45% to 2.35% (5) | 2020-2026 |
| Total mortgage and other secured debt | 250,121 | 211,485 | | |
| Revolving Credit Facility (6) | 169,000 | 177,000 | LIBOR + 0.775% to 1.45% (7) | March 2023 (6) |
| Term Loan Facility (8) | 398,058 | 248,706 | LIBOR + 1.00% to 1.65% (9) | 2022 |
| Unsecured Senior Notes | | | | |
| 3.60%, $350,000 aggregate principal | 348,658 | 348,431 | 3.60% (10) | May 2023 |
| 5.25%, $250,000 aggregate principal | 247,920 | 247,652 | 5.25% (11) | February 2024 |
| 3.70%, $300,000 aggregate principal | 299,585 | 299,324 | 3.70% (12) | June 2021 |
| 5.00%, $300,000 aggregate principal | 297,707 | 297,503 | 5.00% (13) | July 2025 |
| Unsecured note payable | 970 | 1,038 | 0% (14) | May 2026 |
| Total debt, net | $ 2,012,019 | $ 1,831,139 | | |

(1) The carrying values of our debt other than the Revolving Credit Facility reflect net deferred financing costs of $6.0 million as of June 30, 2020 and $5.8 million as of December 31, 2019.
(2) 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 $186,000 as of June 30, 2020 and $217,000 as of December 31, 2019.
(3) The weighted average interest rate on our fixed rate mortgage debt was 4.16% as of June 30, 2020.
(4) Includes a construction loan with $47.6 million in remaining borrowing capacity as of June 30, 2020.
(5) The weighted average interest rate on our variable rate secured debt was 2.22% as of June 30, 2020.
(6) 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. In connection with this facility, we also 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.
(7) The weighted average interest rate on the Revolving Credit Facility was 1.20% as of June 30, 2020.
(8) On March 6, 2020, we amended this loan facility to increase the loan amount by $150.0 million and change the interest terms.
(9) The interest rate on this loan was 1.17% as of June 30, 2020.
(10) The carrying value of these notes reflects an unamortized discount totaling $939,000 as of June 30, 2020 and $1.1 million as of December 31, 2019. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.
(11) The carrying value of these notes reflects an unamortized discount totaling $1.9 million as of June 30, 2020 and $2.1 million as of December 31, 2019. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.
(12) The carrying value of these notes reflects an unamortized discount totaling $324,000 as of June 30, 2020 and $534,000 as of December 31, 2019. The effective interest rate under the notes, including amortization of the issuance costs, was 3.85%.
(13) The carrying value of these notes reflects an unamortized discount totaling $1.9 million as of June 30, 2020 and $2.1 million as of December 31, 2019. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.
(14) 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 $191,000 as of June 30, 2020 and $223,000 as of December 31, 2019.

All debt is owed by the Operating Partnership. 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, 2020, we were compliant with these financial covenants.

We capitalized interest costs of $3.2 million in the three months ended June 30, 2020, $2.4 million in the three months ended June 30, 2019, $6.5 million in the six months ended June 30, 2020 and $4.4 million in the six months ended June 30, 2019.

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

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Fixed-rate debt | | | | |
| Unsecured Senior Notes | $ 1,193,870 | $ 1,224,800 | $ 1,192,910 | $ 1,227,441 |
| Other fixed-rate debt | 142,699 | 145,473 | 144,468 | 149,907 |
| Variable-rate debt | 675,450 | 666,040 | 493,761 | 495,962 |
| | $ 2,012,019 | $ 2,036,313 | $ 1,831,139 | $ 1,873,310 |

**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):

| | | | | | Fair Value at | |
|---|---|---|---|---|---|---|
| Notional Amount | Fixed Rate | Floating Rate Index | Effective Date | Expiration Date | June 30, 2020 | December 31, 2019 |
| $ 12,234 (1) | 1.390% | One-Month LIBOR | 10/13/2015 | 10/1/2020 | $ (38) | $ 23 |
| 100,000 | 1.901% | One-Month LIBOR | 9/1/2016 | 12/1/2022 | (4,326) | (1,028) |
| 100,000 | 1.905% | One-Month LIBOR | 9/1/2016 | 12/1/2022 | (4,336) | (1,037) |
| 50,000 | 1.908% | One-Month LIBOR | 9/1/2016 | 12/1/2022 | (2,171) | (524) |
| 11,200 (2) | 1.678% | One-Month LIBOR | 8/1/2019 | 8/1/2026 | (858) | (20) |
| 150,000 | 0.498% | One-Month LIBOR | 4/1/2020 | 12/31/2020 | (248) | — |
| 23,000 (3) | 0.573% | One-Month LIBOR | 4/1/2020 | 3/26/2025 | (378) | — |
| 75,000 | 3.176% | Three-Month LIBOR | 6/30/2020 | 6/30/2030 | (18,779) | (8,640) |
| 75,000 | 3.192% | Three-Month LIBOR | 6/30/2020 | 6/30/2030 | (18,897) | (8,749) |
| 75,000 | 2.744% | Three-Month LIBOR | 6/30/2020 | 6/30/2030 | (15,581) | (5,684) |
| | | | | | $ (65,612) | $ (25,659) |

(1) The notional amount of this instrument is scheduled to amortize to $12.1 million.
(2) The notional amount of this instrument is scheduled to amortize to $10.0 million.
(3) The notional amount of this instrument is scheduled to amortize to $22.1 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):

| | | Fair Value at | |
|---|---|---|---|
| Derivatives | Balance Sheet Location | June 30, 2020 | December 31, 2019 |
| Interest rate swaps designated as cash flow hedges | Prepaid expenses and other assets, net | $ — | $ 23 |
| Interest rate swaps designated as cash flow hedges | Interest rate derivatives (liabilities) | $ (65,612) | $ (25,682) |

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

| | Amount of Loss Recognized in AOCL on Derivatives | | | | Amount of (Loss) Gain 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, | |
| Derivatives in Hedging Relationships | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Interest rate derivatives | $ (3,315) | $ (13,545) | $ (41,020) | $ (22,390) | $ (935) | $ 557 | $ (1,066) | $ 1,127 |

Based on the fair value of our derivatives as ofJune 30, 2020, we estimate that approximately$8.1 million of losses will be reclassified from accumulated other comprehensive loss (“AOCL”) as an increase to interest expense over the next 12 months.

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, 2020, we were not in default with any of these provisions. As of June 30, 2020, the fair value of interest rate derivatives in a liability position related to these agreements was $65.8 million, excluding the effects of accrued interest and credit valuation adjustments. As of June 30, 2020, 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 $66.2 million as of June 30, 2020.

## 11. Redeemable Noncontrolling Interests

Our partners in two real estate joint ventures, LW Redstone Company, LLC and Stevens Investors, LLC, have the right to require us to acquire their respective interests at fair value; accordingly, we classify the fair value of our partners' interests as redeemable noncontrolling interests in the mezzanine section of our consolidated balance sheets. The table below sets forth the activity for these redeemable noncontrolling interests (in thousands):

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Beginning balance | $ 29,431 | $ 26,260 |
| Distributions to noncontrolling interests | (12,695) | (876) |
| Net income attributable to noncontrolling interests | 2,075 | 1,544 |
| Adjustment to arrive at fair value of interests | 4,337 | 2,875 |
| Ending balance | $ 23,148 | $ 29,803 |

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

### Common Shares/Units

As of June 30, 2020, 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, 2020, certain COPLP limited partners converted 12,009 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, 2020 and 2019 and $0.550 in the six months ended June 30, 2020 and 2019.

