CORPORATE OFFICE PROPERTIES TRUST
Form 10-K
February 17, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
(Mark one)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)
Corporate Office Properties Trust
Corporate Office Properties, L.P.
(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust	Maryland	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)	(Name of Exchange on Which Registered
Common Shares of beneficial interest, $0.01 par value	New York Stock Exchange
Series L Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Corporate Office Properties Trust o Yes ý No
Corporate Office Properties, L.P. o Yes ý No
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Corporate Office Properties Trust

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

Corporate Office Properties, L.P.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Corporate Office Properties Trust o Yes ý No
Corporate Office Properties, L.P. o Yes ý No

The aggregate market value of the voting and nonvoting shares of common stock held by non-affiliates of Corporate Office Properties Trust was approximately $2.8 billion, as calculated using the closing price of such shares on the New York Stock Exchange and the number of outstanding shares as of June 30, 2016. For purposes of calculating this amount only, affiliates are defined as Trustees, executive owners and beneficial owners of more than 10% of Corporate Office Properties Trust’s outstanding common shares, $0.01 par value. At January 31, 2017, 98,672,462 of Corporate Office Properties Trust’s common shares were outstanding.

The aggregate market value of the voting and nonvoting common units of limited partnership interest held by non-affiliates of Corporate Office Properties, L.P. was approximately $98.8 million, as calculated using the closing price of the common shares of Corporate Office Properties Trust (into which common units not held by Corporate Office Properties Trust are exchangeable) on the New York Stock Exchange and the number of outstanding units as of June 30, 2016.

Portions of the proxy statement of Corporate Office Properties Trust for its 2017 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2016 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of December 31, 2016, COPT owned approximately 96.5% of the outstanding common units and approximately 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in this Form 10-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. COPT is a real estate investment trust, whose only material asset is its ownership of partnership interests of COPLP.

As a result, COPT does not conduct business itself, other than acting as the sole general partner of COPLP, issuing public equity from time to time and guaranteeing certain debt of COPLP. COPT itself is not directly obligated under any indebtedness but guarantees some of the debt of COPLP. COPLP owns substantially all of the assets of COPT either directly or through its subsidiaries, conducts almost all of the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by COPT, which are contributed to COPLP in exchange for partnership units, COPLP generates the capital required by COPT's business through COPLP's operations, by COPLP's direct or indirect incurrence of indebtedness or through the issuance of partnership units.

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

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

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

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:
  - Note 3, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries;
  - Note 13, Equity of COPT and subsidiaries;
  - Note 14, Equity of COPLP and subsidiaries;
  - Note 18, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries; and
  - Note 20, Quarterly Data of COPT and subsidiaries and COPLP and subsidiaries.
- “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT”; and
- “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPLP.”

This report also includes separate sections under Part II, Item 9A. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of COPT and COPLP to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that COPT and COPLP are compliant with Rule 13a-15 and Rule 15d-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.

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FORWARD-LOOKING STATEMENTS

This Form 10-K contains “forward-looking” statements, as defined in the Private Securities Litigation Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Additionally, documents we subsequently file with the SEC and incorporated by reference will contain forward-looking statements.

Forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “could,” “believe,” “anticip “expect,” “estimate,” “plan” or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. We caution readers that forward-looking statements reflect our opinion only as of the date on which they were made. You should not place undue reliance on forward-looking statements. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to borrow on favorable terms;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares;
- our ability to achieve projected results; and
- environmental requirements.

We undertake no obligation to publicly update or supplement forward-looking statements, whether as a result of new information, future events or otherwise. For further information on these and other factors that could affect us and the statements contained herein, you should refer to the section below entitled “Item 1A. Risk Factors.”

PART I
Item 1. Business

OUR COMPANY
General. Corporate Office Properties Trust ("COPT") and subsidiaries (collectively, the "Company") is a fully-integrated and self-managed real estate investment trust ("REIT"). Corporate Office Properties, L.P. ("COPLP") and subsidiaries (collectively, the "Operating Partnership") is the entity through which COPT, the sole general partner of COPLP, conducts almost all of its operations and owns almost all of its assets. Unless otherwise expressly stated or the context otherwise requires, "we", "us" and "our" as used herein refer to each of the Company and the Operating Partnership. We own, manage, lease, develop and selectively acquire office and data center properties. The majority of our portfolio is in locations that support the United States Government and its contractors, most of whom are engaged in national security, defense and information technology ("IT") related activities servicing what we believe are growing, durable priority missions ("Defense/IT Locations"). We also own a portfolio of office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics, as well as other properties supporting general commercial office tenants ("Regional Office"). As of December 31, 2016, our properties included the following:

- 164 operating office properties totaling 17.2 million square feet, including 13 triple-net leased, single-tenant data center properties. We owned six of these properties through an unconsolidated real estate joint venture;
- 11 office properties under construction or redevelopment that we estimate will total approximately 1.4 million square feet upon completion, including three partially operational properties and two properties completed but held for future lease to the United States Government;
- 1,028 acres of land controlled for future development that we believe could be developed into approximately 12.2 million square feet and an additional 199 acres of other land; and
- a wholesale data center with a critical load of 19.25 megawatts.

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

Equity interests in COPLP are in the form of common and preferred units. As of December 31, 2016, COPT owned 96.5% of the outstanding COPLP common units ("common units") and 95.5% of the outstanding COPLP preferred units ("preferred units"); the remaining common and preferred units in COPLP were owned by third parties. Common units in COPLP not owned by COPT carry certain redemption rights. The number of common units in COPLP owned by COPT is equivalent to the number of outstanding common shares of beneficial interest ("common shares") of COPT, and the entitlement of all COPLP common units to quarterly distributions and payments in liquidation is substantially the same as those of COPT common shareholders. Similarly, in the case of each series of preferred units in COPLP held by COPT, there is a series of preferred shares of beneficial interest ("preferred shares") in COPT that is equivalent in number and carries substantially the same terms as such series of COPLP preferred units. COPT's common shares are publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "OFC".

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

We believe that COPT is organized and has operated in a manner that satisfies the requirements for taxation as a REIT under the Internal Revenue Code of 1986, as amended, and we intend to continue to operate COPT in such a manner. If COPT continues to qualify for taxation as a REIT, it generally will not be subject to Federal income tax on its taxable income (other than that of its TRS entities) that is distributed to its shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute to its shareholders at least 90% of its annual taxable income.

Our executive offices are located at 6711 Columbia Gateway Drive, Suite 300, Columbia, Maryland 21046 and our telephone number is (443) 285-5400.

Our Internet address is www.copt.com. We make available on our Internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably possible after we file such material with the Securities and Exchange Commission (the "SEC"). In addition, we have made available on our Internet website under the heading "Corporate Governance" the charters for our Board of Trustees'

Audit, Nominating and Corporate Governance, Compensation and Investment Committees, as well as our Corporate Governance Guidelines, Code of Business Conduct and Ethics and Code of Ethics for Financial Officers. We intend to make available on our website any future amendments or waivers to our Code of Business Conduct and Ethics and Code of Ethics for Financial Officers within four business days after any such amendments or waivers. The information on our Internet site is not part of this report.

The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. This Internet website can be accessed at www.sec.gov. The public may also read and copy paper filings that we have made with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

Significant Developments
In 2016:

- we finished the year with occupancy of our portfolio of operating office properties at 92.1%, including six properties owned through an unconsolidated real estate joint venture;
- we sold:
  - 21 operating properties totaling 1.6 million square feet that were 85.9% occupied for $248.7 million and other land for $21.8 million;
  - a 50% interest in six triple-net leased, single-tenant data center properties by contributing them into a newly-formed joint venture for an aggregate property value of $147.6 million. We obtained $60.0 million in non-recourse mortgage loans on the properties through the joint venture immediately prior to the sale of our interest and received the net proceeds. Our partner in the joint venture acquired the 50% interest from us for $44.3 million;

We used most of the proceeds from these sales to repay borrowings under our Revolving Credit Facility and for general corporate purposes.

- we placed into service an aggregate of 700,000 square feet in six newly constructed properties and three redeveloped properties that were 90.0% leased as of December 31, 2016;
- issued 3.72 million COPT common shares at a weighted average price of $29.56 per share under our at-the-market ("ATM") stock offering program established in September 2016. Net proceeds from the shares issued totaled $109.1 million. The net proceeds were primarily added to our cash reserves;
- our team of executive officers changed through:
  - our Board of Trustees' appointments of: Stephen E. Budorick as President and Chief Executive Officer effective May 12, 2016, the date of the Company's 2016 Annual Meeting of Shareholders; and Paul R. Adkins as Executive Vice President and Chief Operating Officer effective November 28, 2016. On May 12, 2016, Roger A. Waesche, Jr., our President and Chief Executive Officer at that time, departed the Company to pursue other interests, and he was not nominated for re-election as a Trustee. The Board appointed Mr. Budorick to our Board of Trustees after the 2016 Annual Meeting of Shareholders;
  - the departures of: Wayne H. Lingafelter, our Executive Vice President, Development & Construction Services, effective March 31, 2016; and Karen M. Singer, our Senior Vice President, General Counsel and Secretary, effective August 31, 2016.

Business and Growth Strategies

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

Defense/ IT Locations Strategy: We specialize in serving the unique requirements of tenants of our Defense/IT Locations. The majority of our properties are located adjacent to, or house, the United States Government. Our customers in these properties are primarily the United States Government and its contractors engaged in activities servicing what we believe are high priority security, defense and IT missions. These tenants’ missions generally pertain to knowledge-based activities (such as cyber security, research and development and other highly technical defense and security areas) rather than to force structure (troops) and weapon system production. A high percentage of our revenue (84.5% as of December 31, 2016) is concentrated in Defense/IT Locations, and we expect to maintain a high concentration through our:

- proximity of our existing properties and developable land to defense installations and other knowledge-based government demand drivers, and our willingness to expand to new locations with similar attributes;

- extensive experience in developing secured, specialized space, with the ability to satisfy the United States Government’s unique needs, including Sensitive Compartmented Information Facility (“SCIF”) and Anti-Terrorism Force Protection (“ATFP”) requirements;
- depth of knowledge, specialized skills and credentialed personnel in operating highly specialized space with security-oriented needs; and
- well-established relationships with the United States Government and its contractors.

Regional Office Strategy: While our primary focus pertains to Defense/IT Locations, we focus secondarily on owning office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics. Characteristics that we seek in Regional Office submarkets include: (1) mixed-use, lifestyle oriented locations with a robust high-end residential and retail base; (2) proximity to public transportation and major transportation routes; (3) educated workforce; (4) diverse and growing employment base; and (5) constraints in supply. We believe that these types of submarkets provide better overall quality and opportunity for long-term, sustained growth than other commercial office submarkets.

Asset Management Strategy: We aggressively manage our portfolio to maximize the value and operating performance of each property through: (1) proactive property management and leasing; (2) renewal of tenant leases and re-tenanting at increased rents where market conditions permit; (3) achievement of operating efficiencies by increasing economies of scale and, where possible, aggregating vendor contracts to achieve volume pricing discounts; and (4) redevelopment when we believe property conditions and market demand warrant. We may also seek to dispose of properties when they no longer meet our strategic objectives, or when capital markets and the circumstances pertaining to such holdings otherwise warrant, in order to maximize our return on invested capital and be better positioned for long-term growth.

We also aim to operate and develop our properties in a manner that minimizes adverse impact on the environment by: (1) constructing new buildings designed to use resources with a high level of efficiency and low impact on human health and the environment during their life cycles through our participation in the U.S. Green Building Council’s Leadership in Energy and Environmental Design (“LEED”) program; (2) investing in energy systems and other equipment that reduce energy consumption and property operating costs; (3) adopting select LEED Existing Building (“EB”) prerequisites for much of our portfolio, including guidelines pertaining to cleaning and recycling practices and energy reduction; and (4) committing to participate in the GRESB (or Global Real Estate Sustainability Benchmark) survey, which is widely recognized for measuring the sustainability performance of real estate companies and funds. In both 2015 and 2016, we earned an overall score of “Green Star,” which represents the highest quadrant of achievement from the GRESB survey.

Property Development and Acquisition Strategy: We pursue property development and acquisition opportunities for properties that fit our Defense/IT Locations and Regional Office strategies and, as discussed above, have significant land holdings that we believe can help fuel future development of Defense/IT Locations in particular. We pursue development activities as market conditions and leasing opportunities support favorable risk-adjusted returns on investment, and therefore typically prefer properties to be significantly leased prior to commencing construction. We typically seek to make acquisitions at attractive yields and below replacement cost, or that otherwise meet our strategic objectives.

Capital Strategy: Our capital strategy is aimed at maintaining access to capital in the face of differing market conditions in the most cost-effective manner by:

- maintaining an investment grade rating to enable us to use debt comprised of unsecured, primarily fixed-rate debt (including the effect of interest rate swaps) from public markets and banks;
- using secured nonrecourse debt from institutional lenders and banks;

- managing our debt by monitoring, among other things: (1) our total and secured debt levels relative to our overall capital structure; (2) the relationship of certain measures of earnings to our debt level and to certain capital costs; (3) the timing of debt maturities to ensure that maturities in any year do not exceed levels that we believe we can refinance; and (4) the relationship of our variable-rate debt to our total debt;
- using equity raised through issuances of common shares in COPT and common units in COPLP and, to a lesser extent, issuances of preferred shares in COPT and preferred units in COPLP and joint venture structures for certain investments;
- paying dividends at a level that at least enables us to maintain our REIT status;
- recycling proceeds from property sales under our asset management strategy (discussed above) to fund our investment activities and to reduce overall debt; and
- continuously evaluating the ability of our capital resources to accommodate our plans for future growth.

Industry Segments

We operate in the commercial office properties industry and also own a wholesale data center. As of December 31, 2016, our commercial office real estate operations included the following: Defense/IT Locations and Regional Office. Our segment reporting also included reporting for Defense/IT Locations sub-segments, which included the following:

- Fort George G. Meade and the Baltimore/Washington Corridor (referred to herein as “Fort Meade/BW Corridor”);
- Northern Virginia Defense I/T Locations;
- Lackland Air Force Base in San Antonio, Texas;
- locations serving the U.S. Navy (referred to herein as “Navy Support Locations”). Properties in this segment as of December 31, 2016 were proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia;
- Redstone Arsenal in Huntsville, Alabama; and
- data center shells (including six properties owned through an unconsolidated real estate joint venture), which are properties leased to tenants to be operated as data centers in which the tenants generally fund the costs for the power, fiber connectivity and data center infrastructure. Most of our data center shells as of December 31, 2016 were proximate to the MAE-East Corridor, a major center in the United States for interconnecting traffic between Internet service providers.

As of December 31, 2016, Defense/IT Locations comprised 146 of our office properties, or 84.2% of our square feet in operations, while Regional Office comprised 13 of our office properties, or 13.8% of our square feet in operations. Our wholesale data center, which is comprised of one property in Manassas, Virginia, is reported as a separate segment.

For information relating to our segments, you should refer to Note 17 to our consolidated financial statements, which is included in a separate section at the end of this Annual Report on Form 10-K beginning on page F-1.

Employees

As of December 31, 2016, we had 376 employees, none of whom were parties to collective bargaining agreements. We believe that our relations with our employees are good.

