

CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 04, 2015

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 September 30, 2015

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 (IRS Employer
incorporation or organization) Identification No.)

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

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

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

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

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

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

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

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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

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

Corporate Office Properties Trust Yes No

Corporate Office Properties, L.P. Yes No

As of October 16, 2015, 94,533,250 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 September 30, 2015 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of September 30, 2015, COPT owned approximately 96.3% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

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

issuance of partnership units.

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

(comprised primarily of mutual funds and equity securities) and the corresponding liability to the plan's participants that are held directly by COPT.

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

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

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries; and
 - Note 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.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	September 30, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$ 2,932,843	\$ 2,751,488
Projects in development or held for future development	414,757	545,426
Total properties, net	3,347,600	3,296,914
Assets held for sale, net	150,572	14,339
Cash and cash equivalents	3,840	6,077
Restricted cash and marketable securities	9,286	9,069
Accounts receivable (net of allowance for doubtful accounts of \$2,010 and \$717, respectively)	19,962	26,901
Deferred rent receivable (net of allowance of \$1,816 and \$1,418, respectively)	103,064	95,910
Intangible assets on real estate acquisitions, net	106,174	43,854
Deferred leasing and financing costs, net	64,367	64,797
Investing receivables	46,821	52,147
Prepaid expenses and other assets, net	66,787	60,249
Total assets	\$ 3,918,473	\$ 3,670,257
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,121,240	\$ 1,920,057
Accounts payable and accrued expenses	98,551	123,035
Rents received in advance and security deposits	34,504	31,011
Dividends and distributions payable	30,182	29,862
Deferred revenue associated with operating leases	20,113	13,031
Interest rate derivatives	5,844	1,855
Other liabilities	8,524	12,105
Total liabilities	2,318,958	2,130,956
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,608	18,417
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference (\$0.01 par value; 25,000,000 shares authorized; issued and outstanding of 7,431,667 at September 30, 2015 and December 31, 2014)	199,083	199,083
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 94,533,670 at September 30, 2015 and 93,255,284 at December 31, 2014)	945	933
Additional paid-in capital	2,002,730	1,969,968
Cumulative distributions in excess of net income	(686,986)	(717,264)
Accumulated other comprehensive loss	(5,823)	(1,297)

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Total Corporate Office Properties Trust's shareholders' equity	1,509,949	1,451,423
Noncontrolling interests in subsidiaries:		
Common units in COPLP	50,992	51,534
Preferred units in COPLP	8,800	8,800
Other consolidated entities	10,166	9,127
Noncontrolling interests in subsidiaries	69,958	69,461
Total equity	1,579,907	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,918,473	\$ 3,670,257

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$ 109,080	\$ 96,207	\$ 312,826	\$ 288,574
Tenant recoveries and other real estate operations revenue	24,606	22,069	71,761	70,538
Construction contract and other service revenues	17,058	34,739	97,554	80,390
Total revenues	150,744	153,015	482,141	439,502
Expenses				
Property operating expenses	48,897	43,056	145,996	136,600
Depreciation and amortization associated with real estate operations	38,403	30,237	103,788	104,728
Construction contract and other service expenses	16,132	33,593	94,923	75,353
Impairment losses	2,307	66	3,545	1,368
General, administrative and leasing expenses	7,439	7,211	22,864	22,882
Business development expenses and land carry costs	5,573	1,430	10,986	4,107
Total operating expenses	118,751	115,593	382,102	345,038
Operating income	31,993	37,422	100,039	94,464
Interest expense	(24,121)	(24,802)	(66,727)	(69,107)
Interest and other income	692	1,191	3,217	3,775
Gain (loss) on early extinguishment of debt	85,745	(176)	85,677	(446)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	94,309	13,635	122,206	28,686
Equity in income of unconsolidated entities	18	193	52	206
Income tax expense	(48)	(101)	(153)	(257)
Income from continuing operations	94,279	13,727	122,105	28,635
Discontinued operations	—	191	156	4
Income before gain on sales of real estate	94,279	13,918	122,261	28,639
Gain on sales of real estate	15	10,630	4,000	10,630
Net income	94,294	24,548	126,261	39,269
Net income attributable to noncontrolling interests:				
Common units in COPLP	(3,357)	(768)	(4,231)	(942)
Preferred units in COPLP	(165)	(165)	(495)	(495)
Other consolidated entities	(972)	(895)	(2,599)	(2,481)
Net income attributable to COPT	89,800	22,720	118,936	35,351
Preferred share dividends	(3,552)	(3,553)	(10,657)	(12,387)
Issuance costs associated with redeemed preferred shares	—	—	—	(1,769)
Net income attributable to COPT common shareholders	\$ 86,248	\$ 19,167	\$ 108,279	\$ 21,195
Net income attributable to COPT:				
Income from continuing operations	\$ 89,800	\$ 22,537	\$ 118,783	\$ 35,342
Discontinued operations, net	—	183	153	9
Net income attributable to COPT	\$ 89,800	\$ 22,720	\$ 118,936	\$ 35,351
Basic earnings per common share (1)				
Income from continuing operations	\$ 0.91	\$ 0.22	\$ 1.15	\$ 0.24

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Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.91	\$0.22	\$1.15	\$0.24
Diluted earnings per common share (1)				
Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPT common shareholders	\$0.91	\$0.22	\$1.15	\$0.24
Dividends declared per common share	\$0.275	\$0.275	\$0.825	\$0.825

(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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$94,294	\$24,548	\$126,261	\$39,269
Other comprehensive (loss) income				
Unrealized (losses) gains on interest rate derivatives	(3,638	) 1,015	(6,720	) (4,738
Losses on interest rate derivatives included in interest expense	915	756	2,457	2,170
Equity in other comprehensive loss of equity method investee	—	—	(264) —
Other comprehensive (loss) income	(2,723	) 1,771	(4,527	) (2,568
Comprehensive income	91,571	26,319	121,734	36,701
Comprehensive income attributable to noncontrolling interests	(4,453	) (1,968	) (7,324	) (3,960
Comprehensive income attributable to COPT	\$87,118	\$24,351	\$114,410	\$32,741

See accompanying notes to consolidated financial statements.