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 (“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 | | | | | | | | | | |
| | Fort Meade/BW Corridor | Northern Virginia Defense/IT | Lackland Air Force Base | Navy Support Locations | Redstone Arsenal | Data Center Shells | Total Defense/IT Locations | Regional Office | Wholesale Data Center | Other | Total |
| Three Months Ended June 30, 2020 | | | | | | | | | | | |
| Revenues from real estate operations | $ 62,698 | $ 14,447 | $ 13,257 | $ 8,119 | $ 4,647 | $ 7,076 | $ 110,244 | $ 15,162 | $ 6,455 | $ 677 | $ 132,538 |
| Property operating expenses | (20,859) | (5,335) | (7,785) | (3,171) | (1,612) | (789) | (39,551) | (6,888) | (3,463) | (302) | (50,204) |
| UJV NOI allocable to COPT | — | — | — | — | — | 1,725 | 1,725 | — | — | — | 1,725 |
| NOI from real estate operations | $ 41,839 | $ 9,112 | $ 5,472 | $ 4,948 | $ 3,035 | $ 8,012 | $ 72,418 | $ 8,274 | $ 2,992 | $ 375 | $ 84,059 |
| Additions to long-lived assets | $ 6,958 | $ 3,204 | $ — | $ 2,110 | $ 146 | $ — | $ 12,418 | $ 4,445 | $ 7,904 | $ 103 | $ 24,870 |
| Transfers from non-operating properties | $ 3,975 | $ 524 | $ 145 | $ — | $ 29,171 | $ 49,964 | $ 83,779 | $ — | $ — | $ — | $ 83,779 |
| Three Months Ended June 30, 2019 | | | | | | | | | | | |
| 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 |
| Six Months Ended June 30, 2020 | | | | | | | | | | | |
| Revenues from real estate operations | $ 127,136 | $ 28,125 | $ 25,333 | $ 16,460 | $ 9,323 | $ 12,653 | $ 219,030 | $ 30,622 | $ 13,627 | $ 1,375 | $ 264,654 |
| Property operating expenses | (42,081) | (10,520) | (14,580) | (6,456) | (3,459) | (1,446) | (78,542) | (14,425) | (6,696) | (540) | (100,203) |
| UJV NOI allocable to COPT | — | — | — | — | — | 3,438 | 3,438 | — | — | — | 3,438 |
| NOI from real estate operations | $ 85,055 | $ 17,605 | $ 10,753 | $ 10,004 | $ 5,864 | $ 14,645 | $ 143,926 | $ 16,197 | $ 6,931 | $ 835 | $ 167,889 |
| Additions to long-lived assets | $ 14,633 | $ 5,895 | $ — | $ 3,868 | $ 316 | $ — | $ 24,712 | $ 7,802 | $ 8,782 | $ 168 | $ 41,464 |
| Transfers from non-operating properties | $ 4,513 | $ 780 | $ 160 | $ — | $ 30,307 | $ 106,196 | $ 141,956 | $ — | $ — | $ — | $ 141,956 |
| Segment assets at June 30, 2020 | $1,271,790 | $ 394,363 | $ 144,253 | $ 181,744 | $ 167,161 | $ 382,749 | $2,542,060 | $ 389,058 | $ 205,711 | $ 3,710 | $3,140,539 |
| Six Months Ended June 30, 2019 | | | | | | | | | | | |
| 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 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Segment revenues from real estate operations | $ 132,538 | $ 132,771 | $ 264,654 | $ 264,761 |
| Construction contract and other service revenues | 12,236 | 42,299 | 25,917 | 59,249 |
| Total revenues | $ 144,774 | $ 175,070 | $ 290,571 | $ 324,010 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| UJV NOI allocable to COPT | $ 1,725 | $ 1,251 | $ 3,438 | $ 2,470 |
| Less: Income from UJV allocable to COPT attributable to depreciation and amortization expense and interest expense | (1,270) | (830) | (2,540) | (1,657) |
| Add: Equity in loss of unconsolidated non-real estate entities | (1) | (1) | (3) | (2) |
| Equity in income of unconsolidated entities | $ 454 | $ 420 | $ 895 | $ 811 |

As previously discussed, we provide real estate services such as property management, development and construction 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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Construction contract and other service revenues | $ 12,236 | $ 42,299 | $ 25,917 | $ 59,249 |
| Construction contract and other service expenses | (11,711) | (41,002) | (24,832) | (57,328) |
| NOI from service operations | $ 525 | $ 1,297 | $ 1,085 | $ 1,921 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| NOI from real estate operations | $ 84,059 | $ 86,136 | $ 167,889 | $ 169,900 |
| NOI from service operations | 525 | 1,297 | 1,085 | 1,921 |
| Interest and other income | 2,282 | 1,849 | 3,487 | 4,135 |
| Credit loss expense | (615) | — | (1,304) | — |
| Gain on sales of real estate | — | 84,469 | 5 | 84,469 |
| Equity in income of unconsolidated entities | 454 | 420 | 895 | 811 |
| Income tax (expense) benefit | (30) | 176 | (79) | (18) |
| Depreciation and other amortization associated with real estate operations | (33,612) | (34,802) | (66,208) | (69,598) |
| General, administrative and leasing expenses | (8,158) | (9,386) | (15,644) | (18,137) |
| Business development expenses and land carry costs | (1,262) | (870) | (2,380) | (1,983) |
| Interest expense | (16,797) | (18,475) | (33,637) | (37,149) |
| Less: UJV NOI allocable to COPT included in equity in income of unconsolidated entities | (1,725) | (1,251) | (3,438) | (2,470) |
| Net income | $ 25,121 | $ 109,563 | $ 50,671 | $ 131,881 |

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

| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| Segment assets | $ 3,140,539 | $ 3,036,140 |
| Operating properties lease liabilities included in segment assets | 19,073 | 16,502 |
| Non-operating property assets | 679,207 | 523,801 |
| Other assets | 172,506 | 227,026 |
| Total COPT consolidated assets | $ 4,011,325 | $ 3,803,469 |

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, credit loss expense, 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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Construction contract revenue: | | | | |
| Guaranteed maximum price | $ 5,432 | $ 25,792 | $ 10,476 | $ 38,148 |
| Firm fixed price | 2,984 | 1,335 | 8,056 | 3,660 |
| Cost-plus fee | 3,563 | 14,969 | 6,872 | 17,029 |
| Other | 257 | 203 | 513 | 412 |
| | $ 12,236 | $ 42,299 | $ 25,917 | $ 59,249 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Construction contract revenue: | | | | |
| Construction | $ 10,851 | $ 42,010 | $ 23,734 | $ 58,499 |
| Design | 1,128 | 86 | 1,670 | 338 |
| Other | 257 | 203 | 513 | 412 |
| | $ 12,236 | $ 42,299 | $ 25,917 | $ 59,249 |

We recognized an increase (decrease) in revenue of$74,000 and $(14,000) in the three months ended June 30, 2020 and 2019, respectively, and $74,000 and $18,000 in the six months ended June 30, 2020 and 2019, 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, | |
|---|---|---|
| | 2020 | 2019 |
| Beginning balance | $ 12,378 | $ 6,701 |
| Ending balance | $ 8,898 | $ 34,837 |

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 contract costs in excess of billings, net 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, | |
|---|---|---|
| | 2020 | 2019 |
| Beginning balance | $ 17,223 | $ 3,189 |
| Ending balance | $ 5,508 | $ 12,629 |

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, | |
|---|---|---|
| | 2020 | 2019 |
| Beginning balance | $ 1,184 | $ 568 |
| Ending balance | $ 2,435 | $ 156 |
| Portion of beginning balance recognized in revenue during: | | |
| Three months ended June 30 | $ 92 | $ 6 |
| Six months ended June 30 | $ 738 | $ 445 |

Revenue allocated to the remaining performance obligations under existing contracts as of June 30, 2020 that will be recognized as revenue in future periods was$70.5 million, approximately $20 million of which we expect to recognize during the remainder of 2020.