Competition

The commercial real estate market is highly competitive. Numerous commercial landlords compete with us for tenants. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties’ owners may be willing to accept lower rents than we are. We also compete with our own tenants, many of whom have the right to sublease their space. The competitive environment for leasing is affected considerably by a number of factors including, among other things, changes in economic conditions and supply of and demand for space. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to produce acceptable operating cash flows.

We occasionally compete for the acquisition of land and commercial properties with many entities, including other publicly-traded commercial REITs. Competitors for such acquisitions may have substantially greater financial resources than ours. In addition, our competitors may be willing to accept lower returns on their investments or may be willing to incur higher leverage.

We also compete with many entities, including other publicly-traded commercial REITs, for capital. This competition could adversely affect our ability to raise capital we may need to fulfill our capital strategy.

In addition, we compete with many entities for talent. If there is an increase in the costs for us to retain employees or if we otherwise fail to attract and retain such employees, our business and operating results could be adversely effected.

Item 1A. Risk Factors

Set forth below are risks and uncertainties relating to our business and the ownership of our securities. These risks and uncertainties may lead to outcomes that could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our equityholders. You should carefully consider each of these risks and uncertainties and all of the information in this Annual Report on Form 10-K and its Exhibits, including our consolidated financial statements and notes thereto for the year ended December 31, 2016, which are included in a separate section at the end of this report beginning on page F-1.

Our performance and value are subject to risks associated with our properties and with the real estate industry. Real estate investments are subject to various risks and fluctuations in value and demand, many of which are beyond our control. Our performance and the value of our real estate assets may decline due to conditions in the general economy and the real estate business which, in turn, could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders. These conditions include, but are not limited to:

- downturns in national, regional and local economic environments, including increases in the unemployment rate and inflation or deflation;
- competition from other properties;
- deteriorating local real estate market conditions, such as oversupply, reduction in demand and decreasing rental rates;
- declining real estate valuations;
- increasing vacancies and the need to periodically repair, renovate and re-lease space;
- adverse developments concerning our tenants, which could affect our ability to collect rents and execute lease renewals;
- government actions and initiatives, including risks associated with the impact of prolonged government shutdowns and budgetary reductions or impasses, such as a reduction of rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- increasing operating costs, including insurance, utilities, real estate taxes and other expenses, some of which we may not be able to pass through to tenants;
- increasing interest rates and unavailability of financing on acceptable terms or at all;
- trends in office real estate that may adversely affect future demand, including telecommuting and flexible workplaces that increase the population density per square foot;
- unavailability of financing for potential purchasers of our properties;
- adverse changes in taxation or zoning laws;
- potential inability to secure adequate insurance;
- adverse consequences resulting from civil disturbances, natural disasters, terrorist acts or acts of war; and
- potential liability under environmental or other laws or regulations.

We may suffer adverse consequences as a result of adverse economic conditions. Our business may be affected by adverse economic conditions in the United States economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the impact of high unemployment and constrained credit. Adverse economic conditions could increase the likelihood of tenants encountering financial difficulties, including bankruptcy, insolvency or general downturn of business, and as a result could increase the likelihood of tenants defaulting on their lease obligations to us. Such conditions also could increase our likelihood of being unsuccessful in renewing tenants, renewing tenants on terms less favorable to us or being unable to lease newly constructed properties. In addition, such conditions could increase the level of risk that we may not be able to obtain new financing for development activities, acquisitions, refinancing of existing debt or other capital requirements at reasonable terms, if at all.

We may suffer adverse consequences as a result of our reliance on rental revenues for our income. We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.

For new tenants or upon lease expiration for existing tenants, we generally must make improvements and pay other leasing costs for which we may not receive increased rents. We also make building-related capital improvements for which tenants may not reimburse us.

If our properties do not generate revenue sufficient to meet our operating expenses and capital costs, we may have to borrow additional amounts to cover these costs. In such circumstances, we would likely have lower profits or possibly incur losses. We may also find in such circumstances that we are unable to borrow to cover such costs, in which case our operations could be adversely affected.

In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes due to economic factors such as supply and demand. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meet our short-term capital needs.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so. Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. As a result, we would be harmed if one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, government shutdown or general downturn of business.

We may be adversely affected by developments concerning our major tenants or the United States Government and its contractors, including prolonged shutdowns of the government and actual, or potential, reductions in government spending targeting knowledge-based activities. As of December 31, 2016, our 20 largest tenants accounted for 67.6% of the total annualized rental revenue of our office properties, and the four largest of these tenants accounted for 44.2%. We calculated annualized rental revenue by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases in our portfolio of office properties as of December 31, 2016; with regard to properties owned through an unconsolidated real estate joint venture, we include the portion of annualized rental revenue allocable to our ownership interest. Information regarding our four largest tenants is set forth below:

Tenant	Annualized Rental Revenue as of December 31, 2016 (in thousands)	Percentage of Total Annualized Rental Revenue of Office Properties	Number of Leases
United States of America	$ 146,560	31.0%	60
Northrop Grumman Corporation (1)	22,714	4.8%	8
The Boeing Company (1)	20,219	4.3%	11
General Dynamics Corporation (1)	19,373	4.1%	7

(1) Includes affiliated organizations and predecessor companies.

Most of our leases with the United States Government provide for a series of one-year terms. The United States Government may terminate its leases if, among other reasons, the United States Congress fails to provide funding. We would be harmed if any of our four largest tenants fail to make rental payments to us over an extended period of time, including as a result of a prolonged government shutdown, or if the United States Government elects to terminate some or all of its leases and the space cannot be re-leased on satisfactory terms.

As of December 31, 2016, 84.5% of the total annualized rental revenue of our office properties was from Defense/IT Locations, and we expect to maintain a similarly high revenue concentration of properties in these locations. A reduction in government spending targeting the activities of the government and its contractors (such as knowledge-based defense and security activities) in these locations could adversely affect our tenants' ability to fulfill lease obligations, renew leases or enter into new leases and limit our future growth from properties in these locations. Moreover, uncertainty regarding the potential for future reduction in government spending targeting such activities could also decrease or delay leasing activity from tenants engaged in these activities.

Most of our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Greater Washington, DC/Baltimore region, or in particular office parks. We may suffer economic harm in the event of a decline in the real estate market or general economic conditions in those regions or parks. Most of our properties are located in the Mid-Atlantic region of the United States, particularly in the Greater Washington, DC/Baltimore region. Our properties are also often concentrated in office parks in which we own most of the properties. Consequently, our portfolio of properties is not broadly distributed geographically. As a result, we would be harmed by a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Greater Washington, DC/Baltimore region or the office parks in which our properties are located.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant vacates a property, we can expect to experience a vacancy for some period of time, as well as incur higher leasing costs than we would likely incur if a tenant renews. As a result, we may be harmed if we experience a high volume of tenant departures at the end of their lease terms.

We may be adversely affected by trends in the office real estate industry. Some businesses increasingly permit employee telecommuting, flexible work schedules, open workplaces and teleconferencing. These practices enable businesses to reduce their space requirements. These trends could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.

We may encounter a decline in the value of our real estate. The value of our real estate could be adversely affected by general economic and market conditions connected to a specific property, a market or submarket, a broader economic region or the office real estate industry. Examples of such conditions include a broader economic recession, declining demand and decreases in market rental rates and/or market values of real estate assets. If our real estate assets decline in value, it could result in our recognition of impairment losses. Moreover, a decline in the value of our real estate could adversely affect the amount of borrowings available to us under future credit facilities and other loans.

We may not be able to compete successfully with other entities that operate in our industry. The commercial real estate market is highly competitive. Numerous commercial properties compete with our properties for tenants. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties' owners may be willing to accept lower rates than are acceptable to us. In addition, we compete for the purchase of commercial property with many entities, including other publicly traded commercial REITs.

Real estate investments are illiquid, and we may not be able to dispose of properties on a timely basis when we determine it is appropriate to do so. Real estate investments can be difficult to sell and convert to cash quickly, especially if market conditions, including real estate lending conditions, are not favorable. Such illiquidity could limit our ability to quickly change our portfolio of properties in response to changes in economic or other conditions. Our failure to successfully execute dispositions could adversely affect our ability to effectively execute our business strategy. Moreover, under certain circumstances, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than two years and limits the number of properties it can sell in a given year. In addition, for certain of our properties that we acquired by issuing units in COPLP, we are restricted by agreements with the sellers of the properties for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the seller's consent.

We are dependent on external sources of capital for growth. Because COPT is a REIT, it must distribute at least 90% of its annual taxable income to its shareholders. Due to this requirement, we are not able to significantly fund our development and acquisition activities using retained cash flow from operations. Therefore, our ability to fund these activities may be dependent on our ability to access debt or equity capital. Such capital could be in the form of new debt, common shares, preferred shares, common and preferred units in COPLP or joint venture funding. These capital sources may not be available on favorable terms or at all. Moreover, additional debt financing may substantially increase our leverage and subject us to covenants that restrict management's flexibility in directing our operations, and additional equity offerings may result in substantial dilution of our equityholders' interests. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business and fund other cash requirements.

We often use our Revolving Credit Facility to initially finance much of our investing activities and certain financing activities. We may also use other credit facilities to fund a significant portion of our construction activities. Our lenders under these and other facilities could, for financial hardship or other reasons, fail to honor their commitments to fund our requests for borrowings under these facilities. If lenders default under these facilities by not being able or willing to fund a borrowing request, it would adversely affect our ability to access borrowing capacity under these facilities.

We may be unable to execute our plans to develop and construct additional properties. Although the majority of our investments are in currently leased properties, we also develop, construct and redevelop properties, including some that are not fully pre-leased. When we develop, construct and redevelop properties, we assume the risk that actual costs will exceed our budgets, that we will experience conditions which delay or preclude project completion and that projected leasing will not occur. In addition, we generally do not obtain construction financing commitments until the development stage of a project is complete and construction is about to commence. We may find that we are unable to obtain financing needed to continue with the construction activities for such projects.

We may suffer adverse effects from acquisitions of commercial real estate properties. We may acquire existing commercial real estate properties to the extent that suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties entail risks, such as the risks that we may not be in a position, or have the opportunity in the future, to make suitable property acquisitions on advantageous terms and/or that such acquisitions will fail to perform as expected.

We may pursue selective acquisitions of properties in regions where we have not previously owned properties. These acquisitions may entail risks in addition to those we face in other acquisitions where we are familiar with the regions, such as the risk that we do not correctly anticipate conditions or trends in a new market and are therefore not able to operate the acquired property profitably.

In addition, we may acquire properties that are subject to liabilities in situations where we have no recourse, or only limited recourse, against the prior owners or other third parties with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Examples of unknown liabilities with respect to acquired properties include, but are not limited to:

- liabilities for remediation of disclosed or undisclosed environmental contamination;
- claims by tenants, vendors or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Our wholesale data center may become obsolete. Wholesale data centers are much more expensive investments on a per square foot basis than office properties due to the level of infrastructure required to operate the centers. At the same time, technology, industry standards and service requirements for wholesale data centers are rapidly evolving and, as a result, the risk of investments we make in our wholesale data center becoming obsolete is higher than office properties. Our wholesale data center may become obsolete due to the development of new systems to deliver power to, or eliminate heat from, the servers housed in the properties, or due to other technological advances. In addition, we may not be able to efficiently upgrade or change power and cooling systems to meet new demands or industry standards without incurring significant costs that we may not be able to pass on to our tenants.

Certain of our properties containing data centers contain space not suitable for lease other than as data centers, which could make it difficult to reposition them for alternative use. Certain of our properties contain data center space, which is highly specialized space containing extensive electrical and mechanical systems that are designed uniquely to run and maintain banks of computer servers. As discussed above, our data centers are subject to obsolescence risks. In the event that we needed to reposition data center space for another use, the renovations required to do so could be difficult and costly, and we may, as a result, deem such renovations to be impractical.

Our tenants and contractual counterparties could be designated "Prohibited Persons" by the Office of Foreign Assets Control. The Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons"). OFAC regulations and other laws prohibit us from conducting business or engaging in transactions with Prohibited Persons. If a tenant or other party with whom we conduct business is placed on the OFAC list or is otherwise a party with whom we are prohibited from doing business, we may be required to terminate the lease or other agreement.

We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt. Some of our properties are pledged by us to support repayment of indebtedness. Any foreclosure on our properties could result in loss of income and asset value. In addition, we rely on borrowings to fund some or all of the costs of construction and development activities, new property acquisitions and other items. Our organizational documents do not limit the amount of indebtedness that we may incur.

Payments of principal and interest on our debt may leave us with insufficient cash to operate our properties or pay distributions to COPT's shareholders required to maintain its qualification as a REIT. We are also subject to the risks that:

- we may not be able to refinance our existing indebtedness, or may refinance on terms that are less favorable to us than the terms of our existing indebtedness;
- in the event of our default under the terms of our Revolving Credit Facility, COPLP could be restricted from making cash distributions to COPT, which could result in reduced distributions to our equityholders or the need for us to incur

additional debt to fund these distributions; and

- if we are unable to pay our debt service on time or are unable to comply with restrictive financial covenants for certain of our debt, our lenders could foreclose on our properties securing such debt and, in some cases, other properties and assets that we own.

Some of our unsecured debt is cross-defaulted, which means that failure to pay interest or principal on the debt above a threshold value will create a default on certain of our other debt.

If interest rates were to rise, our debt service payments on debt with variable interest rates would increase.

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As of December 31, 2016, we had $1.9 billion in debt the future maturities of which are set forth in Note 10 to our consolidated financial statements. Our operations likely will not generate enough cash flow to repay some or all of this debt without additional borrowings, equity issuances and/or property sales. If we cannot refinance our debt, extend the repayment dates, or raise additional equity prior to the dates when our debt matures, we would default on our existing debt.

A downgrade in our credit ratings would materially adversely affect our business and financial condition. COPLP's Senior Notes are currently rated investment grade by the three major rating agencies. These credit ratings are subject to ongoing evaluation by the credit rating agencies and can change. Any downgrades of our ratings or outlook by the credit rating agencies would have a material adverse impact on our cost and availability of capital and also could have a material adverse effect on the market price of COPT's common shares.

We have certain distribution requirements that reduce cash available for other business purposes. Since COPT is a REIT, it must distribute at least 90% of its annual taxable income, which limits the amount of cash that can be retained for other business purposes, including amounts to fund acquisitions and development activity. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period during which we report those items for distribution purposes, we may have to borrow funds for COPT to meet the 90% distribution requirement.

We may be unable to continue to make distributions to our equityholders at expected levels. We expect to make regular quarterly cash distributions to our equityholders. However, our ability to make such distributions depends on a number of factors, some of which are beyond our control. Some of our loan agreements contain provisions that could, in the event of default, restrict future distributions. Our ability to make distributions at expected levels will also be dependent, in part, on other matters, including, but not limited to:

- continued property occupancy and timely receipt of rent from our tenants;
- the amount of future capital expenditures and expenses relating to our properties;
- the level of leasing activity and future rental rates;
- the strength of the commercial real estate market;
- our ability to compete;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses;
- our costs of compliance with environmental and other laws;
- our corporate overhead levels;
- our amount of uninsured losses; and
- our decision to reinvest in operations rather than distribute available cash.

In addition, we can make distributions to the holders of our common shares/units only after we make preferential distributions to holders of our preferred shares/units.