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

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at December 31, 2013 (87,394,512 common shares outstanding)	\$ 249,083	\$ 874	\$ 1,814,015	\$ (641,868)	\$ 3,480	\$ 71,665	\$ 1,497,249
Redemption of preferred shares (2,000,000 shares)	(50,000)	—	1,769	(1,769)	—	—	(50,000)
Conversion of common units to common shares (117,149 shares)	—	1	1,544	—	—	(1,545)	—
Costs associated with common shares issued to the public	—	—	(7)	—	—	—	(7)
Exercise of share options (57,888 shares)	—	—	1,359	—	—	—	1,359
Share-based compensation (142,182 shares issued, net of redemptions)	—	2	5,247	—	—	—	5,249
Redemption of vested equity awards	—	—	(1,389)	—	—	—	(1,389)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(248)	—	—	248	—
Comprehensive income	—	—	—	35,351	(2,609)	2,313	35,055
Dividends	—	—	—	(84,692)	—	—	(84,692)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,710)	(3,710)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	3	3
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(1,606)	(1,606)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(7)	—	—	—	(7)
Balance at September 30, 2014 (87,711,731 common shares outstanding)	\$ 199,083	\$ 877	\$ 1,822,283	\$ (692,978)	\$ 871	\$ 67,368	\$ 1,397,504

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Balance at December 31, 2014 (93,255,284 common shares outstanding)	\$ 199,083	\$ 933	\$ 1,969,968	\$ (717,264)	\$ (1,297)	\$ 69,461	\$ 1,520,884
Conversion of common units to common shares (160,160 shares)	—	2	2,149	—	—	(2,151)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (76,474 shares)	—	—	2,008	—	—	—	2,008
Share-based compensation (151,511 shares issued, net of redemptions)	—	1	5,599	—	—	—	5,600
Redemption of vested equity awards	—	—	(2,330)	—	—	—	(2,330)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(591)	—	—	591	—
Comprehensive income	—	—	—	118,936	(4,526)	5,634	120,044
Dividends	—	—	—	(88,658)	—	—	(88,658)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(3,530)	(3,530)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(47)	(47)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	(599)	—	—	—	(599)
Balance at September 30, 2015 (94,533,670 common shares outstanding)	\$ 199,083	\$ 945	\$ 2,002,730	\$ (686,986)	\$ (5,823)	\$ 69,958	\$ 1,579,907

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$373,607	\$358,212
Construction contract and other service revenues received	104,817	62,170
Property operating expenses paid	(146,274)	(141,489)
Construction contract and other service expenses paid	(112,614)	(58,218)
General, administrative, leasing, business development and land carry costs paid	(29,620)	(22,288)
Interest expense paid	(46,278)	(54,683)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,130	448
Income taxes (paid) refunded	(8)	200
Net cash provided by operating activities	147,742	144,248
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(202,866)	—
Construction, development and redevelopment	(174,434)	(150,862)
Tenant improvements on operating properties	(18,129)	(17,754)
Other capital improvements on operating properties	(12,610)	(21,179)
Proceeds from dispositions of properties	45,066	57,973
Investing receivables funded	(22)	(3,610)
Investing receivables payments received	5,114	10,278
Leasing costs paid	(8,603)	(10,549)
Increase in prepaid expenses and other assets associated with investing activities	(4,348)	(1,260)
Other	(457)	(83)
Net cash used in investing activities	(371,289)	(137,046)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	422,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	11,569
Repayments of debt		
Revolving Credit Facility	(418,000)	(115,000)
Scheduled principal amortization	(5,011)	(4,914)
Other debt repayments	(50,681)	(183,059)
Deferred financing costs paid	(5,377)	(694)
Net proceeds from issuance of common shares	28,567	1,352
Redemption of preferred shares	—	(50,000)
Common share dividends paid	(77,641)	(72,217)
Preferred share dividends paid	(10,657)	(13,179)
Distributions paid to noncontrolling interests in COPLP	(3,581)	(3,786)
Redemption of vested equity awards	(2,330)	(1,389)
Other	(2,559)	(2,582)
Net cash provided by (used in) financing activities	221,310	(21,557)
Net decrease in cash and cash equivalents	(2,237)	(14,355)

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Cash and cash equivalents		
Beginning of period	6,077	54,373
End of period	\$3,840	\$40,018
See accompanying notes to consolidated financial statements.		

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

	For the Nine Months Ended September 30,	
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 126,261	\$ 39,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	105,397	106,619
Impairment losses	3,779	1,371
Amortization of deferred financing costs	3,339	3,646
Increase in deferred rent receivable	(11,939)	(2,738)
Amortization of net debt discounts	805	659
Gain on sales of real estate	(4,000)	(10,654)
Share-based compensation	4,949	4,563
(Gain) loss on early extinguishment of debt	(86,075)	458
Other	1,922	(2,446)
Operating changes in assets and liabilities:		
Decrease in accounts receivable	6,526	6,815
Increase in restricted cash and marketable securities	(1,102)	(2,591)
Increase in prepaid expenses and other assets, net	(5,228)	(26,553)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(655)	24,247
Increase in rents received in advance and security deposits	3,763	1,583
Net cash provided by operating activities	\$ 147,742	\$ 144,248
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$(11,722)	\$(174)
Debt assumed on acquisition of operating property	\$55,490	\$—
Other liabilities assumed on acquisition of operating properties	\$5,265	\$—
Decrease in property in connection with surrender of property in settlement of debt	\$(82,738)	\$—
Decrease in debt in connection with surrender of property in settlement of debt	\$(150,000)	\$—
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(4,263)	\$(2,613)
Equity in other comprehensive loss of an equity method investee	\$(264)	\$—
Dividends/distribution payable	\$30,182	\$28,344
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$2,151	\$1,545
Adjustments to noncontrolling interests resulting from changes in COPLP ownership	\$591	\$248
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$599	\$7

See accompanying notes to consolidated financial statements.