We incurred no deferred incremental costs to obtain or fulfill our construction contracts or other service revenues and had no significant credit loss expense on construction contracts receivable or unbilled construction revenue in the three or six months ended June 30, 2020 and 2019.

## 15. Share-Based Compensation

### Restricted Shares

During the six months ended June 30, 2020, certain employees and non-employee members of our Board of Trustees ("Trustees") were granted a total of 152,793 restricted common shares with an aggregate grant date fair value of $3.9 million (weighted average of $25.20 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, 2020, forfeiture restrictions lapsed on 159,083 previously issued common shares; these shares had a weighted average grant date fair value of $28.16 per share, and the aggregate intrinsic value of the shares on the vesting dates was $4.0 million.

### Deferred Share Awards

During the six months ended June 30, 2020, certain non-employee Trustees were granted a total of 7,972 deferred share awards with an aggregate grant date fair value of $187,000 ($23.44 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).

### Performance Share Awards ("PSUs")

We issued 23,181 common shares on January 13, 2020 to executives in settlement of PSUs granted in 2017, representing 53% of the target awards for those PSUs.

### Profit Interest Units ("PIUs")

For 2020, 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). Our executives and certain of our Trustees selected PIUs as their form of share-based compensation for their 2020 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.

<u>TB-PIUs</u>

During the six months ended June 30, 2020, our executives and certain non-employee Trustees were granted a total of 75,053 TB-PIUs with an aggregate grant date fair value of $1.9 million (weighted average of $25.14 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. During the six months ended June 30, 2020, 20,622 TB-PIUs awarded to our former Executive Vice President and Chief Operating Officer were forfeited upon his resignation. During the six months ended June 30, 2020, forfeiture restrictions lapsed on 25,182 previously issued TB-PIUs; these TB-PIUs had a grant date fair value of $26.30 per unit, and the aggregate intrinsic value of the TB-PIUs on the vesting date was $640,000.

PB-PIUs

On January 1, 2020, we granted our executives 176,758 PB-PIUs with a three-year performance period concluding on the earlier of December 31, 2022 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 (“TSR”) relative to a peer group of companies, as set forth in the following schedule:

| Percentile Rank | Earned Awards Payout % |
|---|---|
| 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. If COPT’s TSR during the measurement period is negative, the maximum number of earned awards will be limited to the target level payout percentage. 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-PIU grants had an aggregate grant date fair value of $2.9 million ($16.36 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 $29.38; expected volatility for common shares of 18.0%; and a risk-free interest rate of 1.65%.

During the six months ended June 30, 2020, 73,184 PB-PIUs awarded to our former Executive Vice President and Chief Operating Officer were forfeited upon his resignation.

## 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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net income attributable to COPT | $ 23,497 | $ 106,791 | $ 47,551 | $ 127,650 |
| Income attributable to share-based compensation awards | (115) | (364) | (220) | (413) |
| Numerator for basic EPS on net income attributable to COPT common shareholders | 23,382 | 106,427 | 47,331 | 127,237 |
| Preferred unit distributions | — | 165 | — | — |
| Redeemable noncontrolling interests | — | 902 | — | 66 |
| Common units in the Operating Partnership | — | — | — | 1,515 |
| Income attributable to share-based compensation awards | 6 | 18 | 14 | 22 |
| Numerator for diluted EPS on net income attributable to COPT common shareholders | $ 23,388 | $ 107,512 | $ 47,345 | $ 128,840 |
| Denominator (all weighted averages): | | | | |
| Denominator for basic EPS (common shares) | 111,800 | 111,557 | 111,762 | 110,759 |
| Dilutive convertible preferred units | — | 176 | — | — |
| Dilutive effect of common units | — | — | — | 1,329 |
| Dilutive effect of redeemable noncontrolling interests | — | 1,062 | — | 130 |
| Dilutive effect of share-based compensation awards | 321 | 310 | 280 | 289 |
| Denominator for diluted EPS (common shares) | 112,121 | 113,105 | 112,042 | 112,507 |
| Basic EPS | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |
| Diluted EPS | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |

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, | |
| | 2020 | 2019 | 2020 | 2019 |
| Conversion of common units | 1,237 | 1,327 | 1,232 | — |
| Conversion of redeemable noncontrolling interests | 878 | — | 944 | 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 six months ended June 30, 2019 of 758,000;
- weighted average restricted shares and deferred share awards for the three months ended June 30, 2020 and 2019 of 429,000 and 425,000, respectively, and for the six months ended June 30, 2020 and 2019 of 434,000 and 444,000, respectively;
- weighted average options for the three and six months ended June 30, 2019 of 17,000 and 23,000, respectively; and
- weighted average unvested TB-PIUs for the three months ended June 30, 2020 and 2019 of 90,000 and 59,000, respectively, and for the six months ended June 30, 2020 and 2019 of 82,000 and 39,000, respectively.

COPLP and Subsidiaries EPU

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

- the denominator is increased to include: (1) the weighted average number of potential additional common units that would have been outstanding if securities that are convertible into our common units were converted; and (2) the effect of dilutive potential common units outstanding during the period attributable to 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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net income attributable to COPLP | $ 23,858 | $ 108,295 | $ 48,276 | $ 129,576 |
| Preferred unit distributions | (77) | (165) | (154) | (330) |
| Income attributable to share-based compensation awards | (133) | (438) | (254) | (494) |
| Numerator for basic EPU on net income attributable to COPLP common unitholders | 23,648 | 107,692 | 47,868 | 128,752 |
| 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 | $ 23,648 | $ 108,777 | $ 47,868 | $ 128,840 |
| Denominator (all weighted averages): | | | | |
| Denominator for basic EPU (common units) | 113,037 | 112,884 | 112,994 | 112,088 |
| Dilutive convertible preferred units | — | 176 | — | — |
| Dilutive effect of redeemable noncontrolling interests | — | 1,062 | — | 130 |
| Dilutive effect of share-based compensation awards | 321 | 310 | 280 | 289 |
| Denominator for diluted EPU (common units) | 113,358 | 114,432 | 113,274 | 112,507 |
| Basic EPU | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |
| Diluted EPU | $ 0.21 | $ 0.95 | $ 0.42 | $ 1.15 |

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, | |
| | 2020 | 2019 | 2020 | 2019 |
| Conversion of redeemable noncontrolling interests | 878 | — | 944 | 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 six months ended June 30, 2019 of 758,000;
- weighted average restricted units and deferred share awards for the three months ended June 30, 2020 and 2019 of 429,000 and 425,000, respectively, and for the six months ended June 30, 2020 and 2019 of 434,000 and 444,000, respectively;
- weighted average options for the three and six months ended June 30, 2019 of 17,000 and 23,000, respectively; and
- weighted average unvested TB-PIUs for the three months ended June 30, 2020 and 2019 of 90,000 and 59,000, respectively, and for the six months ended June 30, 2020 and 2019 of 82,000 and 39,000, 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. As of June 30, 2020, management believes that it is reasonably possible that we could recognize a loss of up to $3.2 million for certain municipal tax claims. While we do not believe this loss would materially affect our financial position or liquidity, it could be material to our results of operations. Management believes that it is also reasonably possible that we could incur losses pursuant to other 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 ofthree 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 $34 million as of June 30, 2020. 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, 2020, we do not expect any such future fundings will be significant.