Our ability to pay distributions may be limited, and we cannot provide assurance that we will be able to pay distributions regularly. Our ability to pay distributions will depend on a number of things discussed elsewhere herein, including our ability to operate profitably and generate cash flow from our operations. We cannot guarantee that we will be able to pay distributions on a regular quarterly basis in the future. Additionally, the terms of some of COPLP's debt may limit its ability to make some types of payments and other distributions to COPT in the event of certain default situations. This in turn may limit our ability to make some types of payments, including payment of distributions on common or preferred shares/units, unless we meet certain financial tests or such payments or distributions are required to maintain COPT's qualification as a REIT. As a result, if we are unable to meet the applicable financial tests, we may not be able to pay distributions in one or more periods. Furthermore, any new common or preferred shares/units that may be issued in the future for raising capital, financing acquisitions, share-based compensation arrangements or otherwise will increase the cash required to continue to pay cash distributions at current levels.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay distributions to equityholders. Our governing documents do not limit us from incurring additional indebtedness and other liabilities. As of December 31, 2016, we had $1.9 billion of indebtedness outstanding. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position.

Our ability to pay distributions is further limited by the requirements of Maryland law. As a Maryland REIT, COPT may not under applicable Maryland law make a distribution if either of the following conditions exists after giving effect to the distribution: (1) the REIT would not be able to pay its debts as the debts become due in the usual course of business; or (2) the REIT's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the REIT were dissolved at the time of the distribution, to satisfy upon dissolution the rights of equityholders whose preferential rights are superior to those receiving the distribution. Therefore, we may not be able to make expected distributions to our equityholders if either of the above described conditions exists for COPT after giving effect to the distribution.

We may issue additional common or preferred shares/units that dilute our equityholders' interests. We may issue additional common and preferred shares/units without shareholder approval. Similarly, COPT may cause COPLP to issue its common or preferred units for contributions of cash or property without approval by the limited partners of COPLP or COPT's shareholders. Our existing equityholders' interests could be diluted if such additional issuances were to occur.

We may suffer economic harm as a result of the actions of our partners in real estate joint ventures and other investments. We may invest in certain entities in which we are not the exclusive investor or principal decision maker. Investments in such entities may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that the other parties to these investments might become bankrupt or fail to fund their share of required capital contributions. Our partners in these entities may have economic, tax or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses on major decisions, such as whether or not to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments.

We may be subject to possible environmental liabilities. We are subject to various Federal, state and local environmental laws, including air and water quality, hazardous or toxic substances and health and safety. These laws can impose liability on current and prior property owners or operators for the costs of removal or remediation of hazardous substances released on a property, even if the property owner was not responsible for, or even aware of, the release of the hazardous substances. Costs resulting from environmental liability could be substantial. The presence of hazardous substances on our properties may also adversely affect occupancy and our ability to sell or borrow against those properties. In addition to the costs of government claims under environmental laws, private plaintiffs may bring claims for personal injury or other reasons. Additionally, various laws impose liability for the costs of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances at such a facility is potentially liable under such laws. These laws often impose liability on an entity even if the facility was not owned or operated by the entity.

Although most of our properties have been subject to varying degrees of environmental assessment, many of these assessments are limited in scope and may not include or identify all potential environmental liabilities or risks associated with the property. Identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in cleanup or compliance requirements could result in significant costs to us.

We may be adversely affected by natural disasters and the effects of climate change. Natural disasters, including earthquakes, storms and hurricanes, as well as the potential consequences of climate change could adversely impact our properties. Over time, climate change could adversely affect demand for space in our properties or our ability to operate our properties; it could also have indirect effects on our business, including increasing the cost of (or making unavailable) property insurance, increasing the cost of energy and requiring us to expend funds as we seek to repair and protect our properties against such risks.

Terrorist attacks may adversely affect the value of our properties, our financial position and cash flows. We have significant investments in properties located in large metropolitan areas and near military installations. Future terrorist attacks could directly or indirectly damage our properties or cause losses that materially exceed our insurance coverage. After such an attack, tenants in these areas may choose to relocate their businesses to areas of the United States that may be perceived to be less likely targets of future terrorist activity, and fewer customers may choose to patronize businesses in these areas. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease space on less favorable terms.

We may be subject to other possible liabilities that would adversely affect our financial position and cash flows. Our properties may be subject to other risks related to current or future laws, including laws relating to zoning, construction, fire and life safety requirements and other matters. These laws may require significant property modifications in the future and could result in the levy of fines against us. In addition, although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore a property that is damaged by a fire or other catastrophic events, including acts of war or, as mentioned above, terrorism.

We may be subject to increased costs of insurance and limitations on coverage, particularly regarding acts of terrorism. Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies. These policies include coverage for acts of terrorism. Future changes in the insurance industry's risk assessment approach and pricing structure may increase the cost of insuring our properties and decrease the scope of insurance coverage. Most of our loan agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs, or at all, in the future. In addition, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance and/or refinance our properties and execute our growth strategies.

Our business could be adversely affected by a negative audit by the United States Government. Agencies of the United States Government, including the Defense Contract Audit Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. The United States Government also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the United States Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

Our business could be adversely affected by security breaches through cyber attacks, cyber intrusions or otherwise. We face risks associated with security breaches and other significant disruptions of our information technology networks and related systems, which are essential to our business operations. Such breaches and disruptions may occur through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization. Because of our concentration on serving the United States Government and its contractors with a general focus on national security and information technology, we may be more likely to be targeted by cyber attacks, including by governments, organizations or persons hostile to our government. Despite our activities to maintain the security and integrity of our networks and related systems, as well as purchasing available insurance coverage, there can be no absolute assurance that these activities will be effective in mitigating these risks. A security breach involving our networks and related systems could disrupt our operations in numerous ways, including by creating difficulties for our tenants that may reflect poorly on us.

COPT's ownership limits are important factors. COPT's Declaration of Trust limits ownership of its common shares by any single shareholder to 9.8% of the number of the outstanding common shares or 9.8% of the value of the outstanding common shares, whichever is more restrictive. COPT's Declaration of Trust also limits ownership by any single shareholder of our common and preferred shares in the aggregate to 9.8% of the aggregate value of the outstanding common and preferred shares. We call these restrictions the "Ownership Limit." COPT's Declaration of Trust allows our Board of Trustees to exempt shareholders from the Ownership Limit. The Ownership Limit and the restrictions on ownership of our common shares may delay or prevent a transaction or a change of control that might involve a premium price for our common shares/units or otherwise be in the best interest of our equityholders.

COPT's Declaration of Trust includes other provisions that may prevent or delay a change of control. Subject to the requirements of the New York Stock Exchange, our Board of Trustees has the authority, without shareholder approval, to issue additional securities on terms that could delay or prevent a change in control. In addition, our Board of Trustees has the authority to reclassify any of our unissued common shares into preferred shares. Our Board of Trustees may issue preferred shares with such preferences, rights, powers and restrictions as our Board of Trustees may determine, which could also delay or prevent a change in control.

The Maryland business statutes impose potential restrictions that may discourage a change of control of our company. Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to equityholders. Resolutions adopted by our Board of Trustees and/or provisions of our bylaws exempt us from such laws, but our Board of Trustees can alter its resolutions or change our bylaws at any time to make these provisions applicable to us.

COPT's failure to qualify as a REIT would have adverse tax consequences, which would substantially reduce funds available to make distributions to our equityholders. We believe that COPT has qualified for taxation as a REIT for Federal income tax purposes since 1992. We plan for COPT to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of COPT's gross income must come from certain sources that are specified in the REIT tax laws. COPT is also required to distribute to shareholders at least 90% of its REIT taxable income (excluding capital gains). The fact that COPT holds most of its assets through COPLP and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize COPT's REIT status. Furthermore, Congress and the Internal Revenue Service might make changes to the tax laws and regulations and the courts might issue new rulings that make it more difficult or impossible for COPT to remain qualified as a REIT.

If COPT fails to qualify as a REIT, it would be subject to Federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, COPT would remain disqualified as a REIT for four years following the year it first fails to qualify. If COPT fails to qualify as a REIT, it would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our equityholders. In addition, if COPT fails to qualify as a REIT, it will no longer be required to pay distributions to shareholders. As a result of all these factors, COPT's failure to qualify as a REIT could impair our ability to expand our business and raise capital and would likely have a significant adverse effect on the value of our shares/units.

We could face possible adverse changes in tax laws, which may result in an increase in our tax liability. From time to time, changes in state and local tax laws or regulations are enacted that may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income.

A number of factors could cause our security prices to decline. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of COPT's common and preferred shares. These conditions include, but are not limited to:

- market perception of REITs in general and office REITs in particular;
- market perception regarding our major tenants and sector concentrations;
- the level of institutional investor interest in COPT;
- general economic and business conditions;
- prevailing interest rates;
- our financial performance;
- our underlying asset value;
- market perception of our financial condition, performance, dividends and growth potential; and
- adverse changes in tax laws.

We may experience significant losses and harm to our financial condition if financial institutions holding our cash and cash equivalents file for bankruptcy protection. We believe that we maintain our cash and cash equivalents with high quality financial institutions. We have not experienced any losses to date on our deposited cash. However, we may incur significant losses and harm to our financial condition in the future if any of these financial institutions files for bankruptcy protection.

Item 1B. Unresolved Staff Comments
None

Item 2. Properties

The following table provides certain information about our office property segments as of December 31, 2016 (dollars and square feet in thousands, except per square foot amounts):

Segment	Number of Properties	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2)(3)
Defense/IT Locations:						
Fort Meade/BW Corridor:						
National Business Park (Annapolis Junction, MD)	29	3,486	96.1	%	$ 127,188	$37.96
Howard County, MD	35	2,756	91.9	%	69,491	27.43
Other	22	1,576	94.6	%	40,749	27.33
Subtotal / Average	86	7,818	94.3	%	237,428	32.19
Northern Virginia Defense/IT (4)	12	1,789	85.0	%	50,734	33.34
Lackland Air Force Base	7	953	100.0	%	44,189	46.37
Navy Support Locations	21	1,258	72.7	%	26,228	28.68
Redstone Arsenal	7	642	96.4	%	13,857	22.38
Data Center Shells						
Consolidated Properties	7	1,045	100.0	%	21,247	20.33
Unconsolidated Joint Venture Properties (5)	6	962	100.0	%	5,233	10.88
Defense/IT Locations Subtotal / Average	146	14,467	92.6	%	398,916	30.18
Regional Office (6)	13	2,366	95.2	%	68,383	30.37
Other Properties (7)	5	357	52.9	%	4,920	26.03
Total Portfolio	164	17,190	92.1	%	$ 472,219	$30.16
Consolidated Properties	158	16,228	91.6	%	$ 466,986	$31.41

(1) This percentage is based upon all rentable square feet under lease terms that were in effect as of December 31, 2016.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2016 (ignoring free rent then in effect) multiplied by 12, plus the estimated annualized expense reimbursements under existing leases. With regard to properties owned through an unconsolidated real estate joint venture, we include the portion of annualized rental revenue allocable to our ownership interest. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under generally accepted accounting principles does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

(3) Annualized rental revenue per occupied square foot is a property’s annualized rental revenue divided by that property’s occupied square feet as of December 31, 2016. Our computation of annualized rental revenue excludes the effect of lease incentives. The annualized rent per occupied square foot, including the effect of lease incentives, was $29.93 for our total office portfolio, $31.16 for our consolidated office portfolio, $32.10 for Fort Meade/BW Corridor (our largest Defense/IT Location sub-segment) and $29.90 for our Regional Office portfolio.

(4) Included one property classified as held for sale as of December 31, 2016.

(5) Represents properties owned through an unconsolidated real estate joint venture. The amounts reported above reflect 100% of the properties’ square footage but only reflect the portion of Annualized Rental Revenue that was allocable to our ownership interest.

(6) Included six properties classified as held for sale as of December 31, 2016.
(7) Included two properties classified as held for sale as of December 31, 2016.

The following table provides certain information about our office properties that were under construction, or had redevelopment underway, or otherwise approved, as of December 31, 2016 (dollars and square feet in thousands):

Property and Location	Submarket	Estimated Rentable Square Feet Upon Completion	Percentage Leased		Calendar Quarter Anticipated to be Operational	Costs Incurred to Date (1)	Estimated Costs to Complete (1)
Under Construction							
Fort Meade/Baltimore/Washington Corridor:							
310 Sentinel Way Annapolis Junction, Maryland	National Business Park	191	8	%	(2)	$39,438	$14,914
540 National Business Parkway Annapolis Junction, Maryland	National Business Park	145	49	%	1Q 2018	29,413	14,299
5801 University Research Court College Park, Maryland	College Park	71	0	%	4Q 2018	1,964	16,580
Subtotal / Average		407	21	%		70,815	45,793
Data Center Shells:							
Bethlehem Technology Park - DC20 Manassas, Virginia	Manassas	216	100	%	2Q 2017	15,828	14,085
Bethlehem Technology Park - DC18 Manassas, Virginia	Manassas	216	100	%	3Q 2017	7,900	26,900
Subtotal / Average		432	100	%		23,728	40,985
Northern Virginia Defense/IT:							
NOVA Office B Northern Virginia	Other Virginia	161	0	%	(2)	31,172	10,328
NOVA Office D Northern Virginia	Other Virginia	240	100	%	3Q 2017	19,355	29,989
Subtotal / Average		401	60	%		50,527	40,317
Redstone Arsenal:							
2100 Rideout Road Huntsville, Alabama	Redstone Gateway	19	58	%	2Q 2017	4,656	639
Total Under Construction		1,259	61	%		$149,726	$127,734
Under Redevelopment							
Fort Meade/Baltimore/Washington Corridor:							
7134 Columbia Gateway Drive Columbia, MD	Howard County Perimeter	22	38	%	1Q 2017	$3,863	$387

1201 Winterson Road Linthicum, MD	Airport Square	68	0	%	1Q 2017	10,949	4,394
Airport Landing - Retail Buildings Linthicum, MD	Airport Square	14	56	%	4Q 2017	5,907	1,279
Total Under Redevelopment		104	16	%		$20,719	$6,060

(1) Includes land, construction, leasing costs and allocated portion of structured parking and other shared infrastructure, if applicable.
(2) The building shells of these properties were complete but held for future lease to the United States Government.

The following table provides certain information about land that we controlled as of December 31, 2016, including properties under ground lease to us (square feet in thousands):

Segment	Acres	Estimated Developable Square Feet
Defense IT Locations:		
Fort Meade/BW Corridor:		
National Business Park	233	1,956
Howard County	27	590
Other	133	1,494
Total Fort Meade/BW Corridor	393	4,040
Northern Virginia Defense/IT Locations	64	1,614
Lackland Air Force Base	68	1,033
Navy Support Locations	44	109
Redstone Arsenal (1)	428	4,084
Data Center Shells	21	206
Total Defense/IT Locations	1,018	11,086
Regional Office	10	1,089
Total land owned/controlled for future development	1,028	12,175
Other land owned/controlled	152	1,638
Land held for sale	47	725
Total land owned/controlled	1,227	14,538

(1) This land is owned by the Unites States Government and is under a long term enhanced-use lease to a consolidated joint venture. As this land is developed in the future, the joint venture will execute site-specific leases under the master lease agreement. Rental payments will commence under the site-specific leases as cash rents under tenant leases commence at the respective properties.