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

	September 30, 2015	December 31, 2014
Assets		
Properties, net:		
Operating properties, net	\$ 2,932,843	\$ 2,751,488
Projects in development or held for future development	414,757	545,426
Total properties, net	3,347,600	3,296,914
Assets held for sale, net	150,572	14,339
Cash and cash equivalents	3,840	6,077
Restricted cash and marketable securities	3,787	3,187
Accounts receivable (net of allowance for doubtful accounts of \$2,010 and \$717, respectively)	19,962	26,901
Deferred rent receivable (net of allowance of \$1,816 and \$1,418, respectively)	103,064	95,910
Intangible assets on real estate acquisitions, net	106,174	43,854
Deferred leasing and financing costs, net	64,367	64,797
Investing receivables	46,821	52,147
Prepaid expenses and other assets, net	66,787	60,249
Total assets	\$ 3,912,974	\$ 3,664,375
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,121,240	\$ 1,920,057
Accounts payable and accrued expenses	98,551	123,035
Rents received in advance and security deposits	34,504	31,011
Distributions payable	30,182	29,862
Deferred revenue associated with operating leases	20,113	13,031
Interest rate derivatives	5,844	1,855
Other liabilities	3,025	6,223
Total liabilities	2,313,459	2,125,074
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interest	19,608	18,417
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 7,431,667 at September 30, 2015 and December 31, 2014	199,083	199,083
Limited partner, 352,000 preferred units outstanding at September 30, 2015 and December 31, 2014	8,800	8,800
Common units, 94,533,670 and 93,255,284 held by the general partner and 3,677,391 and 3,837,551 held by limited partners at September 30, 2015 and December 31, 2014, respectively	1,367,904	1,305,219
Accumulated other comprehensive loss	(6,086) (1,381
Total Corporate Office Properties, L.P.'s equity	1,569,701	1,511,721

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Noncontrolling interests in subsidiaries	10,206	9,163
Total equity	1,579,907	1,520,884
Total liabilities, redeemable noncontrolling interest and equity	\$ 3,912,974	\$ 3,664,375
See accompanying notes to consolidated financial statements.		

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Rental revenue	\$109,080	\$96,207	\$312,826	\$288,574
Tenant recoveries and other real estate operations revenue	24,606	22,069	71,761	70,538
Construction contract and other service revenues	17,058	34,739	97,554	80,390
Total revenues	150,744	153,015	482,141	439,502
Expenses				
Property operating expenses	48,897	43,056	145,996	136,600
Depreciation and amortization associated with real estate operations	38,403	30,237	103,788	104,728
Construction contract and other service expenses	16,132	33,593	94,923	75,353
Impairment losses	2,307	66	3,545	1,368
General, administrative and leasing expenses	7,439	7,211	22,864	22,882
Business development expenses and land carry costs	5,573	1,430	10,986	4,107
Total operating expenses	118,751	115,593	382,102	345,038
Operating income	31,993	37,422	100,039	94,464
Interest expense	(24,121)	(24,802)	(66,727)	(69,107)
Interest and other income	692	1,191	3,217	3,775
Gain (loss) on early extinguishment of debt	85,745	(176)	85,677	(446)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	94,309	13,635	122,206	28,686
Equity in income of unconsolidated entities	18	193	52	206
Income tax expense	(48)	(101)	(153)	(257)
Income from continuing operations	94,279	13,727	122,105	28,635
Discontinued operations	—	191	156	4
Income before gain on sales of real estate	94,279	13,918	122,261	28,639
Gain on sales of real estate	15	10,630	4,000	10,630
Net income	94,294	24,548	126,261	39,269
Net income attributable to noncontrolling interests in consolidated entities	(972)	(897)	(2,602)	(2,471)
Net income attributable to COPLP	93,322	23,651	123,659	36,798
Preferred unit distributions	(3,717)	(3,718)	(11,152)	(12,882)
Issuance costs associated with redeemed preferred units	—	—	—	(1,769)
Net income attributable to COPLP common unitholders	\$89,605	\$19,933	\$112,507	\$22,147
Net income attributable to COPLP:				
Income from continuing operations	\$93,322	\$23,460	\$123,500	\$36,789
Discontinued operations, net	—	191	159	9
Net income attributable to COPLP	\$93,322	\$23,651	\$123,659	\$36,798
Basic earnings per common unit (1)				
Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.91	\$0.22	\$1.15	\$0.24
Diluted earnings per common unit (1)				

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Income from continuing operations	\$0.91	\$0.22	\$1.15	\$0.24
Discontinued operations	0.00	0.00	0.00	0.00
Net income attributable to COPLP common unitholders	\$0.91	\$0.22	\$1.15	\$0.24
Distributions declared per common unit	\$0.275	\$0.275	\$0.825	\$0.825

(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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$94,294	\$24,548	\$126,261	\$39,269
Other comprehensive (loss) income				
Unrealized gains (losses) on interest rate derivatives	(3,638	) 1,015	(6,720	) (4,738
Losses on interest rate derivatives included in interest expense	915	756	2,457	2,170
Equity in other comprehensive loss of equity method investee	—	—	(264) —
Other comprehensive (loss) income	(2,723	) 1,771	(4,527	) (2,568
Comprehensive income	91,571	26,319	121,734	36,701
Comprehensive income attributable to noncontrolling interests	(1,035	) (964	) (2,780	) (2,630
Comprehensive income attributable to COPLP	\$90,536	\$25,355	\$118,954	\$34,071

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2013	352,000	\$8,800	9,431,667	\$249,083	91,372,212	\$1,226,318	\$3,605	\$9,443	\$1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000)	(50,000)	—	—	—	—	(50,000)
Costs associated with common shares issued to the public	—	—	—	—	—	(7)	—	—	(7)
Issuance of common units resulting from exercise of share options	—	—	—	—	57,888	1,359	—	—	1,359
Share-based compensation (units net of redemption)	—	—	—	—	142,182	5,249	—	—	5,249
Redemptions of vested equity awards	—	—	—	—	—	(1,389)	—	—	(1,389)
Comprehensive income	—	495	—	12,387	—	23,916	(2,726)	983	35,055
Distributions to owners of common and preferred units	—	(495)	—	(12,387)	—	(75,520)	—	—	(88,402)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(1,606)	(1,606)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	3	3