### Effects of COVID-19

Since first being declared a pandemic by the World Health Organization in early March 2020, the coronavirus, or COVID-19, has spread worldwide. In an effort to control its spread, governments and other authorities have imposed restrictive measures affecting freedom of movement and business operations, such as shelter-in-place orders and business closures. Strong measures were in place in much of the United States beginning in March, bringing many businesses to a halt while forcing others to change the way in which they conduct their operations, with much of the workforce working from their homes to the extent they were able. States and local governments began easing these measures in late April, as regional COVID-19 case volumes appeared to be decreasing. The pace of the easing of these measures varied regionally, with some state and local governments lifting restrictive measures entirely, and many businesses were able to gradually begin resuming a return to normal operations. As of the date of this filing, case volumes were increasing in much of the country, with certain authorities re-instituting restrictive measures and others contemplating doing so. As a result, there continues to be significant uncertainty regarding the duration of this pandemic and, once it subsides, the potential for it to reoccur on a significant scale in the future. The outbreak has significantly disrupted economic markets worldwide, as well as in the United States at a national, regional and local level, and created significant volatility in financial markets. These conditions could continue or further deteriorate as businesses feel the prolonged effects of stalled or reduced operations and uncertainty regarding the pandemic continues.

COVID-19, and similar pandemics, along with measures instituted to prevent spread, may adversely affect us in many ways, including, but not limited to:

- disruption of our tenants’ operations, which could adversely affect their ability, or willingness, to sustain their businesses and/or fulfill their lease obligations;
- our ability to maintain occupancy in our properties and obtain new leases for unoccupied and new development space at favorable terms or at all;

- shortages in supply of products or services from our and our tenants' vendors that are needed for us and our tenants to operate effectively, and which could lead to increased costs for such products and services;
- access to debt and equity capital on attractive terms or at all. Severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our or our tenants' ability to access capital necessary to fund operations, refinance debt or fund planned investments on a timely basis, and may adversely affect the valuation of financial assets and liabilities;
- our and our tenants' ability to continue or complete planned development, including the potential for delays in the supply of materials or labor necessary for development; and
- an increase in the pace of businesses implementing remote work arrangements over the long-term, which would adversely effect demand for office space.

The extent of the effect on our operations, financial condition and cash flows will be dependent on future developments, including the duration of the pandemic and any future resurgence thereof, the prevalence, strength and duration of restrictive measures and the resulting effects on our tenants, potential future tenants, the commercial real estate industry and the broader economy, all of which are uncertain and difficult to predict.

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

**Overview**

During the six months ended June 30, 2020, we:

- finished the period with our office and data center shell portfolio 93.4% occupied and 94.5% leased;
- placed into service 642,000 square feet in four newly-developed properties (including two data center shell properties and two office properties in our Redstone Arsenal sub-segment) and one redeveloped property that were 98.6% leased as of June 30, 2020; and
- amended an existing term loan facility to increase the loan amount by $150.0 million and reduce the LIBOR interest rate spread on the facility. We used the resulting loan proceeds to repay borrowings under our Revolving Credit Facility that funded development costs.

In addition, effective March 16, 2020, Paul R. Adkins resigned from his position as Executive Vice President and Chief Operating Officer. We commenced a search for candidates to replace Mr. Adkins and, in the interim, have senior level employees handling his responsibilities.

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

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;
- risks and uncertainties regarding the impact of the COVID-19 pandemic, and similar pandemics, along with restrictive measures instituted to prevent spread, on our business, the real estate industry and national, regional and local economic conditions;
- 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.

**Effects of COVID-19**

Pandemic Overview

Since first being declared a pandemic by the World Health Organization in early March 2020, the coronavirus, or COVID-19, has spread worldwide. In an effort to control its spread, governments and other authorities have imposed restrictive measures affecting freedom of movement and business operations, such as shelter-in-place orders and business closures. Strong measures were in place in much of the United States beginning in March, bringing many businesses to a halt while forcing others to change the way in which they conduct their operations, with much of the workforce working from their homes to the extent they were able. States and local governments began easing these measures in late April, as regional COVID-19 case volumes appeared to be decreasing. The pace of the easing of these measures varied regionally, with some state and local governments lifting restrictive measures entirely, and many businesses were able to gradually begin resuming a return to normal operations. As of the date of this filing, case volumes were increasing in much of the country, with certain authorities re-instituting restrictive measures and others contemplating doing so. As a result, there continues to be significant uncertainty regarding the duration of this pandemic and, once it subsides, the potential for it to reoccur on a significant scale in the future. The outbreak has significantly disrupted economic markets worldwide, as well as in the United States at a national, regional and local level, and created significant volatility in financial markets. These conditions could continue or further deteriorate as businesses feel the prolonged effects of stalled or reduced operations and uncertainty regarding the pandemic continues.

Effect on Real Estate Industry

COVID-19 has significantly affected the operations of much of the commercial real estate industry as certain tenants' operations, including the ability to use space and run businesses, have been disrupted, which has adversely affected tenants' ability to sustain their businesses, including their ability, or willingness, to fulfill their lease obligations. The industry has also been significantly impacted by the economic disruption that COVID-19 has triggered, which has affected the ability to lease space in most property types to new and existing tenants at favorable terms. Key demand drivers for office space, such as employment levels, business confidence and corporate profits, have been adversely affected. In addition, after months of businesses operating in significant part through remote work arrangements out of necessity, the pace of such arrangements becoming more prevalent long-term could accelerate, adversely affecting office space demand, although that effect may be offset by a slowing in the trend toward adoption of shared office and open workplace structures due to greater social distancing concerns. As a result, the commercial real estate industry, including office real estate, is facing enhanced risk for adverse impacts in operations, financial conditions and cash flows due to the COVID-19 pandemic and the potential for lasting future effects.

Effect on the Company

Our office and data center shell portfolio is significantly concentrated in Defense/IT Locations, representing 165 of the portfolio's 174 properties, or 87.8%, of our annualized rental revenue as of June 30, 2020. These properties are primarily occupied by the USG and contractor tenants engaged in what we believe are high-priority security, defense and IT missions. As a result, most of these properties have been designated as "essential businesses," and are therefore exempt from many of the restrictions that have otherwise affected much of the commercial real estate industry. Furthermore, since the tenants in these properties are mostly the USG, or contractors of the USG who continue to be compensated by the USG for their services, we believe that their ability, and willingness, to fulfill their lease obligations will not be disrupted. Our Defense/IT Locations do include several tenants serving as amenities to business parks housing our properties (such as restaurant, retail and personal service providers); while these tenants' operations have been significantly disrupted by COVID-19, our annualized rental revenue from these tenants is not significant.

As of June 30, 2020, we owned seven Regional Office properties, representing 11.7% of our office and data center shell portfolio's annualized rental revenue. These properties were comprised of: three high-rise Baltimore City properties proximate to the city's waterfront; and four Northern Virginia properties. While these properties include tenants in the financial services, health care and public health sectors, which, as "essential businesses," have been exempt from restrictions on operations, they also include a number of non-essential business tenants. These properties are more subject to traditional office fundamentals than our Defense/IT Locations and therefore face much of the enhanced risk in adverse impacts from COVID-19 described above.

The pandemic has affected the manner in which we conduct our operations in the following ways:

- for the operations of our properties;
  - we consulted with medical experts in developing an approach to safely operate our properties during the pandemic;
  - we used manufacturer recommended OEM heating and air conditioning filters to ensure appropriate outside air distribution;
  - we proactively engaged our tenants to help them through unknowns as pandemic concerns heightened and restrictive measures were being instituted, and maintained that engagement to ensure communication regarding steps we were taking in our business operations, any changes in tenant operations (such as office closures or revised work schedules) and the existence of any actual or presumed COVID-19 cases in properties;
  - our on-site property operations staff were required to use personal protective equipment, such as masks, gloves and hand sanitizer, and implement other procedural changes to enhance separation and minimize spread;
  - we instituted enhanced cleaning measures, particularly for high touch areas and flat surfaces, and conducted special deep cleanings in properties potentially affected by actual or presumed COVID-19 cases;
  - we provided signage promoting proper social distancing practices and hand sanitizer stations for property common area lobbies; and
  - for properties not being used by tenants due to office closures or work from home arrangements, we locked down public (non-tenant) access to the properties for security purposes and instituted other measures aimed at managing costs;
- for our employees:
  - our staff deemed to be essential, including our executives, select other members of our leadership team and most of our property management team, have continued to report to their normal work locations; and
  - most of our other staff worked from home from mid-March until the end of May, when they began reporting to their normal work locations on a weekly rotational basis; and
- for our leasing activities:
  - we continued active engagement for lease transactions already in progress;
  - during periods of time in which we were unable to physically show space to prospective tenants (from mid-March until late May to mid-June), we showed space to new prospective tenants using a combination of virtual technology and pre-recorded video tours; and
  - we implemented new advertising strategies to promote space availability.