The following table provides certain information about our wholesale data center property as of December 31, 2016:

Property and Location	Year Built	Critical Load (in megawatts)	Megawatts Leased
9651 Hornbaker Road - Manassas, VA	2010	19.25	14.86

Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place at our office properties as of December 31, 2016, assuming that none of the tenants exercise any early termination or renewal rights. This analysis includes the effect of early renewals completed on existing leases but excludes the effect of new tenant leases on 245,000 square feet executed but yet to commence as of December 31, 2016 (dollars and square feet in thousands, except per square foot amounts):

Year of Lease Expiration (1)	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet		Annualized Rental Revenue of Expiring Leases (2)	Percentage of Total Annualized Rental Revenue Expiring (2)		Total Annualized Rental Revenue of Expiring Leases Per Occupied Square Foot
					(in thousands)			
2017	87	1,377	8.7	%	$ 43,905	9.3	%	$31.90
2018	95	2,304	14.6	%	70,871	15.0	%	30.76
2019	82	2,210	14.0	%	71,683	15.2	%	32.43
2020	84	1,721	10.9	%	57,039	12.1	%	33.14
2021	85	1,567	9.9	%	46,577	9.9	%	29.72
2022	39	1,316	8.3	%	40,831	8.6	%	31.03
2023	30	908	5.7	%	19,707	4.2	%	22.93
2024	18	1,012	6.4	%	24,601	5.2	%	26.06
2025	25	1,777	11.2	%	55,767	11.8	%	32.69
2026	14	1,072	6.8	%	23,046	4.9	%	21.50
2027	10	134	0.8	%	3,360	0.7	%	25.16
2028	11	433	2.7	%	14,832	3.1	%	34.24
Total/Weighted Average	580	15,831	100.0	%	$ 472,219	100.0	%	$30.16

With regard to leases expiring in 2017, we believe that the weighted average annualized rental revenue per occupied square foot for such leases as of December 31, 2016 was, on average, approximately 0% to 2% higher than estimated current market rents for the related space, with specific results varying by market.

The following table provides a summary schedule of the lease expirations for leases in place at our wholesale data center property as of December 31, 2016 (dollars and square feet in thousands):

Year of Lease Expiration (1)	Number of Leases Expiring	Raised Floor Square Footage Expiring	Critical Load Leased (in megawatts)	Critical Load Used (in megawatts)	Annualized Rental Revenue of Expiring Leases (2)
2017	1	9	1.00	1.00	$ 1,620
2018	2	1	0.26	0.26	539
2019	1	6	1.00	1.00	2,274
2020	1	17	11.25	11.25	13,426
2021	1	2	0.35	0.35	532
2022	1	6	1.00	1.00	1,559

Total/Weighted Average	7	41	14.86	14.86	$ 19,950

(1) The leasing statistics set forth above assume no exercise of any existing early termination rights. Most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms; all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases prematurely.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2016 multiplied by 12, plus the estimated annualized expense reimbursements under existing office leases. Our computation of annualized rental revenue excludes the effect of lease incentives, although the effect of this exclusion is generally not material.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures
Not applicable.

PART II

Item 5. Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
COPT's common shares trade on the New York Stock Exchange ("NYSE") under the symbol "OFC." The table below shows the range of the high and low sale prices for COPT's common shares as reported on the NYSE, as well as the quarterly common share dividends per share declared:

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

	Price Range		Dividends
2016	Low	High	Per Share
First Quarter	$19.52	$26.45	$0.2750
Second Quarter	$25.17	$29.58	$0.2750
Third Quarter	$26.91	$30.55	$0.2750
Fourth Quarter	$24.92	$31.51	$0.2750

The number of holders of record of COPT's common shares was 487 as of December 31, 2016. This number does not include shareholders whose shares are held of record by a brokerage house or clearing agency, but does include any such brokerage house or clearing agency as one record holder.
COPT pays dividends at the discretion of its Board of Trustees. COPT's ability to pay cash dividends will be dependent upon: (1) the cash flow generated from our operations; (2) cash generated or used by our financing and investing activities; and (3) the annual distribution requirements under the REIT provisions of the Code described above and such other factors as the Board of Trustees deems relevant. COPT's ability to make cash dividends will also be limited by the terms of COPLP's Partnership Agreement, as well as by limitations imposed by state law. In addition, COPT is prohibited from paying cash dividends in excess of the amount necessary for it to qualify for taxation as a REIT if a default or event of default exists pursuant to the terms of our Revolving Credit Facility; this restriction does not currently limit COPT's ability to pay dividends, and COPT does not believe that this restriction is reasonably likely to limit its ability to pay future dividends because it expects to comply with the terms of our Revolving Credit Facility.

There is no established public trading market for COPLP's partnership units. Quarterly common unit distributions per unit were the same as quarterly common dividends per share declared by COPT. As of December 31, 2016, there were 36 holders of record of COPLP's common units.

COPT's Common Shares Performance Graph

The graph and the table set forth below assume $100 was invested on December 31, 2011 in COPT's common shares. The graph and the table compare the cumulative return (assuming reinvestment of dividends) of this investment with a $100 investment at that time in the S&P 500 Index or the All Equity REIT Index of the National Association of Real Estate Investment Trusts ("NAREIT"):

	Period Ended					
Index	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Corporate Office Properties Trust	$100.00	$123.14	$122.05	$152.18	$122.63	$182.23
S&P 500	100.00	116.00	153.57	174.60	177.01	198.18
NAREIT All Equity REIT Index	100.00	119.70	123.12	157.63	162.08	176.07

Item 6. Selected Financial Data

The following tables set forth summary historical consolidated financial and operating data for COPT and COPLP and their respective subsidiaries as of and for each of the years ended December 31, 2012 through 2016. Our revenues relating to real estate operations are derived from rents and property operating expense reimbursements earned from tenants leasing space in our properties. Most of our expenses relating to our real estate operations take the form of property operating costs (such as real estate taxes, utilities and repairs and maintenance) and depreciation and amortization associated with our operating properties. Most of our profitability from real estate operations depends on our ability to maintain high levels of occupancy and increase rents, which is affected by a number of factors, including, among other things, our tenants' ability to fulfill their lease obligations and their continuing space needs based on variables such as employment levels, business confidence, competition, general economic conditions of the markets in which we operate and governmental actions and initiatives. You should read the following summary historical financial data in conjunction with the consolidated historical financial statements and notes thereto of COPT and its subsidiaries and COPLP and its subsidiaries and the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

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

	2016	2015	2014	2013	2012
Revenues					
Revenues from real estate operations	$525,964	$519,064	$479,725	$460,997	$434,299
Construction contract and other service revenues	48,364	106,402	106,748	62,363	73,836
Total revenues	574,328	625,466	586,473	523,360	508,135
Expenses					
Property operating expenses	197,530	194,494	179,934	167,199	159,206
Depreciation and amortization associated with real estate operations	132,719	140,025	136,086	113,214	107,998
Construction contract and other service expenses	45,481	102,696	100,058	58,875	70,576
Impairment losses	101,391	23,289	1,416	5,857	43,678
General, administrative and leasing expenses	36,553	31,361	31,794	30,869	31,900
Business development expenses and land carry costs	8,244	13,507	5,573	5,436	5,711
Total operating expenses	521,918	505,372	454,861	381,450	419,069
Operating income	52,410	120,094	131,612	141,910	89,066
Interest expense	(83,163)	(89,074)	(92,393)	(82,010)	(86,401)
Interest and other income	5,444	4,517	4,923	3,834	7,172
(Loss) gain on early extinguishment of debt	(1,110)	85,275	(9,552)	(27,030)	(943)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(26,419)	120,812	34,590	36,704	8,894
Equity in income (loss) of unconsolidated entities	1,332	62	229	2,110	(546)
Income tax expense	(244)	(199)	(310)	(1,978)	(381)
(Loss) income from continuing operations	(25,331)	120,675	34,509	36,836	7,967
Discontinued operations (1)	—	156	26	55,692	12,353
(Loss) income before gain on sales of real estate	(25,331)	120,831	34,535	92,528	20,320
Gain on sales of real estate (2)	40,986	68,047	10,671	9,016	21
Net income	15,655	188,878	45,206	101,544	20,341
Net (income) loss attributable to noncontrolling interests	(4,216)	(10,578)	(4,951)	(7,837)	636
Net income attributable to COPT	11,439	178,300	40,255	93,707	20,977
Preferred share dividends	(14,297)	(14,210)	(15,939)	(19,971)	(20,844)
Issuance costs associated with redeemed preferred shares (3)	(17)	—	(1,769)	(2,904)	(1,827)
Net (loss) income attributable to COPT common shareholders	$(2,875)	$164,090	$22,547	$70,832	$(1,694)
Basic earnings per common share (4)					
(Loss) income from continuing operations	$(0.03)	$1.74	$0.25	$0.21	$(0.19)
Net (loss) income	$(0.03)	$1.74	$0.25	$0.83	$(0.03)
Diluted earnings per common share (4)					
(Loss) income from continuing operations	$(0.03)	$1.74	$0.25	$0.21	$(0.19)
Net (loss) income	$(0.03)	$1.74	$0.25	$0.83	$(0.03)
Weighted average common shares outstanding – basic	94,502	93,914	88,092	85,167	73,454
Weighted average common shares outstanding – diluted	94,502	97,667	88,263	85,224	73,454

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	2016	2015	2014	2013	2012
Balance Sheet Data (as of year end):					
Total properties, net	$3,073,362	$3,349,748	$3,296,914	$3,214,301	$3,163,044
Total assets	$3,780,885	$3,909,312	$3,664,236	$3,621,251	$3,641,935
Debt	$1,904,001	$2,077,752	$1,914,036	$1,919,002	$2,007,344
Total liabilities	$2,163,242	$2,273,530	$2,124,935	$2,106,244	$2,195,138
Redeemable noncontrolling interests	$22,979	$19,218	$18,417	$17,758	$10,298
Total equity	$1,594,664	$1,616,564	$1,520,884	$1,497,249	$1,436,499
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$232,538	$204,008	$193,885	$158,979	$191,838
Investing activities	$71,449	$(307,532)	$(209,689)	$(119,790)	$13,744
Financing activities	$(154,434)	$157,757	$(32,492)	$4,590	$(200,547)
Numerator for diluted EPS	$(3,294)	$169,787	$22,115	$70,418	$(2,163)
Diluted funds from operations (5)	$178,761	$249,454	$155,296	$214,149	$165,720
Diluted funds from operations per share (5)	$1.82	$2.55	$1.69	$2.40	$2.13
Cash dividends declared per common share	$1.10	$1.10	$1.10	$1.10	$1.10
Property Data (as of year end):					
Number of properties owned (6)	164	177	173	183	208
Total rentable square feet owned (6)	17,190	18,053	16,790	17,370	18,831

(1) Includes income derived from 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013.

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

(3) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs recognized in connection with the redemption of the Series K Preferred Shares in 2017 (following shareholder notification of such redemption in December 2016), the Series H Preferred Shares in 2014, the Series J Preferred Shares in 2013 and the Series G Preferred Shares in 2012.

(4) Basic and diluted earnings per common share are calculated based on amounts attributable to common shareholders of COPT.

(5) For definitions of diluted funds from operations and diluted funds from operations per share and reconciliations of these measures to their comparable measures under generally accepted accounting principles, you should refer to the section entitled “Funds from Operations” within the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

(6) Amounts reported reflect only operating office properties, including six properties owned through an unconsolidated real estate joint venture.

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

	2016	2015	2014	2013	2012
Revenues					
Revenues from real estate operations	$525,964	$519,064	$479,725	$460,997	$434,299
Construction contract and other service revenues	48,364	106,402	106,748	62,363	73,836
Total revenues	574,328	625,466	586,473	523,360	508,135
Expenses					
Property operating expenses	197,530	194,494	179,934	167,199	159,206
Depreciation and amortization associated with real estate operations	132,719	140,025	136,086	113,214	107,998
Construction contract and other service expenses	45,481	102,696	100,058	58,875	70,576
Impairment losses	101,391	23,289	1,416	5,857	43,678
General, administrative and leasing expenses	36,553	31,361	31,794	30,869	31,900
Business development expenses and land carry costs	8,244	13,507	5,573	5,436	5,711
Total operating expenses	521,918	505,372	454,861	381,450	419,069
Operating income	52,410	120,094	131,612	141,910	89,066
Interest expense	(83,163)	(89,074)	(92,393)	(82,010)	(86,401)
Interest and other income	5,444	4,517	4,923	3,834	7,172
(Loss) gain on early extinguishment of debt	(1,110)	85,275	(9,552)	(27,030)	(943)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(26,419)	120,812	34,590	36,704	8,894
Equity in income (loss) of unconsolidated entities	1,332	62	229	2,110	(546)
Income tax expense	(244)	(199)	(310)	(1,978)	(381)
(Loss) income from continuing operations	(25,331)	120,675	34,509	36,836	7,967
Discontinued operations (1)	—	156	26	55,692	12,353
(Loss) income before gain on sales of real estate	(25,331)	120,831	34,535	92,528	20,320
Gain on sales of real estate (2)	40,986	68,047	10,671	9,016	21
Net income	15,655	188,878	45,206	101,544	20,341
Net (income) loss attributable to noncontrolling interests	(3,715)	(3,520)	(3,276)	(3,907)	507
Net income attributable to COPLP	11,940	185,358	41,930	97,637	20,848
Preferred unit distributions	(14,957)	(14,870)	(16,599)	(20,631)	(21,504)
Issuance costs associated with redeemed preferred units (3)	(17)	—	(1,769)	(2,904)	(1,827)
Net (loss) income attributable to COPLP common unitholders	$(3,034)	$170,488	$23,562	$74,102	$(2,483)
Basic earnings per common unit (4)					
(Loss) income from continuing operations	$(0.04)	$1.74	$0.25	$0.21	$(0.19)
Net (loss) income	$(0.04)	$1.74	$0.25	$0.83	$(0.04)
Diluted earnings per common unit (4)					
(Loss) income from continuing operations	$(0.04)	$1.74	$0.25	$0.21	$(0.19)
Net (loss) income	$(0.04)	$1.74	$0.25	$0.83	$(0.04)
Weighted average common units outstanding – basic	98,135	97,606	91,989	89,036	77,689
Weighted average common units outstanding – diluted	98,135	97,667	92,160	89,093	77,689

	2016	2015	2014	2013	2012
Balance Sheet Data (as of year end):					
Total properties, net	$3,073,362	$3,349,748	$3,296,914	$3,214,301	$3,163,044
Total assets	$3,775,448	$3,903,549	$3,658,354	$3,613,784	$3,635,159
Debt	$1,904,001	$2,077,752	$1,914,036	$1,919,002	$2,007,344
Total liabilities	$2,157,805	$2,267,767	$2,119,053	$2,098,777	$2,188,362
Redeemable noncontrolling interests	$22,979	$19,218	$18,417	$17,758	$10,298
Total equity	$1,594,664	$1,616,564	$1,520,884	$1,497,249	$1,436,499
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$232,538	$204,008	$193,885	$158,979	$191,838
Investing activities	$71,449	$(307,532)	$(209,689)	$(119,790)	$13,744
Financing activities	$(154,434)	$157,757	$(32,492)	$4,590	$(200,547)
Numerator for diluted EPU	$(3,453)	$169,782	$23,130	$73,688	$(2,952)
Cash distributions declared per common unit	$1.10	$1.10	$1.10	$1.10	$1.10
Property Data (as of year end):					
Number of properties owned (5)	164	177	173	183	208
Total rentable square feet owned (5)	17,190	18,053	16,790	17,370	18,831

(1) Includes income derived from 35 operating properties disposed in 2012 and 31 operating properties disposed in 2013.