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Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(7)	—	—	(7)	
Balance at September 30, 2014	352,000	\$8,800	7,431,667	\$199,083	91,572,282	\$1,179,919	\$879	\$8,823		\$1,397,504		
Balance at December 31, 2014	352,000	\$8,800	7,431,667	\$199,083	97,092,835	\$1,305,219	\$(1,381)	\$9,163		\$1,520,884		
Issuance of common units resulting from common shares issued under at-the-market program	—	—	—	—	890,241	26,535	—	—		26,535		
Issuance of common units resulting from exercise of share options	—	—	—	—	76,474	2,008	—	—		2,008		
Share-based compensation (units net of redemption)	—	—	—	—	151,511	5,600	—	—		5,600		
Redemptions of vested equity awards	—	—	—	—	—	(2,330	)	—	—	(2,330)	
Comprehensive income	—	495	—	10,657	—	112,507	(4,705	)	1,090	120,044	
Distributions to owners of common and preferred units	—	(495)	—	(10,657)	—	(81,036)	—	(92,188)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(47	)	(47)	
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	—	—	—	(599	)	—	—	(599)	
Balance at September 30, 2015	352,000	\$8,800	7,431,667	\$199,083	98,211,061	\$1,367,904	\$(6,086)	\$10,206		\$1,579,907		

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Revenues from real estate operations received	\$373,607	\$358,212
Construction contract and other service revenues received	104,817	62,170
Property operating expenses paid	(146,274)	(141,489)
Construction contract and other service expenses paid	(112,614)	(58,218)
General, administrative, leasing, business development and land carry costs paid	(29,620)	(22,288)
Interest expense paid	(46,278)	(54,683)
Payments in connection with early extinguishment of debt	(18)	(104)
Interest and other income received	4,130	448
Income taxes (paid) refunded	(8)	200
Net cash provided by operating activities	147,742	144,248
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(202,866)	—
Construction, development and redevelopment	(174,434)	(150,862)
Tenant improvements on operating properties	(18,129)	(17,754)
Other capital improvements on operating properties	(12,610)	(21,179)
Proceeds from dispositions of properties	45,066	57,973
Investing receivables funded	(22)	(3,610)
Investing receivables payments received	5,114	10,278
Leasing costs paid	(8,603)	(10,549)
Increase in prepaid expenses and other assets associated with investing activities	(4,348)	(1,260)
Other	(457)	(83)
Net cash used in investing activities	(371,289)	(137,046)
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	422,000	115,000
Unsecured senior notes	296,580	297,342
Other debt proceeds	50,000	11,569
Repayments of debt		
Revolving Credit Facility	(418,000)	(115,000)
Scheduled principal amortization	(5,011)	(4,914)
Other debt repayments	(50,681)	(183,059)
Deferred financing costs paid	(5,377)	(694)
Net proceeds from issuance of common units	28,567	1,352
Redemption of preferred units	—	(50,000)
Common unit distributions paid	(80,727)	(75,508)
Preferred unit distributions paid	(11,152)	(13,674)
Redemption of vested equity awards	(2,330)	(1,389)
Other	(2,559)	(2,582)
Net cash provided by (used in) financing activities	221,310	(21,557)
Net decrease in cash and cash equivalents	(2,237)	(14,355)
Cash and cash equivalents		

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Beginning of period	6,077	54,373
End of period	\$3,840	\$40,018
See accompanying notes to consolidated financial statements.		

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

	For the Nine Months Ended September 30,	
	2015	2014
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 126,261	\$ 39,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	105,397	106,619
Impairment losses	3,779	1,371
Amortization of deferred financing costs	3,339	3,646
Increase in deferred rent receivable	(11,939)	(2,738)
Amortization of net debt discounts	805	659
Gain on sales of real estate	(4,000)	(10,654)
Share-based compensation	4,949	4,563
(Gain) loss on early extinguishment of debt	(86,075)	458
Other	1,922	(2,446)
Operating changes in assets and liabilities:		
Decrease in accounts receivable	6,526	6,815
Increase in restricted cash and marketable securities	(1,485)	(2,558)
Increase in prepaid expenses and other assets, net	(5,228)	(26,553)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(272)	24,214
Increase in rents received in advance and security deposits	3,763	1,583
Net cash provided by operating activities	\$ 147,742	\$ 144,248
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$(11,722)	\$(174)
Debt assumed on acquisition of operating property	\$55,490	\$—
Other liabilities assumed on acquisition of operating properties	\$5,265	\$—
Decrease in property in connection with surrender of property in settlement of debt	\$(82,738)	\$—
Decrease in debt in connection with surrender of property in settlement of debt	\$(150,000)	\$—
Decrease in fair value of derivatives applied to accumulated other comprehensive loss and noncontrolling interests	\$(4,263)	\$(2,613)
Equity in other comprehensive loss of an equity method investee	\$(264)	\$—
Distributions payable	\$30,182	\$28,344
Increase in redeemable noncontrolling interest and decrease in equity to carry redeemable noncontrolling interest at fair value	\$599	\$7

See accompanying notes to consolidated financial statements.

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

1. Organization

Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) is a fully-integrated and self-managed real estate investment trust (“REIT”). Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”) is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, “we”, “us” and “our” as used herein refer to each of the Company and the Operating Partnership. We focus primarily on serving the specialized requirements of United States Government agencies and their contractors, most of whom are engaged in national security and information technology related activities. We generally acquire, develop, manage and lease office and data center properties concentrated in large office parks located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of September 30, 2015, our properties included the following:

- 183 operating office properties totaling 18.8 million square feet;
- 10 office properties under, or contractually committed for, construction or redevelopment that we estimate will total approximately 1.2 million square feet upon completion, including one partially operational property included above;
- 1,450 acres of land we control that we believe are potentially developable into approximately 17.7 million square feet; and
- a wholesale data center with a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of September 30, 2015, COPT owned 96.3% of the outstanding COPLP common units (“common units”) and 95.5% of the outstanding COPLP preferred units (“preferred units”); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest (“preferred shares”) in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “OFC”.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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, 2014 included in our 2014 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present 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 2014 Annual Report on Form 10-K.