As of the date of this filing, COVID-19 had not significantly affected our results of operations. Our:

- same property NOI from real estate operations decreased 0.2% for the three months ended June 30, 2020 relative to the comparable 2019 period and increased 1.2% for the six months ended June 30, 2020 relative to the comparable 2019 period. These changes included the effect of a $1.6 million increase in provisions for collectability losses, most of which was attributable to tenants whose operations were significantly disrupted by the pandemic (including primarily tenants serving as amenities to Defense/IT Location properties);

- other lease revenue collections were not significantly affected by the pandemic. However, we have agreed to deferred payment arrangements for $2.8 million in lease receivables to be repaid in most cases by 2021 with primarily Regional Office tenants and tenants serving as amenities to Defense/IT Location properties whose operations were significantly disrupted;
- office and data center shell portfolio was 93.4% occupied (compared to 92.9% at year end) and 94.5% leased (compared to 94.4% at year end) and our Same Properties portfolio was 92.3% occupied (compared to 91.8% at year end) and 93.5% leased (unchanged from year end). These percentages reflect decreases of 0.3% to 0.4% since March 31, 2020 attributable primarily to a tenant whose planned vacancy was known prior to the pandemic;
- operating expenses were not significantly affected by the pandemic. While there were some additional expenses resulting from additional cleaning related costs, personal protective equipment supplies and social distancing measures, those expenses were offset by expense savings from reduced property usage by tenants; and
- leadership team concluded that the economic disruption resulting from COVID-19 constituted a significant adverse change in the business climate that could affect the value of our Regional Office properties, which are dependent on commercial office tenants and could suffer increased vacancy as a result. Accordingly, we concluded that these circumstances constituted an indicator of impairment. We performed recovery analyses for each Regional Office property's asset group and concluded that the carrying value of each asset group was recoverable from the respective estimated undiscounted future cash flows. As a result, no impairment loss was recognized.

While we do not currently expect that COVID-19 will significantly affect our results of operations, financial condition or cash flows, we believe that the impact of the pandemic will be dependent on future developments, including the duration of the pandemic and any future resurgence thereof, the prevalence, strength and duration of restrictive measures and the resulting effects on our tenants, potential future tenants, the commercial real estate industry and the broader economy, all of which are uncertain and difficult to predict. Nevertheless, we believe at this time that there is more inherent risk associated with the operations of our Regional Office properties than our Defense/IT Locations.

We believe that COVID-19 led to several leases being executed later than we previously expected, and the inability for us to physically show space to prospective tenants due to restrictive measures has served as an impediment to initiating new and progressing active leasing transactions. While we do not expect that our development leasing and ability to renew leases scheduled to expire will be significantly affected by the pandemic, we do expect that the impact of the restrictive measures and the economic uncertainty caused by the pandemic has impacted our timing and volume of vacant space leasing, and may continue to do so in the future.

For our development activity, we delivered newly constructed space in three properties on schedule during the three months ended June 30, 2020, and the 11 properties and expansions of three fully-operational properties that were under development as of June 30, 2020 face minimal operational risk as they were 84% leased as of the date of this filing. COVID-19 enhances the risk of us being able to stay on pace to complete development and begin operations on schedule due to the potential for delays from: jurisdictional permitting and inspections; factories' ability to provide materials; and possible labor quarantines. These types of issues have not significantly affected us to date but could in the future, depending on COVID-19 related developments.

We do not expect that we will be required to incur significant additional capital expenditures on existing properties as a result of COVID-19.

In March 2020, due to the potential for financial market instability from the pandemic, we borrowed under our Revolving Credit Facility in order to pre-fund our short-term capital needs. As the capital markets remained stable in the second quarter of 2020, we repaid much of these borrowings in June 2020. As of the date of this filing, we believe that the financial markets would support our ability to obtain unsecured, fixed rate debt.

**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, 2020 | December 31, 2019 |
|---|---|---|
| Occupancy rates at period end | | |
| Total | 93.4 % | 92.9 % |
| Defense/IT Locations: | | |
| Fort Meade/BW Corridor | 90.9 % | 92.4 % |
| Northern Virginia Defense/IT | 87.0 % | 82.4 % |
| Lackland Air Force Base | 100.0 % | 100.0 % |
| Navy Support Locations | 93.9 % | 92.5 % |
| Redstone Arsenal | 99.7 % | 99.3 % |
| Data Center Shells | 100.0 % | 100.0 % |
| Total Defense/IT Locations | 93.8 % | 93.7 % |
| Regional Office | 92.0 % | 88.1 % |
| Other | 68.4 % | 73.0 % |
| Average contractual annual rental rate per square foot at period end (1) | $ 31.15 | $ 31.28 |

(1) Includes estimated expense reimbursements.

| | Rentable Square Feet | Occupied Square Feet |
|---|---|---|
| | (in thousands) | |
| December 31, 2019 | 19,173 | 17,816 |
| Vacated upon lease expiration (1) | — | (264 ) |
| Occupancy for new leases (2) | — | 310 |
| Developed or redeveloped | 642 | 620 |
| Other changes | (34 ) | (3 ) |
| June 30, 2020 | 19,781 | 18,479 |

(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, 2020, we completed 1.6 million square feet of leasing, including: renewed leases on 1.1 million square feet, representing 81.0% of the square footage of our lease expirations (including the effect of early renewals); 276,000 square feet of development and redevelopment space; and 213,000 square feet of vacant space.

Wholesale Data Center

Our 19.25 megawatt wholesale data center was 90.6% leased as of June 30, 2020 and 76.9% leased as of December 31, 2019, reflecting an increase from our leasing of 3.1 megawatts in April 2020. We have a known tenant downsizing of 0.75 megawatts occurring in July 2020 and are negotiating the renewal of a lease for 11.25 megawatts that is scheduled to expire in August 2020.

**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";

- developed 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, 2020 and 2019

| | For the Three Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | | (in thousands) | |
| Revenues | | | |
| Revenues from real estate operations | $ 132,538 | $ 132,771 | $ (233) |
| Construction contract and other service revenues | 12,236 | 42,299 | (30,063) |
| Total revenues | 144,774 | 175,070 | (30,296) |
| Operating expenses | | | |
| Property operating expenses | 50,204 | 47,886 | 2,318 |
| Depreciation and amortization associated with real estate operations | 33,612 | 34,802 | (1,190) |
| Construction contract and other service expenses | 11,711 | 41,002 | (29,291) |
| General, administrative and leasing expenses | 8,158 | 9,386 | (1,228) |
| Business development expenses and land carry costs | 1,262 | 870 | 392 |
| Total operating expenses | 104,947 | 133,946 | (28,999) |
| Interest expense | (16,797) | (18,475) | 1,678 |
| Interest and other income | 2,282 | 1,849 | 433 |
| Credit loss expense | (615) | — | (615) |
| Gain on sales of real estate | — | 84,469 | (84,469) |
| Equity in income of unconsolidated entities | 454 | 420 | 34 |
| Income tax (expense) benefit | (30) | 176 | (206) |
| Net income | $ 25,121 | $ 109,563 | $ (84,442) |