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

(3) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs recognized in connection with the redemption of the Series K Preferred Units in 2017 (following notification of such redemption in December 2016), the Series H Preferred Units in 2014, the Series J Preferred Units in 2013 and the Series G Preferred Units in 2012.

(4) Basic and diluted earnings per common unit are calculated based on amounts attributable to common unitholders of COPLP.

(5) Amounts reported reflect only operating office properties, including six properties owned through an unconsolidated real estate joint venture.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to borrow on favorable terms;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares;
- our ability to achieve projected results; and
- environmental requirements.

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

Overview

In 2016, we improved the strategic focus of our property holdings, while raising capital to fund development activities and strengthen our balance sheet, by selling:

- 21 operating properties totaling 1.6 million square feet that were 85.9% occupied for $248.7 million and other land for $21.8 million. Most of the properties that we sold were suburban office properties from our Regional Office segment; as a result, the sales improved our strategic focus by increasing the proportion of our overall portfolio aligned with our Defense/IT Locations strategy. The sales also improved the strategic focus of our Regional Office segment by removing suburban office properties that do not fulfill our target criteria; in fact, after these sales and the additional sales of suburban office properties expected in 2017, all of our Regional Office portfolio will meet our target criteria (urban/urban-like submarkets with durable Class-A office fundamentals and characteristics); and

- a 50% interest in six triple-net leased, single-tenant data center properties by contributing them into GI-COPT, a newly-formed unconsolidated joint venture, for an aggregate property value of $147.6 million. We obtained $60.0 million in non-recourse mortgage loans on the properties through the joint venture immediately prior to the sale of our interest and received the net proceeds. Our partner in the joint venture acquired the 50% interest from us for $44.3 million. While this transaction involved Defense/IT Locations properties, it enabled us to realize 50% of the value that we created in these properties, all of which were recently developed.

We also placed into service 700,000 square feet in nine newly constructed or redeveloped properties that were 90.0% leased as of December 31, 2016, all of which were in Defense/IT Locations. Due in large part to these sale and development activities, the percentage of our office portfolio annualized rent derived from Defense/IT Locations increased from 80.8% as of December 31, 2015 to 84.5% as of December 31, 2016; we expect this trend to continue in 2017 as we complete expected additional sales of Regional Office properties and place into service additional newly-developed space in Defense/IT Locations.

We began 2016 with increased debt levels relative to the beginning of 2015 in terms of both overall debt outstanding and the relationship of our debt to total assets due in large part to borrowings for significant acquisitions in 2015. Therefore, it was important to us that we strengthen our balance sheet while continuing to fund our development activities. The property sales discussed above contributed significantly as we were able to use the sale proceeds to not only fund development but also pay down debt. In addition, in the fourth quarter of 2016, we raised $109.1 million in net proceeds through our issuance of 3.72 million COPT common shares under our ATM stock offering program at a weighted average price of $29.56 per share; these proceeds were used primarily to fund our cash reserves. Due in large part to these activities, we believe that we strengthened our balance sheet and overall capital position, as evidenced by our having ended 2016 with:

- a lower ratio of debt to total assets (50.4% as of December 31, 2016 versus 53.1% as of December 31, 2015);
- no debt balloon payment maturities without extension options for the next three years and a weighted average debt maturity of 6.1 years;
- a lower proportion of debt from mortgage and other secured borrowings, with such borrowings totaling 8.8% of our total debt as of December 31, 2016 versus 15.9% as of December 31, 2015;
- $800.0 million in maximum borrowing capacity available under our Revolving Credit Facility; and
- $209.9 million in cash and cash equivalents on hand.

Effective January 21, 2017, COPT used available cash to redeem all of its Series K Cumulative Redeemable Preferred Shares at a price of $50.00 per share, or $26.6 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption; concurrently with this redemption, COPLP redeemed its Series K Preferred Units on the same terms. In 2017, we expect to raise an estimated $100 to $110 million from additional property sales that we believe, along with available cash, will help fund $240 to $260 million in development costs that we expect to incur.

Occupancy of our office property portfolio increased from 91.6% as of December 31, 2015 to 92.1% as of December 31, 2016, which was driven primarily by our sale of properties that were 85.9% occupied upon sale and our placing into service newly developed or redeveloped space that was 93.1% occupied as of December 31, 2016. Our Same Office Properties (defined below) were 91.5% occupied as of December 31, 2016, which was flat relative to year end 2015, with occupancy of such properties averaging 91.0% in both 2015 and 2016.

Occupancy of our Defense/IT Locations increased from 91.9% as of December 31, 2015 to 92.6% as of December 31, 2016. For an extended number of years, our ability to lease Defense/IT Locations was adversely affected by continuing delays in Federal budget approvals and uncertainty regarding the potential for future reductions in government spending targeting defense. This served to disrupt the government’s process for awarding contracts to prospective tenants, causing significant contraction in the defense contractor sector. However, the government’s passage of appropriations legislation in 2014 and 2015 brought clarity regarding funding for defense spending, which served to normalize the leasing environment for our Defense/IT Locations. While there is inherent uncertainty regarding the government’s defense funding levels beyond the fiscal year ending September 30, 2017, we believe that the knowledge-based activities of most of our tenants will continue to be a priority in defense budgets as such activities are considered critical to our national security. We also believe that our Defense/IT Locations are less likely to experience significant tenant space reductions in the event of future government defense funding reductions than they were several years ago.

Our net income decreased $173.2 million from 2015 to 2016 due primarily to: an $86.4 million decrease in gain from early extinguishment of debt due primarily to a nonrecourse mortgage loan extinguished in 2015; and a $78.1 million increase in impairment losses attributable primarily to decisions by us to either sell properties or abandon plans to develop properties. Net operating income ("NOI") from real estate operations, our segment performance measure discussed further below, increased $6.2 million from 2015 to 2016, which included a $3.9 million increase attributable to our Same Office Properties.

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

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

- how we expect to generate cash for short and long-term capital needs;
- our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition; and

- our commitments and contingencies.

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

With regard to our operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Annual Report on Form 10-K, amounts disclosed:

- include total information pertaining to six properties owned through an unconsolidated real estate joint venture except for amounts reported for Annualized Rental Revenue, which represent the portion attributable to our ownership interest; and
- exclude two properties (totaling 665,000 square feet) that served as collateral for debt in default effective April 1, 2014, the date that all cash flows from such properties belonged to the lender. On August 28, 2015, ownership in these properties was transferred to the mortgage lender and we removed the debt obligation and accrued interest from our balance sheet. These properties were 25.1% occupied as of the date we transferred ownership.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements. The following section is a summary of certain aspects of those accounting policies involving estimates and assumptions that (1) require our most difficult, subjective or complex judgments in accounting for uncertain matters or matters that are susceptible to change and (2) materially affect our reported operating performance or financial condition. It is possible that the use of different reasonable estimates or assumptions in making these judgments could result in materially different amounts being reported in our consolidated financial statements. While reviewing this section, you should refer to Note 2 to our consolidated financial statements, including terms defined therein.

Acquisitions of Properties

When we acquire properties, we allocate the purchase price to numerous tangible and intangible components. Most of the terms in this bullet section are discussed in further detail in Note 2 to the consolidated financial statements entitled “Acquisitions of Properties.” Our process for determining the allocation to these components requires many estimates and assumptions, including the following: (1) determination of market rental rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases; (3) assumptions used in determining the in-place lease value, if-vacant value and tenant relationship value, including the rental rates, period of time that it would take to lease vacant space and estimated tenant improvement and leasing costs; (4) renewal probabilities; and (5) allocation of the if-vacant value between land and building. A change in any of the above key assumptions can materially change not only the presentation of acquired properties in our consolidated financial statements but also our reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our consolidated balance sheets; the amount of costs assigned to individual properties in multiple property acquisitions; and the amount of gain recognized in our consolidated statements of operations should we determine that the fair value of the acquisition exceeds its cost;
- where the amortization of the components appear over time in our consolidated statements of operations. Allocations to above- and below-market leases are amortized into rental revenue, whereas allocations to most of the other tangible and intangible assets are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as funds from operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and
- the timing over which the items are recognized as revenue or expense in our consolidated statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated

over a longer period of time than the other components (generally 40 years). Allocations to above- and below-market leases, in-place lease value and tenant relationship value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are written off upon termination. These differences in timing can materially affect our reported results of operations. In addition, we establish lives for tenant relationship values based on our estimates of how long we expect the respective tenants to remain in the properties.

Impairment of Long-Lived Assets

We assess each of our properties for indicators of impairment quarterly or when circumstances indicate that a property may be impaired. We review our plans and intentions for our development projects and land parcels quarterly. If our analyses indicate that the carrying values of operating properties, properties in development or land held for future development may be impaired, we perform a recovery analysis for such properties. For long-lived assets to be held and used, we analyze recoverability based on the estimated undiscounted future cash flows expected to be generated from the operations and eventual disposition of the assets over, in most cases, a ten-year holding period. If we believe there is a significant possibility that we might dispose of the assets earlier, we analyze recoverability using a probability weighted analysis of the estimated undiscounted future cash flows expected to be generated from the operations and eventual disposition of the assets over the various possible holding periods. If the analysis indicates that the carrying value of a tested property is not recoverable from estimated future cash flows, it is written down to its estimated fair value and an impairment loss is recognized. If and when our plans change, we revise our recoverability analyses to use the cash flows expected from the operations and eventual disposition of each asset using holding periods that are consistent with our revised plans.

Property fair values are estimated based on contract prices, indicative bids, discounted cash flow analyses or yield analyses. Estimated cash flows used in such analyses are based on our plans for the property and our views of market and economic conditions. The estimates consider items such as current and future rental rates, occupancies for the tested property and comparable properties, estimated operating and capital expenditures and recent sales data for comparable properties; most of these items are influenced by market data obtained from real estate leasing and brokerage firms and our direct experience with the properties and their markets. Determining the appropriate capitalization or yield rate also requires significant judgment and is typically based on many factors, including the prevailing rate for the market or submarket, as well as the quality and location of the property. Changes in the estimated future cash flows due to changes in our plans for a property (especially our expected holding period), views of market and economic conditions and/or our ability to obtain development rights could result in recognition of impairment losses which could be substantial.

Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. Accordingly, decisions to sell certain operating properties, properties in development or land held for development will result in impairment losses if carrying values of the specific properties exceed their estimated fair values less costs to sell. The estimates of fair value consider matters such as recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with prospective purchasers. These estimates are subject to revision as market conditions, and our assessment of such conditions, change.

Assessment of Lease Term

As discussed above, a significant portion of our portfolio is leased to the United States Government, and the majority of those leases consist of a series of one-year renewal options, or provide for early termination rights. In addition, certain other leases in our portfolio provide early termination rights to tenants. Applicable accounting guidance requires us to recognize minimum rental payments on a straight-line basis over the terms of each lease and to assess the lease terms as including all periods for which failure to renew, or continue, the lease imposes a penalty on the lessee in such amounts that renewal, or continuation, appears, at the inception of the lease, to be reasonably assured. Factors we consider when determining whether a penalty is significant include the uniqueness of the purpose or location of the property, the availability of a comparable replacement property, the relative importance or significance of the property to the continuation of the lessee's line of business and the existence of leasehold improvements or other assets whose value would be impaired by the lessee vacating or discontinuing use of the leased property. For a number of our leases with the United States Government, we have concluded, based on the factors above, that exercise of existing renewal options, or continuation of such leases without exercising early termination rights, is reasonably assured. Changes in these assessments could result in the write-off of any recorded assets associated with straight-line rental revenue and acceleration of depreciation and amortization expense associated with costs we incurred related to these leases.

Revenue Recognition on Tenant Improvements

Most of our leases involve some form of improvements to leased space. When we are required to provide improvements under the terms of a lease, we need to determine whether the improvements constitute landlord assets or tenant assets. If the improvements are landlord assets, we capitalize the cost of the improvements and recognize depreciation expense associated with such improvements over the shorter of the useful life of the assets or the term of the lease and recognize any payments from the tenant as rental revenue over the term of the lease. If the improvements are tenant assets, we defer the cost of improvements funded by us as a lease incentive asset and amortize it as a reduction of rental revenue over the term of the lease. Our determination of whether improvements are landlord assets or tenant assets also may affect when we commence revenue recognition in connection with a lease.

In determining whether improvements constitute landlord or tenant assets, we consider numerous factors that may require subjective or complex judgments, including: whether the improvements are unique to the tenant or reusable by other tenants; whether the tenant is permitted to alter or remove the improvements without our consent or without compensating us for any lost fair value; whether the ownership of the improvements remains with us or remains with the tenant at the end of the lease term; and whether the economic substance of the lease terms is properly reflected.

Collectability of Accounts and Deferred Rent Receivable

Allowances for doubtful accounts and deferred rent receivable are established based on quarterly analyses of the risk of loss on specific accounts. The analyses place particular emphasis on past-due accounts and consider information such as the nature and age of the receivables, the payment history of the tenants, the financial condition of the tenants and our assessment of their ability to meet their lease obligations, the basis for any disputes and the status of related negotiations. Our estimate of the required allowance is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on tenants.

Activities we conduct to monitor the credit quality of our tenants include the following: monitoring the timeliness of tenant lease payments; reviewing credit ratings of tenants that are rated by a nationally recognized credit agency prior to such tenants' entry into leases, and monitoring periodically thereafter; reviewing financial statements of tenants that are publicly available or that are required to be provided to us pursuant to the terms of such tenants' leases; and monitoring news reports regarding our tenants.

Accounting Method for Investments

We use three different accounting methods to report our investments in entities: the consolidation method; the equity method; and the cost method (see Note 2 to our consolidated financial statements). We use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. We also consolidate certain entities when control of such entities can be achieved through means other than voting rights ("variable interest entities" or "VIEs") if we are deemed to be the primary beneficiary. Generally, this applies to entities for which either: (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve, or are conducted on behalf of, an investor with a disproportionately small voting interest. We use the equity method of accounting when we own an interest in an entity and can exert significant influence over, but cannot control, the entity's operations.

In making these determinations, we must consider both our and our partner's ability to participate in the management of the entity's operations and make decisions that could significantly affect the entity's performance and allow the parties to manage their economic risks. We need to make subjective estimates and judgments regarding the entity's planned activities and expected future operating performance, financial condition, future valuation and other variables that may affect the cash flows of the entity. We may also need to estimate the probability of different scenarios taking place over time and their effect on the partners’ cash flows. The conclusion reached as a result of this process affects whether or not we use the consolidation method in accounting for our investment or the equity method. Whether or not we consolidate an investment can materially affect our consolidated financial statements.