Recent Accounting Pronouncements

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

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

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

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

In September 2015, the FASB issued guidance that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the statement of operations or disclosed in the notes. This guidance is effective for

annual reporting periods beginning after December 15, 2015. This guidance will be applied prospectively for measurement period adjustments that occur after the effective date. We expect that the application of this guidance will not materially affect our consolidated financial statements.

3. Fair Value Measurements

For a description on how we estimate fair value, see Note 3 to the consolidated financial statements in our 2014 Annual Report on Form 10-K.

Recurring Fair Value Measurements

Our partner in a real estate joint venture has the right to require us to acquire its interest at fair value beginning in March 2020; accordingly, we classify the fair value of our partner's interest as a redeemable noncontrolling interest in the mezzanine section of our consolidated balance sheet. In determining the fair value of our partner's interest as of September 30, 2015, we used a discount rate of 15.5% which factored in risk appropriate to the level of future property development expected to be undertaken by the joint venture. A significant increase (decrease) in the discount rate used in determining the fair value would result in a significantly (lower) higher fair value. Given our reliance on the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy. Please refer to Note 11 for a rollforward of the activity for redeemable noncontrolling interest.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. As discussed in Note 7, we estimated the fair values of our investing receivables based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of debt fair values in Note 9, we estimated the fair value of our unsecured senior notes and exchangeable senior notes based on quoted market rates for publicly-traded debt (categorized within Level 2 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

For additional fair value information, please refer to Note 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 its subsidiaries that are accounted for at fair value on a recurring basis as of September 30, 2015 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	\$ 5,395	\$ —	\$ —	\$5,395
Other	104	—	—	104
Warrants to purchase common stock (2)	—	42	—	42
Total assets	\$ 5,499	\$ 42	\$ —	\$5,541
Liabilities:				
Deferred compensation plan liability (3)	\$ —	\$ 5,499	\$ —	\$5,499
Interest rate derivatives	—	5,844	—	5,844
Total liabilities	\$ —	\$ 11,343	\$ —	\$11,343
Redeemable noncontrolling interest	\$ —	\$ —	\$ 19,608	\$19,608

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

COPLP and Subsidiaries

The table below sets forth financial assets and liabilities of COPLP and its subsidiaries that are accounted for at fair value on a recurring basis as of September 30, 2015 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:				
Warrants to purchase common stock (1)	\$ —	\$ 42	\$ —	\$ 42
Liabilities:				
Interest rate derivatives	\$ —	\$ 5,844	\$ —	\$ 5,844
Redeemable noncontrolling interest	\$ —	\$ —	\$ 19,608	\$ 19,608

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

Nonrecurring Fair Value Measurements

During the nine months ended September 30, 2015, we recognized the following impairment losses resulting from nonrecurring fair value measurements:

\$1.3 million primarily in the three months ended June 30, 2015 on a property in Northern Virginia that we sold on July 27, 2015 following receipt of an unsolicited offer. This property’s carrying value exceeded its fair value less costs to sell; and

\$2.3 million in the three months ended September 30, 2015 on three properties in the Greater Baltimore, Maryland (“Greater Baltimore”) region that we concluded no longer met our investment criteria during the period and whose carrying amounts exceeded their estimated fair values less costs to sell. These properties were reclassified as held for sale.

The table below sets forth the fair value hierarchy of the valuation technique we used to determine the fair values of these properties (dollars in thousands):

Description	Fair Values of Properties Held as of September 30, 2015			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Assets held for sale, net (1)	\$—	\$—	\$7,225	\$7,225

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

The table below sets forth quantitative information about significant unobservable inputs used for the Level 3 fair value measurements reported above as of September 30, 2015 (dollars in thousands):

Valuation Technique	Fair Values on Measurement Date	Unobservable Input	Range (Weighted Average) (1)
Discounted cash flow	\$7,225	Discount rate	8.25%
		Terminal capitalization rate	7.75%
		Market rent growth rate	2.0%
		Expense growth rate	2.0%

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

During the nine months ended September 30, 2014, we recognized impairment losses totaling \$1.4 million primarily in connection with certain of our operating properties in the Greater Baltimore region that were disposed of during the period. After shortening our expected holding period for these properties during the period, we determined that the carrying amount of the properties would not likely be recovered from the cash flows from the operations and sales of the properties over the shortened period.

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4. Properties, Net

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

	September 30, 2015	December 31, 2014
Land	\$466,701	\$439,355
Buildings and improvements	3,141,889	3,015,216
Less: Accumulated depreciation	(675,747	) (703,083
Operating properties, net	\$2,932,843	\$2,751,488

During the nine months ended September 30, 2014, we recognized \$12.9 million in additional depreciation expense resulting from our revision of the useful life of a property in Greater Philadelphia, Pennsylvania (“Greater Philadelphia”) that was removed from service for redevelopment.

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

	September 30, 2015	December 31, 2014
Land	\$207,748	\$214,977
Development in progress, excluding land	207,009	330,449
Projects in development or held for future development	\$414,757	\$545,426

As of September 30, 2015, we had 18 operating properties in Greater Baltimore and one in Northern Virginia classified as held for sale. The table below sets forth the components of assets held for sale on our consolidated balance sheet for these properties (in thousands):

	September 30, 2015
Properties, net	\$142,817
Deferred rent receivable	3,998
Intangible assets on real estate acquisitions, net	799
Deferred leasing costs, net	2,053
Lease incentives, net	905
Assets held for sale, net	\$150,572

As of December 31, 2014, we had two land parcels in the Greater Baltimore region classified as held for sale with aggregate carrying amounts of \$14.3 million that were sold during the nine months ended September 30, 2015.

2015 Acquisitions

In the nine months ended September 30, 2015, we acquired the following operating properties:

• 250 W. Pratt Street, a 367,000 square foot office property in Baltimore, Maryland that was 96.2% leased, for \$61.9 million on March 19, 2015;

• 2600 Park Tower Drive, a 237,000 square foot office property in Vienna, Virginia (in the Northern Virginia region) that was 100% leased, for \$80.5 million on April 15, 2015; and

• 100 Light Street, a 558,000 square foot office property in Baltimore, Maryland that was 93.5% leased, and its structured parking garage, 30 Light Street, for \$121.2 million on August 7, 2015. In connection with that acquisition, we assumed a \$55.0 million mortgage loan with a fair value at assumption of \$55.5 million.