*NOI from Real Estate Operations*

| | For the Three Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | (Dollars in thousands, except per square foot data) | | |
| Revenues | | | |
| Same Properties revenues | | | |
| Lease revenue, excluding lease termination revenue and provision for collectability losses | $ 119,808 | $ 115,363 | $ 4,445 |
| Lease termination revenue | 358 | 285 | 73 |
| Provision for collectability losses included in lease revenue | (1,592) | (24) | (1,568) |
| Other property revenue | 337 | 1,303 | (966) |
| Same Properties total revenues | 118,911 | 116,927 | 1,984 |
| Developed and redeveloped properties placed in service | 7,189 | 1,929 | 5,260 |
| Wholesale data center | 6,455 | 8,560 | (2,105) |
| Dispositions | (17) | 4,673 | (4,690) |
| Other | — | 682 | (682) |
| | 132,538 | 132,771 | (233) |
| Property operating expenses | | | |
| Same Properties | (45,487) | (43,338) | (2,149) |
| Developed and redeveloped properties placed in service | (1,255) | (346) | (909) |
| Wholesale data center | (3,463) | (3,618) | 155 |
| Dispositions | 4 | (562) | 566 |
| Other | (3) | (22) | 19 |
| | (50,204) | (47,886) | (2,318) |
| | | | |
| UJV NOI allocable to COPT | | | |
| Same Properties | 1,220 | 1,205 | 15 |
| Retained interests in UJV formed in 2019 | 505 | 46 | 459 |
| | 1,725 | 1,251 | 474 |
| | | | |
| NOI from real estate operations | | | |
| Same Properties | 74,644 | 74,794 | (150) |
| Developed and redeveloped properties placed in service | 5,934 | 1,583 | 4,351 |
| Wholesale data center | 2,992 | 4,942 | (1,950) |
| Dispositions, net of retained interests in UJV formed in 2019 | 492 | 4,157 | (3,665) |
| Other | (3) | 660 | (663) |
| | $ 84,059 | $ 86,136 | $ (2,077) |
| | | | |
| Same Properties NOI from real estate operations by segment | | | |
| Defense/IT Locations | $ 65,995 | $ 66,980 | $ (985) |
| Regional Office | 8,274 | 7,430 | 844 |
| Other | 375 | 384 | (9) |
| | $ 74,644 | $ 74,794 | $ (150) |
| | | | |
| Same Properties rent statistics | | | |
| Average occupancy rate | 92.4% | 91.6% | 0.8% |
| Average straight-line rent per occupied square foot (1) | $ 6.47 | $ 6.55 | $ (0.08) |

(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 152 properties, comprising 83.7% of our office and data center shell portfolio's square footage as of June 30, 2020. This pool of properties changed from the pool used for purposes of comparing 2019 and 2018 in our 2019 Annual Report on Form 10-K due to the addition of five properties placed in service and 100% operational on or before January 1, 2019.

NOI from real estate operations of our developed and redeveloped properties placed in service included13 properties placed in service in 2019 and 2020, while our dispositions included our decrease in ownership in 2019 of nine data center shells.

NOI from real estate operations of our wholesale data center decreased due to lease termination revenue recognized in the prior period that did not recur in the current period.

*NOI from Service Operations*

| | For the Three Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | | (in thousands) | |
| Construction contract and other service revenues | $ 12,236 | $ 42,299 | $ (30,063) |
| Construction contract and other service expenses | (11,711) | (41,002) | 29,291 |
| NOI from service operations | $ 525 | $ 1,297 | $ (772) |

Construction contract and other service revenue and expenses decreased due primarily to a lower 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.

*Interest Expense*

Interest expense decreased due primarily to: increased capitalized interest resulting from a higher volume of active development projects; and lower borrowings and interest rates on our Revolving Credit Facility.

*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 in 2019 that did not recur in the current period.

Comparison of Statements of Operations for the Six Months Ended June 30, 2020 and 2019

| | For the Six Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | (in thousands) | | |
| Revenues | | | |
| Revenues from real estate operations | $ 264,654 | $ 264,761 | $ (107) |
| Construction contract and other service revenues | 25,917 | 59,249 | (33,332) |
| Total revenues | 290,571 | 324,010 | (33,439) |
| Operating expenses | | | |
| Property operating expenses | 100,203 | 97,331 | 2,872 |
| Depreciation and amortization associated with real estate operations | 66,208 | 69,598 | (3,390) |
| Construction contract and other service expenses | 24,832 | 57,328 | (32,496) |
| General, administrative and leasing expenses | 15,644 | 18,137 | (2,493) |
| Business development expenses and land carry costs | 2,380 | 1,983 | 397 |
| Total operating expenses | 209,267 | 244,377 | (35,110) |
| Interest expense | (33,637) | (37,149) | 3,512 |
| Interest and other income | 3,487 | 4,135 | (648) |
| Credit loss expense | (1,304) | — | (1,304) |
| Gain on sales of real estate | 5 | 84,469 | (84,464) |
| Equity in income of unconsolidated entities | 895 | 811 | 84 |
| Income tax expense | (79) | (18) | (61) |
| Net income | $ 50,671 | $ 131,881 | $ (81,210) |

*NOI from Real Estate Operations*

| | For the Six Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | (Dollars in thousands, except per square foot data) | | |
| Revenues | | | |
| Same Properties revenues | | | |
| Lease revenue, excluding lease termination revenue and provision for collectability losses | $ 238,175 | $ 231,822 | $ 6,353 |
| Lease termination revenue | 443 | 806 | (363) |
| Provision for collectability losses included in lease revenue | (1,700) | (93) | (1,607) |
| Other property revenue | 1,381 | 2,345 | (964) |
| Same Properties total revenues | 238,299 | 234,880 | 3,419 |
| Constructed and redeveloped properties placed in service | 12,741 | 2,831 | 9,910 |
| Wholesale data center | 13,627 | 16,431 | (2,804) |
| Dispositions | (17) | 9,048 | (9,065) |
| Other | 4 | 1,571 | (1,567) |
| | 264,654 | 264,761 | (107) |
| Property operating expenses | | | |
| Same Properties | (91,132) | (89,503) | (1,629) |
| Constructed and redeveloped properties placed in service | (2,370) | (660) | (1,710) |
| Wholesale data center | (6,696) | (6,456) | (240) |
| Dispositions | 4 | (700) | 704 |
| Other | (9) | (12) | 3 |
| | (100,203) | (97,331) | (2,872) |
| UJV NOI allocable to COPT | | | |
| Same Properties | 2,427 | 2,424 | 3 |
| Retained interests in UJV formed in 2019 | 1,011 | 46 | 965 |
| | 3,438 | 2,470 | 968 |
| NOI from real estate operations | | | |
| Same Properties | 149,594 | 147,801 | 1,793 |
| Constructed and redeveloped properties placed in service | 10,371 | 2,171 | 8,200 |
| Wholesale data center | 6,931 | 9,975 | (3,044) |
| Dispositions, net of retained interests in UJV formed in 2019 | 998 | 8,394 | (7,396) |
| Other | (5) | 1,559 | (1,564) |
| | $ 167,889 | $ 169,900 | $ (2,011) |
| Same Properties NOI from real estate operations by segment | | | |
| Defense/IT Locations | $ 132,561 | $ 132,159 | $ 402 |
| Regional Office | 16,197 | 14,847 | 1,350 |
| Other | 836 | 795 | 41 |
| | $ 149,594 | $ 147,801 | $ 1,793 |
| Same Properties rent statistics | | | |
| Average occupancy rate | 92.3% | 91.6% | 0.7% |
| Average straight-line rent per occupied square foot (1) | $ 13.02 | $ 13.10 | $ (0.08) |

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

NOI from real estate operations of our constructed and redeveloped properties placed in service included 13 properties placed in service in 2019 and 2020, while our dispositions included our decrease in ownership in 2019 of nine data center shells.