Concentration of Operations

Customer Concentration of Property Operations

The table below sets forth the 20 largest tenants in our portfolio of office properties based on percentage of annualized rental revenue:

Tenant	Percentage of Annualized Rental Revenue of Office Properties for 20 Largest Tenants as of December 31, 2016		2015		2014	
United States of America	31.0	%	29.0	%	27.6	%
Northrop Grumman Corporation (1)	4.8	%	4.6	%	5.0	%
The Boeing Company (1)	4.3	%	4.5	%	3.8	%
General Dynamics Corporation (1)	4.1	%	3.9	%	4.2	%
Vadata Inc.	2.9	%	2.2	%	1.3	%
CareFirst, Inc.	2.3	%	2.1	%	2.2	%
Computer Sciences Corporation (1)	2.3	%	2.2	%	2.4	%
Booz Allen Hamilton, Inc.	2.0	%	2.0	%	5.4	%
CACI Technologies, Inc.	1.6	%	N/A		N/A	
Wells Fargo & Company (1)	1.5	%	1.7	%	1.7	%
AT&T Corporation (1)	1.3	%	1.2	%	1.3	%
KEYW Corporation	1.3	%	1.2	%	0.8	%
Raytheon Company (1)	1.2	%	1.2	%	0.9	%
Miles & Stockbridge, PC	1.1	%	1.0	%	N/A	
Transamerica Life Insurance Company	1.0	%	0.9	%	N/A	
Harris Corporation	1.0	%	1.3	%	N/A	
University of Maryland	1.0	%	0.9	%	N/A	
Science Applications International Corporation (1)	1.0	%	1.1	%	1.0	%
Kratos Defense & Security Solution, Inc. (1)	1.0	%	0.9	%	1.0	%
The MITRE Corporation	0.9	%	N/A		2.1	%
L-3 Communications Holdings, Inc. (1)	N/A		1.1	%	1.2	%
Engility Holdings, Inc.	N/A		0.9	%	N/A	
TASC Inc.	N/A		N/A		0.9	%
ITT Exelis (1)	N/A		N/A		0.9	%
The Johns Hopkins Institutions (1)	N/A		N/A		0.8	%
Unisys Corporation	N/A		N/A		0.8	%
Subtotal of 20 largest tenants	67.6	%	63.8	%	65.3	%
All remaining tenants	32.4	%	36.2	%	34.7	%
Total	100.0	%	100.0	%	100.0	%

(1) Includes affiliated organizations and predecessor companies.

The United States Government’s concentration increased each of the last two years due in large part to our dispositions of properties in which it was not a tenant.

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Concentration of Property Operations by Segment

The table below sets forth the segment allocation of our annualized rental revenue of office properties as of the end of the last three calendar years:

Region	Percentage of Annualized Rental Revenue of Office Properties as of December 31,			Number of Office Properties as of December 31,		
	2016	2015	2014	2016	2015	2014
Defense/IT Locations:						
Fort Meade/BW Corridor	50.3 %	49.6 %	51.7 %	86	90	90
Northern Virginia Defense/IT	10.7 %	10.3 %	7.7 %	12	13	11
Lackland Air Force Base	9.4 %	8.3 %	7.6 %	7	7	6
Navy Support Locations	5.6 %	5.2 %	6.2 %	21	21	20
Redstone Arsenal	2.9 %	2.7 %	2.2 %	7	6	5
Data Center Shells	5.6 %	4.7 %	4.0 %	13	9	6
Total Defense/IT Locations	84.5 %	80.8 %	79.4 %	146	146	138
Regional Office	14.5 %	17.8 %	19.0 %	13	24	28
Other	1.0 %	1.4 %	1.6 %	5	7	7
	100.0 %	100.0 %	100.0 %	164	177	173

The changes reflected above were attributable primarily to dispositions of Regional Office Properties and newly constructed properties placed in service in certain of our Defense/IT Location sub-segments.

Occupancy and Leasing

Office Properties

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

	December 31,		
	2016	2015	2014
Occupancy rates at period end			
Total	92.1 %	91.6 %	90.9 %
Defense/IT Locations:			
Fort Meade/BW Corridor	94.3 %	94.5 %	93.3 %
Northern Virginia Defense/IT	85.0 %	81.9 %	75.7 %
Lackland Air Force Base	100.0 %	100.0 %	100.0 %
Navy Support Locations	72.7 %	72.1 %	86.0 %
Redstone Arsenal	96.4 %	97.0 %	80.8 %
Data Center Shells	100.0 %	100.0 %	100.0 %
Total Defense/IT Locations	92.6 %	91.9 %	91.0 %
Regional Office	95.2 %	95.4 %	95.1 %
Other	52.9 %	57.3 %	61.1 %
Average contractual annual rental rate per square foot at year end (1)	$30.16	$29.55	$29.27

(1) Includes estimated expense reimbursements.

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	Rentable Square Feet	Occupied Square Feet
	(in thousands)	
December 31, 2015	18,053	16,535
Square feet vacated upon lease expiration (1)	—	(560)
Occupancy of previously vacated space in connection with new leases (2)	—	534
Square feet constructed or redeveloped	700	678
Dispositions	(1,577)	(1,354)
Other changes	14	(2)
December 31, 2016	17,190	15,831

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

As the table above reflects, the increase in our total occupancy rate from December 31, 2015 to December 31, 2016 was attributable primarily to higher occupancy rates for newly constructed or redeveloped space placed into service and lower occupancy rates for properties that we sold. With regard to our segment occupancy trends, including changes from December 31, 2015 to December 31, 2016:

- Northern Virginia Defense/IT: Occupancy increased due to progress we made in leasing space in certain properties that had been vacated prior to the beginning of the year. Certain of our submarkets in this segment are experiencing weak market conditions, including surplus supply for space. While nine of our 12 properties in this segment had a weighted average occupancy rate of 94.6% as of December 31, 2016, the other three properties' weighted average occupancy rate was 57.0%. However, only 40,000, or 2.6%, of the segment's occupied square feet had scheduled lease expirations in 2017; and
- Navy Support Locations: While we have experienced several years of weak demand in each of our three submarkets comprising this segment, which has created downward pressure on rental rates, we believe that we are beginning to realize improvements in demand. As of December 31, 2016, we had 108,000 square feet in this segment that were leased but not yet occupied. However, as of that date, we also had scheduled lease expirations in 2017 for 141,000, or 15.5%, of the segment's occupied square feet.

In 2016, we completed 2.8 million square feet of leasing, including 843,000 square feet of construction and redevelopment space. Our construction and redevelopment leasing was highlighted by four data center shells leased in Northern Virginia totaling 728,000 square feet. As of December 31, 2016, we had 1.3 million square feet under construction that were 61% leased and 104,000 square feet under redevelopment that were 16% leased.

In 2016, we renewed leases on 1.5 million square feet, representing 75.2% of the square footage of our lease expirations (including the effect of early renewals). The annualized rents of these renewals (totaling $30.53 per square foot) decreased on average by approximately 6.5% and the revenue under GAAP (totaling $31.46 per square foot) increased on average by approximately 3.1% relative to the leases previously in place for the space. The renewed leases had a weighted average lease term of approximately 5.8 years and the average estimated tenant improvements and lease costs associated with completing the leasing was approximately $21.05 per square foot.

In 2016, we also completed 463,000 square feet in other leasing, consisting primarily of space previously leased by us to tenants that was subsequently vacated (also referred to as re-tenanted space). The annualized rents of this other leasing totaled $28.52 per square foot and the revenue under GAAP totaled $28.61 per square foot; these leases had a weighted average lease term of approximately 6.3 years and the average estimated tenant improvements and lease costs associated with completing this leasing was approximately $41.87 per square foot.

Our weighted average lease term for office properties at December 31, 2016 was approximately 4.8 years. The table below sets forth as of December 31, 2016 our scheduled lease expirations of office properties by region in terms of percentage of annualized rental revenue:

	Expiration of Annualized Rental Revenue of Office Properties						
	2017	2018	2019	2020	2021	Thereafter	Total
Defense/ IT Locations							
Fort Meade/BW Corridor	6.6%	9.6 %	10.4%	6.9 %	5.9%	10.9 %	50.3 %
Northern Virginia Defense/IT	0.3%	1.3 %	3.0 %	0.8 %	0.9%	4.4 %	10.7 %
Lackland Air Force Base	0.0%	0.0 %	0.0 %	2.1 %	0.0%	7.3 %	9.4 %
Navy Support Locations	0.6%	1.1 %	0.5 %	1.5 %	1.1%	0.8 %	5.6 %
Redstone Arsenal	0.0%	1.4 %	0.2 %	0.0 %	0.7%	0.6 %	2.9 %
Data Center Shells	0.0%	0.5 %	0.0 %	0.0 %	0.0%	5.1 %	5.6 %
Regional Office	1.4%	1.0 %	1.0 %	0.5 %	1.2%	9.4 %	14.5 %
Other	0.4%	0.1 %	0.1 %	0.3 %	0.1%	0.0 %	1.0 %
Total	9.3%	15.0%	15.2%	12.1%	9.9%	38.5 %	100.0%

With regard to leases expiring in 2017, we believe that the weighted average annualized rental revenue per occupied square foot for such leases at December 31, 2016 was, on average, approximately 0% to 2% higher than estimated current market rents for the related space, with specific results varying by segment.

The leasing statistics set forth above assume no exercise of any early termination or renewal rights. Most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms; all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements without ending consecutive one-year leases prematurely.

Wholesale Data Center Property

The leased portion of our 19.25 megawatt wholesale data center property decreased from 17.8 megawatts as of December 31, 2015 to 14.9 megawatts as of December 31, 2016 due primarily to tenant downsizings; the leased megawatts as of December 31, 2016 excluded approximately one additional megawatt provided to users under management agreements. While we believe that demand exists for our unleased megawatts in this property, we face significant competition from other properties in the region.

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 from continuing and discontinued operations; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures ("UJVs") that is allocable to COPT's ownership interest ("UJV NOI allocable to COPT"). We view our NOI from real estate operations as comprising the following primary categories of operating properties:

- office properties continually owned and 100% operational throughout the two years being compared, excluding properties held for sale. We define these as changes from "Same Office Properties." For further discussion of the concept of "operational," you should refer to the section of Note 2 of the consolidated financial statements entitled "Properties";
- office properties acquired during the two years being compared;
-

constructed or redeveloped office properties placed into service that were not 100% operational throughout the two years being compared;

- our wholesale data center;
- properties held for sale as of December 31, 2016; and
- property dispositions.

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

Since both of the measures discussed above exclude certain items includable in operating income, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures. A reconciliation of NOI from real estate operations and NOI from service operations to income from continuing operations reported on the consolidated statements of operations of COPT and subsidiaries is provided in Note 17 to our consolidated financial statements.

Comparison of Statements of Operations for the Years Ended December 31, 2016 and December 31, 2015

	For the Years Ended December 31,		
	2016	2015	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	$525,964	$519,064	$6,900
Construction contract and other service revenues	48,364	106,402	(58,038)
Total revenues	574,328	625,466	(51,138)
Expenses			
Property operating expenses	197,530	194,494	3,036
Depreciation and amortization associated with real estate operations	132,719	140,025	(7,306)
Construction contract and other service expenses	45,481	102,696	(57,215)
Impairment losses	101,391	23,289	78,102
General, administrative and leasing expenses	36,553	31,361	5,192
Business development expenses and land carry costs	8,244	13,507	(5,263)
Total operating expenses	521,918	505,372	16,546
Operating income	52,410	120,094	(67,684)
Interest expense	(83,163)	(89,074)	5,911
Interest and other income	5,444	4,517	927
(Loss) gain on early extinguishment of debt	(1,110)	85,275	(86,385)
Equity in income of unconsolidated entities	1,332	62	1,270
Income tax expense	(244)	(199)	(45)
(Loss) income from continuing operations	(25,331)	120,675	(146,006)
Discontinued operations	—	156	(156)
Gain on sales of real estate	40,986	68,047	(27,061)
Net income	$15,655	$188,878	$(173,223)

NOI from Real Estate Operations

	For the Years Ended December 31,		
	2016	2015	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	$ 306,885	$ 304,853	$ 2,032
Lease termination revenue	2,280	2,366	(86)
Tenant recoveries and other real estate operations revenue	86,389	81,483	4,906
Same Office Properties total revenues	395,554	388,702	6,852
Constructed and redeveloped properties placed in service	22,864	11,229	11,635
Acquired office properties	36,876	20,176	16,700
Wholesale data center	26,869	19,032	7,837
Properties held for sale	13,694	12,512	1,182
Dispositions	29,626	66,943	(37,317)
Other	481	474	7
	525,964	519,068	6,896
Property operating expenses			
Same Office Properties	(148,085)	(145,177)	(2,908)
Constructed and redeveloped properties placed in service	(7,197)	(3,131)	(4,066)
Acquired office properties	(15,865)	(8,219)	(7,646)
Wholesale data center	(11,512)	(10,402)	(1,110)
Properties held for sale	(4,195)	(4,464)	269
Dispositions	(9,913)	(23,060)	13,147
Other	(763)	(35)	(728)
	(197,530)	(194,488)	(3,042)
UJV NOI allocable to COPT	2,305	—	2,305
NOI from real estate operations			
Same Office Properties	247,469	243,525	3,944
Constructed and redeveloped properties placed in service	15,667	8,098	7,569
Acquired office properties	21,011	11,957	9,054
Wholesale data center	15,357	8,630	6,727
Properties held for sale	9,499	8,048	1,451
Dispositions	19,713	43,883	(24,170)
Other	2,023	439	1,584
	$ 330,739	$ 324,580	$ 6,159
Same Office Properties rent statistics			
Average occupancy rate	91.0 %	91.0 %	— %
Average straight-line rent per occupied square foot (1)	$ 25.46	$ 25.28	$ 0.18

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

Our Same Office Properties pool consisted of 133 office properties, comprising 77.1% of our operating office square footage as of December 31, 2016. This pool of properties included the following changes from the pool used for purposes of comparing 2015 and 2014 in our 2015 Annual Report on Form 10-K: the addition of three properties placed in service and 100% operational by January 1, 2015; and the removal of ten properties disposed in 2016, three properties reclassified to held for sale in 2016 and two properties in which we sold a 50% interest in 2016 that were owned by an UJV as of December 31, 2016.

Our NOI from constructed office properties placed in service included 13 properties placed in service in 2015 and 2016, and our NOI from acquired office properties included our acquisition in 2015 of three properties.

The increase in NOI from our wholesale data center was attributable primarily to higher average occupancy for the property in 2016.

Our property operating expense included no bad debt expense in 2016 and $1.1 million in 2015.

NOI from Service Operations

	For the Years Ended December 31,		
	2016	2015	Variance
	(in thousands)		
Construction contract and other service revenues	$48,364	$106,402	$(58,038)
Construction contract and other service expenses	45,481	102,696	(57,215)
NOI from service operations	$2,883	$3,706	$(823)

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 operating income relative to our real estate operations.

Depreciation and Amortization Expense

The decrease in depreciation and amortization expense was due primarily to a $14.5 million decrease attributable to property dispositions, partially offset by additional expense recognized in 2016 of $8.0 million from properties acquired in 2015.

Impairment Losses

In the first quarter of 2016, we set a goal to raise cash from sales of properties in 2016 considerably in excess of the $96.8 million in assets held for sale at December 31, 2015. The specific properties we would sell to achieve this goal had not been identified when the goal was established. Throughout 2016, we engaged in the process of identifying properties we would sell.