The table below sets forth the allocation of the aggregate acquisition costs of these properties (in thousands):

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Land, operating properties	\$55,076	
Building and improvements	139,520	
Intangible assets on real estate acquisitions	75,846	
Total assets	270,442	
Below-market leases	(6,820)
Total acquisition cost	\$263,622	

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

		Weighted Average Amortization Period (in Years)
Tenant relationship value	\$31,208	12
In-place lease value	35,231	7
Above-market leases	6,720	4
Below-market cost arrangements	2,687	40
	\$75,846	10

These properties contributed revenues of \$6.9 million for the three months ended September 30, 2015 and \$11.2 million for the nine months ended September 30, 2015, and contributed net income from continuing operations of \$487,000 for the three months ended September 30, 2015 and \$697,000 for the nine months ended September 30, 2015. We expensed operating property acquisition costs of \$2.7 million during the three months ended September 30, 2015 and \$4.1 million during the nine months ended September 30, 2015 that are included in business development expenses and land carry costs on our consolidated statements of operations.

We accounted for these acquisitions as business combinations. We included the results of operations for the acquisitions in our consolidated statements of operations from their respective purchase dates through September 30, 2015. The following table presents pro forma information for COPT and subsidiaries as if these acquisitions had occurred on January 1, 2014. This pro forma information also includes adjustments to reclassify the operating property acquisition costs disclosed above from the 2015 periods in which they were incurred to the nine months ended September 30, 2014. The pro forma financial information was prepared for comparative purposes only and is not necessarily indicative of what would have occurred had these acquisitions been made at that time or of results which may occur in the future (in thousands, except per shares amounts).

	For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2015	
	2014	2015	2014	2015
	(Unaudited)		(Unaudited)	
Pro forma total revenues	\$152,736	\$162,085	\$498,657	\$467,224
Pro forma net income attributable to COPT common shareholders	\$88,836	\$19,683	\$112,941	\$19,266
Pro forma EPS:				
Basic	\$0.94	\$0.22	\$1.20	\$0.22
Diluted	\$0.94	\$0.22	\$1.20	\$0.22

2015 Dispositions

In the nine months ended September 30, 2015, we completed the following dispositions of operating properties:

1550 Westbranch Drive, a 160,000 square foot office property in McLean, Virginia (in the Northern Virginia region) for \$27.8 million on July 27, 2015; and
 15000 and 15010 Conference Center Drive, two office properties in Chantilly, Virginia (in the Northern Virginia region) totaling 665,000 square feet. On August 28, 2015, ownership in these properties was transferred to the mortgage lender on a \$150.0 million nonrecourse mortgage loan that was secured by the properties and we removed the debt obligation and accrued interest from our balance sheet. The properties had an estimated fair value of \$99 million on the transfer date. Upon completion of this transfer, we recognized a gain on early extinguishment of debt of \$84.8 million, representing the difference between the mortgage loan and accrued interest payable extinguished over the carrying value of the properties transferred as of the transfer date and related closing costs.

We also sold land during the nine months ended September 30, 2015 for \$18.1 million and recognized gains of \$4.0 million on the sales.

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2015 Construction Activities

During the nine months ended September 30, 2015, we placed into service an aggregate of 897,000 square feet in seven newly constructed office properties located in Northern Virginia, San Antonio, Texas (“San Antonio”), Huntsville, Alabama (“Huntsville”) and the Baltimore/Washington Corridor, and 170,000 square feet in two properties redeveloped in Greater Philadelphia and St. Mary’s County, Maryland. As of September 30, 2015, we had six office properties under construction, or for which we were contractually committed to construct, that we estimate will total 1.0 million square feet upon completion (including one partially operational property), including four in Northern Virginia and two in the Baltimore/Washington Corridor. We also had four office properties under redevelopment that we estimate will total 156,000 square feet upon completion, all of which were located in the Baltimore/Washington Corridor.

5. Real Estate Joint Ventures

The table below sets forth information pertaining to our material investments in consolidated real estate joint ventures as of September 30, 2015 (dollars in thousands):

	Date Acquired	Nominal Ownership % as of 9/30/2015	Nature of Activity	September 30, 2015		(1) Total Liabilities
				Total Assets	Encumbered Assets	
LW Redstone Company, LLC	3/23/2010	85%	Development and operation of real estate (2)	\$ 144,906	\$ 64,395	\$ 39,093
M Square Associates, LLC	6/26/2007	50%	Development and operation of real estate (3)	58,840	48,301	38,117
				\$ 203,746	\$ 112,696	\$ 77,210

(1) Excludes amounts eliminated in consolidation.

(2) This joint venture’s properties are in Huntsville.

(3) This joint venture’s properties are in College Park, Maryland (in the Baltimore/Washington Corridor).

6. Intangible Assets on Real Estate Acquisitions, Net

Intangible assets on real estate acquisitions consisted of the following, excluding amounts for properties held for sale (in thousands):

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease value	\$ 138,410	\$ 87,667	\$ 50,743	\$ 123,759	\$ 101,040	\$ 22,719
Tenant relationship value	63,117	22,525	40,592	42,301	28,492	13,809
Below-market cost arrangements	15,102	6,505	8,597	12,415	5,984	6,431
Above-market leases	13,844	7,987	5,857	8,659	8,159	500
Market concentration premium	1,333	948	385	1,333	938	395
	\$ 231,806	\$ 125,632	\$ 106,174	\$ 188,467	\$ 144,613	\$ 43,854

Amortization of the intangible asset categories set forth above totaled \$11.9 million in the nine months ended September 30, 2015 and \$10.8 million in the nine months ended September 30, 2014. The approximate weighted average amortization periods of the categories set forth above follow (excluding amounts for properties held for sale): in-place lease value: six years; tenant relationship value: 11 years; below-market cost arrangements: 35 years; above-market leases: four years; and market concentration premium: 27 years. The approximate weighted average

amortization period for all of the categories combined is 10 years. Estimated amortization expense associated with the intangible asset categories set forth above through 2020 follows (excluding amounts for properties held for sale): \$5.1 million for the three months ending December 31, 2015; \$19.7 million for 2016; \$17.1 million for 2017; \$12.3 million for 2018; \$9.3 million for 2019; and \$7.3 million for 2020.