NOI from real estate operations of our wholesale data center decreased due primarily to lease termination revenue recognized in the prior period that did not recur in the current period.

*NOI from Service Operations*

| | For the Six Months Ended June 30, | | |
|---|---|---|---|
| | 2020 | 2019 | Variance |
| | (in thousands) | | |
| Construction contract and other service revenues | $ 25,917 | $ 59,249 | $ (33,332) |
| Construction contract and other service expenses | (24,832) | (57,328) | 32,496 |
| NOI from service operations | $ 1,085 | $ 1,921 | $ (836) |

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

*General, administrative and leasing expenses*

General, administrative and leasing expenses decreased in large part due to lower professional fees and compensation related expenses in the current period.

*Interest Expense*

Interest expense decreased due primarily to: increased capitalized interest resulting from a higher volume of active development projects; and lower borrowings and interest rates on our Revolving Credit Facility.

*Credit Loss Expense*

Credit loss expense recognized in the current period resulted from our adoption of new accounting guidance effective January 1, 2020 that changed the model used in measuring credit losses from an incurred loss model to an expected loss approach.

*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 in 2019 that did not recur in the current period.

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; allocations of FFO to holders of noncontrolling interests resulting from capital events; 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.

The table below sets forth the computation of the above stated measures, 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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (Dollars and shares in thousands, except per share data) | | | |
| Net income | $ 25,121 | $ 109,563 | $ 50,671 | $ 131,881 |
| Real estate-related depreciation and amortization | 33,612 | 34,802 | 66,208 | 69,598 |
| Depreciation and amortization on UJV allocable to COPT | 818 | 566 | 1,636 | 1,132 |
| Gain on sales of real estate | — | (84,469) | (5) | (84,469) |
| FFO | 59,551 | 60,462 | 118,510 | 118,142 |
| Noncontrolling interests-preferred units in the Operating Partnership | (77) | (165) | (154) | (330) |
| FFO allocable to other noncontrolling interests | (1,525) | (1,188) | (13,540) | (2,159) |
| Basic FFO allocable to share-based compensation awards | (254) | (229) | (447) | (414) |
| Basic FFO available to common share and common unit holders | 57,695 | 58,880 | 104,369 | 115,239 |
| Dilutive preferred units in the Operating Partnership | 77 | — | 154 | — |
| Redeemable noncontrolling interests | 37 | 33 | 69 | 942 |
| Diluted FFO available to common share and common unit holders | 57,809 | 58,913 | 104,592 | 116,181 |
| Executive transition costs | — | — | — | 4 |
| Demolition costs on redevelopment and nonrecurring improvements | 9 | — | 52 | 44 |
| Non-comparable professional and legal expenses | — | 311 | — | 311 |
| FFO allocation to other noncontrolling interests resulting from capital event | — | — | 11,090 | — |
| Diluted FFO comparability adjustments allocable to share-based compensation awards | (1) | (2) | (51) | (2) |
| Diluted FFO available to common share and common unit holders, as adjusted for comparability | $ 57,817 | $ 59,222 | $ 115,683 | $ 116,538 |
| | | | | |
| Weighted average common shares | 111,800 | 111,557 | 111,762 | 110,759 |
| Conversion of weighted average common units | 1,237 | 1,327 | 1,232 | 1,329 |
| Weighted average common shares/units - Basic FFO per share | 113,037 | 112,884 | 112,994 | 112,088 |
| Dilutive effect of share-based compensation awards | 321 | 310 | 280 | 289 |
| Dilutive convertible preferred units | 176 | — | 176 | — |
| Redeemable noncontrolling interests | 157 | 136 | 133 | 1,037 |
| Weighted average common shares/units - Diluted FFO per share and as adjusted for comparability | 113,691 | 113,330 | 113,583 | 113,414 |
| | | | | |
| Diluted FFO per share | $ 0.51 | $ 0.52 | $ 0.92 | $ 1.02 |
| Diluted FFO per share, as adjusted for comparability | $ 0.51 | $ 0.52 | $ 1.02 | $ 1.03 |
| | | | | |
| Denominator for diluted EPS | 112,121 | 113,105 | 112,042 | 112,507 |
| Weighted average common units | 1,237 | 1,327 | 1,232 | — |
| Redeemable noncontrolling interests | 157 | (926) | 133 | 907 |
| Dilutive convertible preferred units | 176 | (176) | 176 | — |
| Denominator for diluted FFO per share and as adjusted for comparability | 113,691 | 113,330 | 113,583 | 113,414 |

Property Additions

The table below sets forth the major components of our additions to properties for the six months ended June 30, 2020 (in thousands):

| | |
|---|---|
| Development and redevelopment | $ 197,037 |
| Tenant improvements on operating properties (1) | 17,153 |
| Capital improvements on operating properties | 16,137 |
| | $ 230,327 |

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

Cash Flows

Net cash flow from operating activities increased $24.7 million when comparing the six months ended June 30, 2020 and 2019 due primarily to an increase associated with the timing of cash flow from third-party construction projects.

Net cash flow used in investing activities increased $213.7 million when comparing the six months ended June 30, 2020 and 2019 due primarily to $237.3 million in proceeds from our sale in the prior year of a 90% interest in properties that was offset by a $34.3 million decrease in cash outlays for development and redevelopment of properties in the current period.

Net cash flow provided by financing activities in the six months ended June 30, 2020 was $98.5 million, and included the following:

- net proceeds from debt borrowings of $179.3 million; offset in part by
- dividends and/or distributions to equity holders of $62.5 million.

Net cash flow provided by 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.

**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, 2020, 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 and improvements to existing properties. 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, 2020, COPLP had $21.6 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 (net of any related hedging costs), 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, 2020, the maximum borrowing capacity under this facility totaled $800.0 million, of which $631.0 million was available.

COPT has a 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 may dispose of interests in properties opportunistically or when capital markets otherwise warrant. We believe that we have the ability to raise equity by selling interests in data center shells through joint ventures.

Our contractual obligations as of June 30, 2020 included the following (in thousands):

| | For the Periods Ending December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
| Contractual obligations (1) | | | | | | | |
| Debt (2) | | | | | | | |
| Balloon payments due upon maturity | $ 12,133 | $ 300,000 | $ 464,406 | $ 582,577 | $ 277,649 | $ 367,723 | $ 2,004,488 |
| Scheduled principal payments (3) | 1,979 | 3,955 | 4,498 | 3,553 | 2,334 | 2,294 | 18,613 |
| Interest on debt (3)(4) | 33,498 | 60,193 | 54,656 | 36,980 | 18,631 | 9,848 | 213,806 |
| Development and redevelopment obligations (5)(6) | 174,511 | 28,897 | 2,354 | — | — | — | 205,762 |
| Third-party construction cost obligations (6)(7) | 5,998 | 5,261 | — | — | — | — | 11,259 |
| Tenant and other building improvements (3)(6) | 20,957 | 28,752 | 9,547 | — | — | — | 59,256 |
| Property finance leases (principal and interest) (3) | 660 | 14 | 14 | — | — | — | 688 |
| Property operating leases (3) | 636 | 1,328 | 1,352 | 1,358 | 1,363 | 113,780 | 119,817 |
| Total contractual cash obligations | $ 250,372 | $ 428,400 | $ 536,827 | $ 624,468 | $ 299,977 | $ 493,645 | $ 2,633,689 |

(1) The contractual obligations set forth in this table exclude contracts for property operations and certain other contracts entered into in the normal course of business. Also excluded are accruals and payables incurred and interest rate derivative liabilities, which are reflected in our reported liabilities (although debt and lease liabilities are included on the table).
(2) Represents scheduled principal amortization payments and maturities only and therefore excludes net debt discounts and deferred financing costs of $11.1 million. As of June 30, 2020, maturities included $300 million in 2021 that we expect to refinance; maturities also included $169.0 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, 2020 for the terms of such debt. For variable rate debt, the amounts reflected above used June 30, 2020 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 development and construction 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.