In the first quarter of 2016, we reclassified: most of our properties in Greater Philadelphia (included in our Regional Office segment); two properties in the Fort Meade/BW Corridor sub-segment; and our remaining land holdings in Colorado Springs, Colorado (“Colorado Springs”) to held for sale and recognized $2.4 million of impairment losses. As of March 31, 2016, we had $225.9 million of assets held for sale.

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

- $34.4 million on operating properties in Aberdeen (included in our Other segment). After shortening our estimated holding period for these properties, we determined that the carrying amount of the properties would not likely be recovered from the operation and eventual dispositions of the properties during the shortened holding period. Accordingly, we adjusted the properties to their estimated fair values;

- $4.4 million on land in Aberdeen. In performing our analysis related to the operating properties in Aberdeen, we determined that the weakening leasing and overall commercial real estate conditions in that market indicated that our land holdings in the market may be impaired. As a result, we determined that the carrying amount of the land was not recoverable and adjusted the land to its estimated fair value;
- $8.2 million on land in Frederick, Maryland. We determined that the carrying amount of the land would not likely be recovered from its sale and adjusted the land to its estimated fair value;
- $14.1 million on operating properties in our Northern Virginia and Fort Meade/BW Corridor sub-segments that we reclassified to held for sale during the period whose carrying amounts exceeded their estimated fair values less costs to sell;

- $6.2 million on the property in Greater Philadelphia (included in our Regional Office segment) that we reclassified to held for sale during the period and adjusted to fair value less costs to sell; and
- $2.4 million primarily on land in Colorado Springs and operating properties in White Marsh, Maryland ("White Marsh") (included in our Regional Office Segment) classified as held for sale whose carrying amounts exceeded their estimated fair values less costs to sell based on updated negotiations with prospective buyers.

There were no property sales in the second quarter of 2016 and as of June 30, 2016, we had $300.6 million of assets held for sale.

During the third quarter of 2016, as part of our closing process, we conducted our quarterly review of our portfolio for indicators of impairment considering refinements to our disposition strategy made during the third quarter of 2016 to sell an additional operating property in our Northern Virginia Defense/IT sub-segment, an additional operating property in our Fort Meade/BW Corridor sub-segment and our remaining operating properties and land in White Marsh that had not previously been classified as held for sale. In connection with our determinations that we planned to sell these properties, we performed recoverability analyses for each of these properties and recorded the following impairment losses:

- $13.3 million on the operating property in our Northern Virginia Defense/IT sub-segment. Communication with a major tenant in the building during the quarter led us to conclude that there was significant uncertainty with respect to the tenant renewing its lease expiring in 2019. As a result of this information and continuing sub-market weakness, we determined that this property no longer met our long-term hold strategy and we placed it into our asset sales program. Accordingly, we adjusted the carrying amount of the property to its estimated fair value less costs to sell; and
- $2.9 million on the other properties that we reclassified as held for sale, primarily associated with a land parcel in White Marsh. As of June 30, 2016, this land was under a sales contract subject to a re-zoning contingency. During the third quarter, we were denied favorable re-zoning and the contract was canceled. As a result, we determined this property will be sold as is, reclassified it to held for sale and adjusted its carrying value to its estimated fair value less costs to sell.

During our review we also recognized additional impairment losses of $11.5 million on properties previously classified as held for sale. Approximately $10 million of these losses pertained to properties in White Marsh due to our assessment that certain significant tenants will likely exercise lease termination rights and to reflect market conditions. The remainder of these losses pertained primarily to properties in San Antonio, Texas (in our Other segment), where prospective purchasers reduced offering prices late in the third quarter. We executed property sales of $210.7 million in the third quarter of 2016 (discussed further in Note 5), and had $161.5 million of assets held for sale as of September 30, 2016.

We executed property sales of $54.1 million in the fourth quarter of 2016 (discussed further in Note 5), and had $94.7 million of assets held for sale as of December 31, 2016. As part of our closing process for the fourth quarter, we conducted our quarterly review of our portfolio for indicators of impairment and found there to be no impairment losses for the quarter other than additional impairment losses of $1.3 million on properties previously classified as held for sale in White Marsh, where prospective purchasers reduced offering prices, and $0.3 million of losses on properties that were sold during the period.

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

General, Administrative and Leasing Expenses

The increase in general, administrative and leasing expenses from 2015 to 2016 was attributable primarily to $6.5 million of executive transition costs representing mostly severance and termination benefits incurred in 2016 mostly in connection with the departures of Mr. Waesche, Mr. Lingafelter and Ms. Singer.
We capitalize compensation and indirect costs associated with properties, or portions thereof, undergoing construction, development and redevelopment activities, and also capitalize such costs associated with internal-use software development. We also capitalize compensation costs associated with obtaining new tenant leases or extending existing tenants. Capitalized compensation and indirect costs were as follows:

	For the Years Ended December 31,	
	2016	2015
	(in thousands)	
Construction, development, redevelopment, capital and tenant improvements	$7,418	$7,732
Leasing	1,115	1,214
Total	$8,533	$8,946

Business Development Expenses and Land Carry Costs

The decrease in business development expenses and land carry costs was due primarily to a $4.1 million decrease in acquisition costs and a $1.4 million decrease in demolition costs on properties undergoing redevelopment.

Interest Expense

The table below sets forth components of our interest expense:

	For the Years Ended December 31,		
	2016	2015	Variance
	(in thousands)		
Interest on Unsecured Senior Notes	$53,129	$45,525	$7,604
Interest on mortgage and other secured debt			
Interest, excluding default rate on extinguished debt reported below	12,487	22,644	(10,157)
Interest under default rate on debt extinguished via property conveyance	—	5,270	(5,270)
Interest on unsecured term debt	10,543	9,469	1,074
Amortization of deferred financing costs	4,573	4,466	107
Interest expense recognized on interest rate swaps	4,230	3,599	631
Interest on Revolving Credit Facility	1,511	1,771	(260)
Other interest	2,413	3,481	(1,068)
Capitalized interest	(5,723)	(7,151)	1,428
Interest expense included in continuing operations	$83,163	$89,074	$(5,911)

Our average outstanding debt decreased from $2.1 billion in 2015 to $2.0 billion in 2016. Our weighted average effective interest rate on debt under GAAP changed from 4.3% in 2015 (or 4.0% excluding the effect of the default interest on the debt that we extinguished via property conveyance) to 4.1% in 2016. The overall decrease in interest expense was due primarily to the default rate interest that we incurred in 2015 on the extinguished debt. The changes reflected in the table above also reflect our increased emphasis on unsecured debt over mortgage and other secured debt. Interest expense for Unsecured Senior Notes increased due to our issuance of notes in June 2015. Capitalized interest decreased due primarily to decreased volume in active construction and development projects.

(Loss) Gain on Early Extinguishment of Debt

We recognized a gain on early extinguishment of debt of $85.7 million in 2015 primarily in connection with our transfer of ownership in two properties serving as collateral for a $150.0 million nonrecourse mortgage loan to the mortgage lender and the removal of the debt obligation and accrued interest from our balance sheet.

Gain on Sales of Real Estate

We recognized gains on sales of real estate in 2016 of $17.9 million on our sale of a 50% interest in six triple-net leased, single-tenant data center properties, $15.9 million on sales of other operating properties and $7.2 million on land sales. We recognized gain on sales of real estate in 2015 of $64.1 million on office properties dispositions and $4.0 million on land sales.

Comparison of Statements of Operations for the Years Ended December 31, 2015 and December 31, 2014

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

NOI from Real Estate Operations

	For the Years Ended December 31,		
	2015	2014	Variance
	(Dollars in thousands, except per square foot data)		
Revenues			
Same Office Properties revenues			
Rental revenue, excluding lease termination revenue	$ 296,127	$ 296,998	$ (871)
Lease termination revenue	2,366	1,433	933
Tenant recoveries and other real estate operations revenue	80,709	79,179	1,530
Same Office Properties	379,202	377,610	1,592
Constructed and redeveloped properties placed in service	20,728	6,061	14,667
Acquired office properties	20,176	—	20,176
Wholesale data center	19,032	10,430	8,602
Properties held for sale	12,512	11,880	632
Dispositions	66,943	73,249	(6,306)
Other	475	481	(6)
	519,068	479,711	39,357
Property operating expenses			
Same Office Properties	142,733	139,483	3,250
Constructed and redeveloped properties placed in service	5,534	1,424	4,110
Acquired office properties	8,219	—	8,219
Wholesale data center	10,402	7,286	3,116
Properties held for sale	4,464	4,249	215
Dispositions	23,060	26,244	(3,184)
Other	76	1,113	(1,037)
	194,488	179,799	14,689
NOI from real estate operations			
Same Office Properties	236,469	238,127	(1,658)
Constructed and redeveloped properties placed in service	15,194	4,637	10,557
Acquired office properties	11,957	—	11,957
Wholesale data center	8,630	3,144	5,486
Properties held for sale	8,048	7,631	417
Dispositions	43,883	47,005	(3,122)
Other	399	(632)	1,031
	$ 324,580	$ 299,912	$ 24,668
Same Office Properties rent statistics			
Average occupancy rate	91.0 %	91.9 %	(0.9)%
Average straight-line rent per occupied square foot (1)	$ 25.28	$ 25.11	$ 0.17

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

Our Same Office Properties pool consisted of 130 office properties, comprising 71.3% of our operating office square footage as of December 31, 2015. This pool of properties changed from the pool used for purposes of comparing 2015 and 2014 in our 2015 Annual Report on Form 10-K due to the removal of 12 properties disposed in 2016 and three properties reclassified to held for sale in 2016.

Our NOI from constructed office properties placed in service included eight properties placed in service in 2014 and 2015, and our NOI from acquired office properties included our acquisition in 2015 of three properties.

The increase in NOI from our wholesale data center was attributable primarily to higher average occupancy in 2015.

Depreciation and Amortization Expense

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

- additional expense in 2015 of $10.7 million from our office property acquisitions, $2.9 million from properties placed in service, $3.1 million from our shortening the useful lives of properties that were removed from service for redevelopment and $3.0 million from our wholesale data center; offset in part by
- a decrease of $15.1 million related to property dispositions.

Impairment Losses

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

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

General, Administrative and Leasing Expenses

Capitalized compensation and indirect costs were as follows:

	For the Years Ended December 31,	
	2015	2014
	(in thousands)	
Construction, development, redevelopment, capital and tenant improvements	$7,732	$8,066
Leasing	1,214	1,288
Total	$8,946	$9,354

Business Development Expenses and Land Carry Costs

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

Interest Expense

The table below sets forth components of our interest expense:

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

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

Gain (Loss) on Early Extinguishment of Debt

We recognized a gain on early extinguishment of debt of $85.7 million in 2015 primarily in connection with our transfer of ownership in two properties serving as collateral for a $150.0 million nonrecourse mortgage loan to the mortgage lender and the removal of the debt obligation and accrued interest from our balance sheet. The loss on early extinguishment of debt in 2014 was attributable primarily to a $9.1 million loss recognized in connection with the defeasance of, and full satisfaction of our obligations with respect to, two secured nonrecourse mortgage loans with a $211.5 million aggregate principal amount.

Gain on Sales of Real Estate

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

Funds from Operations

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

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

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

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

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

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

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

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

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

The table below sets forth the computation of the above stated measures for the years ended December 31, 2012 through 2016 and provides reconciliations to the GAAP measures of COPT and subsidiaries associated with such measures:

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars and shares in thousands, except per share data)				
Net income	$15,655	$188,878	$45,206	$101,544	$20,341
Add: Real estate-related depreciation and amortization	132,719	140,025	136,086	117,719	121,937
Add: Depreciation and amortization on UJV allocable to COPT	518	—	—	—	346
Add: Impairment losses on previously depreciated operating properties	83,346	4,110	1,370	32,047	70,263
Less: Gain on sales of previously depreciated operating properties	(33,789)	(64,062)	(5,117)	(9,004)	(20,928)
FFO	198,449	268,951	177,545	242,306	191,959
Less: Noncontrolling interests-preferred units in the Operating Partnership	(660)	(660)	(660)	(660)	(660)
Less: FFO allocable to other noncontrolling interests	(4,020)	(3,586)	(3,216)	(3,710)	(1,989)
Less: Preferred share dividends	(14,297)	(14,210)	(15,939)	(19,971)	(20,844)
Less: Issuance costs associated with redeemed preferred shares	(17)	—	(1,769)	(2,904)	(1,827)
Basic and diluted FFO allocable to share-based compensation awards	(694)	(1,041)	(665)	(912)	(919)
Basic and diluted FFO available to common shares and common unit holders	$178,761	$249,454	$155,296	$214,149	$165,720
Operating property acquisition costs	—	4,134	—	—	229
Gain on sales of non-operating properties	(7,197)	(3,985)	(5,578)	(2,683)	(33)
Impairment losses (recoveries) on non-operating properties	18,045	19,413	49	—	(3,353)
Income tax expense on impairments on non-operating properties	—	—	—	—	673
Valuation allowance on tax asset associated with FFO comparability adjustments	—	—	—	1,855	—
(Gain) loss on interest rate derivatives	(378)	386	—	—	—
Loss (gain) on early extinguishment of debt	1,110	(85,655)	9,668	(40,780)	(793)
Issuance costs associated with redeemed preferred shares	17	—	1,769	2,904	1,827
Demolition costs on redevelopment properties	578	1,396	—	—	—
Executive transition costs	6,454	—	1,056	—	2,157
Add: Negative FFO of properties conveyed to extinguish debt in default	—	10,456	10,928	—	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	(73)	225	(78)	168	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	$197,317	$195,824	$173,110	$175,613	$166,427
Weighted average common shares	94,502	93,914	88,092	85,167	73,454
Conversion of weighted average common units	3,633	3,692	3,897	3,869	4,235
Weighted average common shares/units - Basic FFO	98,135	97,606	91,989	89,036	77,689
Dilutive effect of share-based compensation awards	92	61	171	57	53
Weighted average common shares/units - Diluted FFO	98,227	97,667	92,160	89,093	77,742
Diluted FFO per share	$1.82	$2.55	$1.69	$2.40	$2.13

Diluted FFO per share, as adjusted for comparability	$2.01	$2.01	$1.88	$1.97	$2.14
Denominator for diluted EPS	94,502	97,667	88,263	85,224	73,454
Weighted average common units	3,633	—	3,897	3,869	4,235
Anti-dilutive EPS effect of share-based compensation awards	92	—	—	—	53
Denominator for diluted FFO per share measures	98,227	97,667	92,160	89,093	77,742
Dividends on unrestricted common shares	$104,811	$103,552	$97,512	$94,832	$81,251
Common unit distributions	3,990	4,046	4,270	4,280	4,617
Numerator for diluted FFO payout ratio, adjusted for comparability	$108,801	$107,598	$101,782	$99,112	$85,868
FFO payout ratio	54.8 %	40.0 %	57.3 %	40.9 %	44.7 %
Diluted FFO payout ratio	60.9 %	43.1 %	65.5 %	46.3 %	51.8 %
Diluted FFO payout ratio, as adjusted for comparability	55.1 %	54.9 %	58.8 %	56.4 %	51.6 %

Property Additions

The table below sets forth the major components of our additions to properties for 2016 and 2015:

	For the Years Ended December 31,		
	2016	2015	Variance
	(in thousands)		
Construction, development and redevelopment	$194,490	$219,469	$(24,979)
Acquisition of operating properties (1)	—	194,617	(194,617)
Tenant improvements on operating properties (2)	35,346	24,999	10,347
Capital improvements on operating properties	22,124	29,293	(7,169)
	$251,960	$468,378	$(216,418)

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

Cash Flows

Net cash flow provided by operating activities increased $28.5 million from 2015 to 2016 due primarily to:

- a $37.9 million increase in net cash flows from construction contract and other services due in large part to the timing of cash payments and collections on third party construction projects; offset in part by
- a $12.3 million increase in interest expense paid due primarily to the timing of interest payments from new debt requiring interest payments semi-annually rather than monthly.