7. Investing Receivables

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

	September 30, 2015	December 31, 2014
Notes receivable from the City of Huntsville	\$43,821	\$49,147
Other investing loans receivable	3,000	3,000
	\$46,821	\$52,147

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

We did not have an allowance for credit losses in connection with our investing receivables as of September 30, 2015 or December 31, 2014. The fair value of these receivables approximated their carrying amounts as of September 30, 2015 and December 31, 2014.

8. Prepaid Expenses and Other Assets, Net

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

	September 30, 2015	December 31, 2014
Prepaid expenses	\$28,655	\$20,570
Lease incentives, net	11,589	13,344
Furniture, fixtures and equipment, net	5,941	6,637
Construction contract costs incurred in excess of billings	4,722	6,656
Deferred tax asset, net (1)	4,015	4,002
Operating notes receivable	3,744	3,797
Equity method investments	1,626	2,368
Other assets	6,495	2,875
Prepaid expenses and other assets, net	\$66,787	\$60,249

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

Operating notes receivable reported above includes amounts due from tenants with remaining terms exceeding one year totaling \$3.7 million as of September 30, 2015 and \$3.6 million as of December 31, 2014; we carried allowances for estimated losses for \$278,000 of the September 30, 2015 balance and \$252,000 of the December 31, 2014 balance.

9. Debt, Net

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

	Maximum Availability at	Carrying Value at		Stated Interest Rates as of	Scheduled Maturity as of
	September 30, 2015	September 30, 2015	December 31, 2014	September 30, 2015	September 30, 2015
Mortgage and Other Secured Loans:					
Fixed rate mortgage loans (1)		\$288,217	\$387,139	3.96% - 7.87% (2)	2016-2024
Variable rate secured loan		36,249	36,877	LIBOR + 2.25% (3)	November 2015
Total mortgage and other secured loans		324,466	424,016		
Revolving Credit Facility	\$800,000	87,000	83,000	LIBOR + 0.875% to 1.60% (4)	May 2019
Term Loan Facilities	(5)	520,000	520,000	LIBOR + 0.90% to 2.60% (6)	2016-2020
Unsecured Senior Notes					
3.600% Senior Notes (7)		347,691	347,496	3.60%	May 2023
5.250% Senior Notes (8)		246,074	245,797	5.25%	February 2024
3.700% Senior Notes (9)		297,830	297,569	3.70%	June 2021
5.000% Senior Note (10)		296,646	—	5.00%	July 2025
Unsecured notes payable		1,533	1,607	0% (11)	2026
4.25% Exchangeable Senior Notes (12)		—	572	N/A	(12)
Total debt, net		\$2,121,240	\$1,920,057		

Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of

(1) these loans reflect net unamortized premiums totaling \$24,000 as of September 30, 2015 and \$42,000 as of December 31, 2014. Please refer to Note 4 for disclosure pertaining to the removal of a \$150.0 million nonrecourse mortgage loan from our balance sheet on August 28, 2015.

(2) The weighted average interest rate on our fixed rate mortgage loans was 6.07% as of September 30, 2015.

(3) The interest rate on the loan outstanding was 2.45% as of September 30, 2015.

(4) The weighted average interest rate on the Revolving Credit Facility was 1.48% as of September 30, 2015.

(5) We have the ability to borrow an additional \$380.0 million in the aggregate under these term loan facilities, provided that there is no default under the facilities and subject to the approval of the lenders.

(6) The weighted average interest rate on these loans was 1.78% as of September 30, 2015.

The carrying value of these notes included a principal amount of \$350.0 million and an unamortized discount (7) totaling \$2.3 million as of September 30, 2015 and \$2.5 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 3.70%.

The carrying value of these notes included a principal amount of \$250.0 million and an unamortized discount (8) totaling \$3.9 million as of September 30, 2015 and \$4.2 million as of December 31, 2014. The effective interest rate under the notes, including amortization of the issuance costs, was 5.49%.

(9) The carrying value of these notes included a principal amount of \$300.0 million and an unamortized discount totaling \$2.2 million as of September 30, 2015 and \$2.4 million as of December 31, 2014. The effective interest

rate under the notes, including amortization of the issuance costs, was 3.85%.

(10) Refer to the paragraph below for disclosure pertaining to these notes.

These notes carry interest rates that were below market rates upon assumption and therefore were recorded at

(11) their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling \$578,000 as of September 30, 2015 and \$654,000 as of December 31, 2014.

(12) On April 20, 2015, we redeemed these notes at 100% of their principal amount.

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

On May 6, 2015, we entered into a credit agreement with a group of lenders for which KeyBanc Capital Markets and J.P. Morgan Securities LLC acted as joint lead arrangers and joint book runners, KeyBank National Association acted as administrative agent and JPMorgan Chase Bank, N.A. acted as syndication agent (the "Consolidated Credit Agreement") to amend, restate and consolidate the terms of our Revolving Credit Facility and one of our term loan facilities. In addition to consolidating the terms of these loan facilities, the Consolidated Credit Agreement included the following provisions:

For the Revolving Credit Facility:

an extension of the maturity date from July 14, 2017 to May 6, 2019, with the ability for us to further extend such maturity by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee based on the total availability of the facility for each extension;

changes to the interest terms of the facility such that the variable interest rate is based on LIBOR (customarily the 30-day rate) plus 0.875% to 1.600%, as determined by the credit ratings assigned to COPLP by Standard & Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch Ratings Ltd. (collectively, the "Ratings Agencies");

changes to the quarterly fee carried by the facility. Such fee is based on the average daily amount of the lenders' aggregate commitment multiplied by a per annum rate of 0.125% to 0.300%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies; and

certain changes to the financial covenants of the facility.