We expect to spend approximately $140 million on 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 2020. We expect to fund the 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, 2020, 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, 2020.

### 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, 2020 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

| | For the Periods Ending December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
| Debt: | | | | | | | |
| Fixed rate debt (1) | $ 1,878 | $ 303,875 | $ 4,033 | $ 416,590 | $ 279,443 | $ 337,442 | $ 1,343,261 |
| Weighted average interest rate | 3.96% | 3.70% | 3.98% | 3.70% | 5.16% | 4.87% | 4.30% |
| Variable rate debt (2) | $ 12,234 | $ 80 | $ 464,871 | $ 169,540 | $ 540 | $ 32,575 | $ 679,840 |
| Weighted average interest rate (3) | 2.02% | 1.62% | 1.36% | 1.21% | 1.68% | 1.69% | 1.35% |

(1) Represents principal maturities only and therefore excludes net discounts and deferred financing costs of $11.1 million.
(2) As of June 30, 2020, maturities included $169.0 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, 2020 for variable rate debt.

The fair value of our debt was $2.0 billion as of June 30, 2020. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately $39 million as of June 30, 2020.

See Note 10 to our consolidated financial statements for information pertaining to interest rate swap contracts in place as of June 30, 2020 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 $1.2 million in the six months ended June 30, 2020 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, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that COPT’s disclosure controls and procedures as of June 30, 2020 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 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, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that COPLP's disclosure controls and procedures as of June 30, 2020 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 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

Other than as set forth below, there have been no material changes to the risk factors and uncertainties relating to our business and the ownership of our securities as previously set forth in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

***We may suffer further adverse effects from the COVID-19 pandemic, and similar pandemics, along with restrictive measures instituted to prevent spread.*** Since first being declared a pandemic by the World Health Organization in early March 2020, the coronavirus, or COVID-19, has spread worldwide. In an effort to control its spread, governments and other authorities have imposed restrictive measures affecting freedom of movement and business operations, such as shelter-in-place orders and business closures. Strong measures were in place in much of the United States beginning in March, bringing many businesses to a halt while forcing others to change the way in which they conduct their operations, with much of the workforce working from their homes to the extent they were able. States and local governments began easing these measures in late April, as regional COVID-19 case volumes appeared to be decreasing. The pace of the easing of these measures varied regionally, with some state and local governments lifting restrictive measures entirely, and many businesses were able to gradually begin resuming a return to normal operations. As of the date of this filing, case volumes were increasing in much of the country, with certain authorities re-instituting restrictive measures and others contemplating doing so. As a result, there continues to be significant uncertainty regarding the duration of this pandemic and, once it subsides, the potential for it to reoccur on a significant scale in the future. The outbreak has significantly disrupted economic markets worldwide, as well as in the United States at a national, regional and local level, and created significant volatility in financial markets. These conditions could continue or further deteriorate as businesses feel the prolonged effects of stalled or reduced operations and uncertainty regarding the pandemic continues.

COVID-19, and similar pandemics, along with measures instituted to prevent spread, may adversely affect us in many ways, including, but not limited to:

- disruption of our tenants' operations, which could adversely affect their ability, or willingness, to sustain their businesses and/or fulfill their lease obligations;
- our ability to maintain occupancy in our properties and obtain new leases for unoccupied and new development space at favorable terms or at all;
- shortages in supply of products or services from our and our tenants' vendors that are needed for us and our tenants to operate effectively, and which could lead to increased costs for such products and services;

- access to debt and equity capital on attractive terms or at all. Severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our or our tenants' ability to access capital necessary to fund operations, refinance debt or fund planned investments on a timely basis, and may adversely affect the valuation of financial assets and liabilities;
- our and our tenants' ability to continue or complete planned development, including the potential for delays in the supply of materials or labor necessary for development; and
- an increase in the pace of businesses implementing remote work arrangements over the long-term, which would adversely effect demand for office space.

The extent of the effect on our operations, financial condition, cash flows and ability to make expected distributions to shareholders will be dependent on future developments, including the duration of the pandemic and any future resurgence thereof, the prevalence, strength and duration of restrictive measures and the resulting effects on our tenants, potential future tenants, the commercial real estate industry and the broader economy, all of which are uncertain and difficult to predict. Moreover, some of the risks described in the risk factors set forth in Item 1A of our 2019 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the first quarter of 2020 may be more likely to impact us as a result of COVID-19 and the responses to curb its spread, including, but not limited to: downturns in national, regional and local economic environments; deteriorating local real estate market conditions; and declining real estate valuations.

**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**

None.

## Item 6. Exhibits

(a) Exhibits:

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 31.1 | Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 31.2 | Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 31.3 | Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 31.4 | Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 32.1 | Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith). |
| 32.2 | Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith). |
| 32.3 | Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith). |
| 32.4 | Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith). |
| 101.INS | XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document (filed herewith). |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document (filed herewith). |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith). |
| 101.LAB | Inline XBRL Extension Labels Linkbase (filed herewith). |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith). |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith). |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

## 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 | | CORPORATE OFFICE PROPERTIES, L.P.<br>By: Corporate Office Properties Trust,<br>its General Partner |
| | /s/ Stephen E. Budorick | | /s/ Stephen E. Budorick |
| | Stephen E. Budorick<br>President and Chief Executive Officer | | Stephen E. Budorick<br>President and Chief Executive Officer |
| | /s/ Anthony Mifsud | | /s/ Anthony Mifsud |
| | Anthony Mifsud<br>Executive Vice President and Chief Financial Officer | | Anthony Mifsud<br>Executive Vice President and Chief Financial Officer |
| Dated: | July 31, 2020 | Dated: | July 31, 2020 |

EXHIBIT 31.1

**CORPORATE OFFICE PROPERTIES TRUST**

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

**CERTIFICATIONS**

I, Stephen E. Budorick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Corporate Office Properties Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

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

**EXHIBIT 31.2**

**CORPORATE OFFICE PROPERTIES TRUST**

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

**CERTIFICATIONS**

I, Anthony Mifsud, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Corporate Office Properties Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

/s/ Anthony Mifsud
Anthony Mifsud
Chief Financial Officer

**EXHIBIT 31.3**

**CORPORATE OFFICE PROPERTIES, L.P.**

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

**CERTIFICATIONS**

I, Stephen E. Budorick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Corporate Office Properties, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

/s/ Stephen E. Budorick

Stephen E. Budorick
President and Chief Executive Officer

EXHIBIT 31.4

**CORPORATE OFFICE PROPERTIES, L.P.**

CERTIFICATIONS REQUIRED BY
RULE 15d-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, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: | July 31, 2020 | /s/ Anthony Mifsud |
| | | Anthony Mifsud |
| | | Chief Financial Officer |

**EXHIBIT 32.1**

**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 thequarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen E. Budorick, President and Chief Executive Officer of the Company, certify that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen E. Budorick

Stephen E. Budorick
President and Chief Executive Officer

Date: July 31, 2020

**EXHIBIT 32.2**

**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 thequarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Mifsud, Chief Financial Officer of the Company, certify that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

Date: July 31, 2020

**EXHIBIT 32.3**

**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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen E. Budorick, President and Chief Executive Officer of the Company, certify that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen E. Budorick

Stephen E. Budorick
President and Chief Executive Officer

Date: July 31, 2020

**EXHIBIT 32.4**

**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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Mifsud, Chief Financial Officer of the Company, certify that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Anthony Mifsud

Anthony Mifsud
Chief Financial Officer

Date: July 31, 2020