For the term loan facility:

an increase in the loan amount from \$250.0 million to \$300.0 million, with a right for us to borrow up to an additional \$200.0 million during the term for an aggregate maximum loan of \$500.0 million, subject to certain conditions. We used the proceeds from the \$50.0 million increase in the facility to repay a portion of another existing unsecured term loan;

an extension of the maturity date of the loan from February 14, 2017 to May 6, 2020;

changes to the interest terms of the facility such that the variable interest rate is based on LIBOR (customarily the 30-day rate) plus 0.900% to 1.850%, as determined by the credit ratings assigned to COPLP by the Ratings Agencies; and

certain changes to the financial covenants of the facility.

On June 29, 2015, we issued a \$300.0 million aggregate principal amount of 5.00% Senior Notes at an initial offering price of 99.510% of their face value. The proceeds from this issuance, after deducting underwriting discounts, but before other offering expenses, were \$296.6 million. The notes mature on July 1, 2025. We may redeem the notes, in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (1) the aggregate principal amount of the notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to its present value, on a semi-annual basis at an adjusted treasury rate plus 45 basis points, plus accrued and unpaid interest thereon to the date of redemption. The notes are unconditionally guaranteed by COPT. However, if this redemption occurs on or after three months prior to the maturity date, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date. The carrying value of these notes reflects an unamortized discount totaling \$3.4 million at September 30, 2015. The effective interest rate under the notes, including amortization of the issuance costs, was 5.15%.

We capitalized interest costs of \$1.5 million in the three months ended September 30, 2015, \$1.3 million in the three months ended September 30, 2014, \$5.6 million in the nine months ended September 30, 2015 and \$4.3 million in the nine months ended September 30, 2014.

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

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt				
Unsecured Senior Notes	\$1,188,241	\$1,212,120	\$890,862	\$901,599
Other fixed-rate debt	289,750	298,198	389,318	356,377
Variable-rate debt	643,249	644,243	639,877	642,091

\$2,121,240	\$2,154,561	\$1,920,057	\$1,900,067
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10. Interest Rate Derivatives

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

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					September 30, 2015	December 31, 2014
\$36,249	(1) 3.8300%	One-Month LIBOR + 2.25%	11/2/2010	11/2/2015	\$(44)	\$(400)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	(396)	(317)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	(401)	(324)
100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	(2,386)	239)
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(2,617)	35)
100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	—	(407)
100,000	0.8320%	One-Month LIBOR	1/3/2012	9/1/2015	—	(407)
					\$(5,844)	\$(1,581)

(1) The notional amount of this instrument is scheduled to amortize to \$36.2 million.

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

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

Derivatives	September 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets	\$ —	Prepaid expenses and other assets	\$ 274
Interest rate swaps designated as cash flow hedges	Interest rate derivatives	(5,844)	Interest rate derivatives	(1,855)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Amount of (loss) gain recognized in accumulated other comprehensive loss ("AOCL") (effective portion)	\$(3,638)	\$1,015	\$(6,720)	\$(4,738)
Amount of losses reclassified from AOCL into interest expense (effective portion)	915	756	2,457	2,170

Over the next 12 months, we estimate that approximately \$3.5 million of losses will be reclassified from AOCL as an increase to interest expense.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on our derivative obligations. These agreements also incorporate the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparties. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of September 30, 2015, the fair value of interest rate derivatives in a liability position related to these agreements was \$5.9 million, excluding the effects of accrued interest and credit valuation adjustments. As of

September 30, 2015, we had not posted any collateral related to these agreements. We are not in default with any of these provisions. If we breached any of these provisions, we could be required to settle our obligations under the agreements at their termination value of \$6.3 million.

11. Redeemable Noncontrolling Interest

The table below sets forth the activity for a redeemable noncontrolling interest in a consolidated real estate joint venture (in thousands):

	For the Nine Months Ended September 30,	
	2015	2014
Beginning balance	\$18,417	\$17,758
Distributions to noncontrolling interest, net	(1,098	) (976
Net income attributable to noncontrolling interest	1,690	1,647
Adjustment to arrive at fair value of interest	599	7
Ending balance	\$19,608	\$18,436

12. Equity

During the nine months ended September 30, 2015, COPT issued 890,241 common shares at a weighted average price of \$30.29 per share under its at-the-market (“ATM”) stock offering program established in October 2012. Net proceeds from the shares issued totaled \$26.6 million, after payment of \$0.4 million in commissions to sales agents. These net proceeds were contributed to COPLP in exchange for 890,241 common units. COPT’s remaining capacity under the ATM Plan is an aggregate gross sales price of \$84.0 million in common share sales.

During the nine months ended September 30, 2015, certain COPLP limited partners redeemed 160,160 common units in COPLP for an equal number of common shares in COPT.

See Note 14 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 ten reportable operating office property segments (comprised of: the Baltimore/Washington Corridor; Northern Virginia; San Antonio; Huntsville; Washington, DC — Capitol Riverfront; St. Mary's and King George Counties; Greater Baltimore; Greater Philadelphia; Colorado Springs; and Other). In our 2015 quarterly reports on Form 10-Q, our Colorado Springs segment is, and will be, included in our Other segment as it is insignificant in the 2014 and 2015 reporting periods. We also have an operating wholesale data center segment. The table below reports segment financial information for our reportable segments (in thousands). We measure the performance of our segments through the measure we define as NOI from real estate operations, which is derived by subtracting property operating expenses from revenues from real estate operations.

	Operating Office Property Segments										Operating Wholesale Data Center	Total
	Baltimore/ Washington Corridor	Northern Virginia	San Antonio	Huntsville	Washington, DC - Capitol Riverfront	St. Mary's & King George Counties	Greater Baltimore	Greater Philadelphia	Other			
Three Months Ended September 30, 2015												
Revenues from real estate operations	\$62,009	\$23,332	\$9,492	\$3,061	\$3,336	\$3,550	\$16,134	\$4,126	\$2,568	\$6,078	\$133,686	
Property operating expenses	20,169	7,785	4,808	888	1,962	1,325	6,461	1,249	242	4,008	48,897	
NOI from real estate operations	\$41,840											