Net cash flow provided by investing activities increased $379.0 million from 2015 to 2016 due primarily to an increase in property sales in 2016 relative to 2015; operating property acquisitions in 2015 when none occurred in 2016; and lower development expenditures in 2016.

Net cash flow provided by financing activities in 2016 was $154.4 million and included the following:

- net proceeds from debt borrowings of $117.0 million; and
- net proceeds from the issuance of common shares (or units) of $109.1 million; offset in part by
- dividends and/or distributions to shareholders and/or unitholders of $123.0 million.

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

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

Liquidity and Capital Resources of COPT

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

As of December 31, 2016, COPT owned 96.5% of the outstanding common units and 95.5% of the outstanding preferred units in COPLP; the remaining common and preferred units in COPLP were owned by third parties. As the sole general partner of COPLP, COPT has the full, exclusive and complete responsibility for COPLP's day-to-day management and control.

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

COPT will be required to fulfill its cash payment commitments under such guarantees. However, COPT's only significant asset is its investment in COPLP.

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

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

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

Liquidity and Capital Resources of COPLP

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions, to the extent they are pursued in the future. We expect to continue to use cash flow provided by operations as the primary source to meet our short-term capital needs, including property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, distributions to our security holders and improvements to existing properties. As of December 31, 2016, we had $209.9 million in cash and cash equivalents. Effective January 21, 2017, we used some of this available cash to redeem our Series K Cumulative Redeemable Preferred Shares at a price of $50.00 per share, or $26.6 million in the aggregate, plus accrued and unpaid dividends thereon through the date of redemption.

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

We use our Revolving Credit Facility to initially finance much of our investing activities. We subsequently pay down the facility using proceeds from long-term borrowings, equity issuances and property sales. The lenders' aggregate commitment under the facility is $800.0 million, with the ability for us to increase the lenders' aggregate commitment to $1.3 billion, provided that there is no default under the facility and subject to the approval of the lenders. Amounts available under the facility are computed based on 60% of our unencumbered asset value, as defined in the loan agreement. The Revolving Credit Facility matures in May 2019, and may be extended by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.075% of the total availability of the facility. As of December 31, 2016, the maximum borrowing capacity under this facility totaled $800.0 million, all of which was available.

We believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements without necessitating property sales. We do, however, expect to raise an estimated $100 to $110 million from sales of properties in 2017 and use the proceeds to fund development costs.

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The following table summarizes our contractual obligations as of December 31, 2016 (in thousands):

	For the Years Ending December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
Contractual obligations (1)							
Debt (2)							
Balloon payments due upon maturity	$—	$—	$—	$312,132	$300,000	$1,276,829	$1,888,961
Scheduled principal payments	4,061	4,241	4,387	4,024	3,875	10,680	31,268
Interest on debt (3)	71,011	70,837	70,654	66,411	57,413	115,964	452,290
New construction and redevelopment obligations (4)(5)	42,055	20,407	1,414	—	—	—	63,876
Third-party construction and development obligations (5)(6)	12,596	—	—	—	—	—	12,596
Capital expenditures for operating properties (5)(7)	33,915	16,957	5,652	—	—	—	56,524
Operating leases (8)	1,159	1,113	1,082	1,089	1,087	85,719	91,249
Series K Cumulative Redeemable Preferred Shares (9)	26,583	—	—	—	—	—	26,583
Other purchase obligations	703	379	310	120	5	—	1,517
Total contractual cash obligations	$192,083	$113,934	$83,499	$383,776	$362,380	$1,489,192	$2,624,864

(1) The contractual obligations set forth in this table exclude property operations contracts that may be terminated with notice of one month or less and also exclude accruals and payables incurred and therefore reflected in our reported liabilities.

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes net debt discounts and deferred financing costs of $16.2 million.

(3) Represents interest costs for our outstanding debt as of December 31, 2016 for the terms of such debt. For variable rate debt, the amounts reflected above used December 31, 2016 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new development and redevelopment activities.

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

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

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

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

(9) We redeemed all of our Series K Cumulative Redeemable Preferred Shares effective on January 21, 2017 following shareholder notification of such redemption in December 2016.

We expect to spend approximately $250.0 million on construction and development costs and approximately $50.0 million on improvements to operating properties (including the commitments set forth in the table above) in 2017. We expect to fund the construction and development costs using primarily cash on hand, borrowings under our Revolving Credit Facility and proceeds from property dispositions. We expect to fund improvements to existing operating properties using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of December 31, 2016, we were in compliance with these financial covenants.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements during 2016.

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 7A. Quantitative and Qualitative Disclosures about Market Risk

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

The following table sets forth as of December 31, 2016 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

	For the Years Ending December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
Debt:							
Fixed rate debt (1)	$3,692	$3,858	$3,991	$3,718	$303,875	$1,037,509	$1,356,643
Weighted average interest rate	4.34 %	4.37 %	4.36 %	3.96 %	3.70 %	4.47 %	4.30 %
Variable rate debt	$369	$383	$396	$312,438	$—	$250,000	$563,586
Weighted average interest rate (2)	2.47 %	2.47 %	2.47 %	2.04 %	— %	2.47 %	2.23 %

(1) Represents principal maturities only and therefore excludes net debt discounts and deferred financing costs of $16.2 million.
(2) The amounts reflected above used December 31, 2016 interest rates on variable rate debt.

The fair value of our debt was $1.9 billion as of December 31, 2016 and $2.1 billion as of December 31, 2015. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately $103 million as of December 31, 2016 and $112 million as of December 31, 2015.

The following table sets forth information pertaining to interest rate swap contracts in place as of December 31, 2016 and 2015 and their respective fair values (dollars in thousands):

Notional			Effective	Expiration	Fair Value at December 31,	
Amount	Fixed Rate	Floating Rate Index	Date	Date	2016	2015
$100,000	1.6730%	One-Month LIBOR	9/1/2015	8/1/2019	$(701)	$(1,217)
100,000	1.7300%	One-Month LIBOR	9/1/2015	8/1/2019	(848)	(1,429)
13,586 (1)	1.3900%	One-Month LIBOR	10/13/2015	10/1/2020	100	53
100,000	1.9013%	One-Month LIBOR	9/1/2016	12/1/2022	(23)	(138)
100,000	1.9050%	One-Month LIBOR	9/1/2016	12/1/2022	48	(45)
50,000	1.9079%	One-Month LIBOR	9/1/2016	12/1/2022	10	(32)
100,000	0.8055%	One-Month LIBOR	9/2/2014	9/1/2016	—	(148)
100,000	0.8100%	One-Month LIBOR	9/2/2014	9/1/2016	—	(151)
					$(1,414)	$(3,107)

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

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by $1.8 million in 2016 and $2.5 million in 2015 if short-term interest rates were 1% higher. Interest expense in 2016 was less sensitive to a change in interest rates than 2015 due primarily to our having a lower average variable-rate debt balance in 2016.

Item 8. Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures
Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2016 were functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

I. Internal Control Over Financial Reporting

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

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

(b) Report of Independent Registered Public Accounting Firm

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

(c) Change in Internal Control over Financial Reporting

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

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

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

(b) Report of Independent Registered Public Accounting Firm

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

(c) Change in Internal Control over Financial Reporting

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

Item 9B. Other Information
None.

PART III

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

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

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

3. See section below entitled "Exhibits."

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

EXHIBIT NO.	DESCRIPTION
3.1.1	Amended and Restated Declaration of Trust of Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.1.2	Articles of Amendment of Amended and Restated Declaration of Trust (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
3.1.3	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K on December 29, 2004 and incorporated herein by reference).
3.1.4	Articles Supplementary of Corporate Office Properties Trust relating to the Series K Cumulative Redeemable Convertible Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated January 16, 2007 and incorporated herein by reference).
3.1.5	Articles Supplementary of Corporate Office Properties Trust relating to the Series L Cumulative Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated June 25, 2012 and incorporated herein by reference).
3.1.6	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated May 28, 2008 and incorporated herein by reference).
3.1.7	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated May 19, 2010 and incorporated herein by reference).
3.1.8	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K dated June 19, 2012 and incorporated herein by reference).
3.1.9	Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland on September 22, 2014 (filed with the Company's Current Report on Form 8-K dated September 24, 2014 and incorporated herein by reference).
3.2.1	Bylaws of the Registrant, as amended and restated on December 3, 2009 (filed with the Company's Current Report on Form 8-K dated December 9, 2009 and incorporated herein by reference).

3.2.2	First Amendment to Amended and Restated Bylaws (filed with the Company’s Current Report on Form 8-K dated December 18, 2012 and incorporated herein by reference).
3.3	Form of certificate for the Registrant's Common Shares of Beneficial Interest, $0.01 par value per share (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.1.1	Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 7, 1999 (filed on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.1.2	First Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.1.3	Second Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.4	Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 29, 2000 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.5	Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated November 27, 2000 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.6	Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated January 25, 2001 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.7	Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated April 3, 2001 (filed with the Company's Current Report on Form 8-K dated April 4, 2001 and incorporated herein by reference).
10.1.8	Seventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated August 30, 2001 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.9	Eighth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 14, 2001 (filed with the Company's Amended Current Report on Form 8-K dated September 14, 2001 and incorporated herein by reference).
10.1.10	Ninth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated October 16, 2001 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.11	Tenth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 29, 2001 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.12	Eleventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 15, 2002 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.13	Twelfth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 2, 2003 (filed on August 12, 2003 with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
10.1.14	Thirteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated August 11, 2003 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1.15	Fourteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated December 18, 2003 (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).

10.1.16	Fifteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 31, 2004 (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.1.17	Sixteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2004 (filed on May 7, 2004 with the Company's Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
10.1.18	Seventeenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 23, 2004 (filed with the Company's Current Report on Form 8-K dated September 23, 2004 and incorporated herein by reference).
10.1.19	Eighteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 18, 2005 (filed with the Company's Form 8-K on April 22, 2005 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.1.20	Nineteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 8, 2005 (filed with the Company's Current Report on Form 8-K on July 14, 2005 and incorporated herein by reference).
10.1.21	Twentieth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 29, 2006 (filed with the Company's Current Report on Form 8-K dated July 6, 2006 and incorporated herein by reference).
10.1.22	Twenty-First Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 20, 2006 (filed with the Company's Current Report on Form 8-K dated July 26, 2006 and incorporated herein by reference).
10.1.23	Twenty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 9, 2007 (filed with the Company's Current Report on Form 8-K dated January 16, 2007 and incorporated herein by reference).
10.1.24	Twenty-Third Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 6, 2007 (filed with the Company's Current Report on Form 8-K dated April 12, 2007 and incorporated herein by reference).
10.1.25	Twenty-Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated November 2, 2007 (filed with the Company's Current Report on Form 8-K dated November 5, 2007 and incorporated herein by reference).
10.1.26	Twenty-Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated December 31, 2008 (filed with the Company's Current Report on Form 8-K dated January 5, 2009 and incorporated herein by reference).
10.1.27	Twenty-Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated March 4, 2010 (filed with the Company's Current Report on Form 8-K dated March 10, 2010 and incorporated herein by reference).
10.1.28	Twenty-Seventh Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated February 3, 2011 (filed with the Company's Current Report on Form 8-K dated February 3, 2011 and incorporated herein by reference).
10.1.29	Twenty-Eighth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 15, 2011 (filed with the Company's Current Report on Form 8-K dated September 16, 2011 and incorporated herein by reference).
10.1.30	Twenty-Ninth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 27, 2012 (filed with the Company's Current Report on Form 8-K dated June 27, 2012 and incorporated herein by reference).
10.1.31	Thirtieth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 16, 2013 (filed with the Company's Current Report on Form 8-K dated July 19, 2013 and incorporated herein by reference).
10.1.32	Thirty-First Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 17, 2013 (filed with the Company's Current Report on Form 8-K dated September 19, 2013 and incorporated herein by reference).
10.1.33	Thirty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2015 (filed with the Company's Current Report on Form 8-K dated April 21, 2015 and incorporated herein by reference).
10.2.1*	Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.2.2*	Amendment No. 1 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed on August 13, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

10.2.3*	Amendment No. 2 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
10.3.1*	Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan (filed with the Company's Current Report on Form 8-K dated December 10, 2008 and incorporated herein by reference).
10.3.2*	First Amendment to the Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan dated December 4, 2008 (filed with the Company's Current Report on Form 8-K dated December 10, 2008 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.4.1*	Corporate Office Properties Trust 2008 Omnibus Equity and Incentive Plan (included in Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2008 and incorporated herein by reference).
10.4.2*	Corporate Office Properties Trust Amended and Restated 2008 Omnibus Equity and Incentive Plan (included in Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 30, 2010 and incorporated herein by reference).
10.4.3*	Corporate Office Properties Trust First Amendment to the Amended and Restated 2008 Omnibus Equity and Incentive Plan (filed herewith).
10.5*	Corporate Office Properties Trust and Corporate Office Properties, L.P. Executive Change in Control and Severance Plan (filed with the Company's Current Report on Form 8-K dated March 13, 2013 and incorporated herein by reference).
10.6*	Letter Agreement, dated January 19, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Anthony Mifsud (filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference).
10.7*	Separation Agreement and Release, dated February 3, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Stephen E. Riffee (filed with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference).
10.8*	Letter Agreement, dated June 2, 2015, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Karen M. Singer (filed with the Company's Current Report on Form 8-K dated June 5, 2015 and incorporated herein by reference).
10.9*	Separation Agreement, dated February 11, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Roger A. Waesche, Jr. (filed with the Company's Current Report on Form 8-K dated February 12, 2016 and incorporated herein by reference).
10.10*	Separation Agreement, dated February 26, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Wayne H. Lingafelter (filed with the Company's Current Report on Form 8-K dated March 3, 2016 and incorporated herein by reference).
10.11*	Letter Agreement, dated May 12, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Stephen E. Budorick (filed with the Company's Current Report on Form 8-K dated May 17, 2016 and incorporated herein by reference).
10.12*	Separation Agreement, dated July 26, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Karen M. Singer (filed with the Company's Form 8-K dated July 28, 2016 and incorporated herein by reference).
10.13*	Letter Agreement, dated November 1, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Anthony Mifsud (filed herewith).
10.14*	Letter Agreement, dated November 1, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Gregory J. Thor (filed herewith).
10.15*	Letter Agreement, dated November 28, 2016, between Corporate Office Properties Trust, Corporate Office Properties, L.P., and Paul R. Adkins (filed herewith).
10.16	Amended and Restated Registration Rights Agreement, dated March 16, 1998, for the benefit of certain shareholders of the Company (filed on August 12, 1998 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
10.17	Amended, Restated and Consolidated Credit Agreement, dated as of May 6, 2015, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; KeyBank National Association; KeyBanc Capital Markets, Inc.; J.P. Morgan Securities LLC; JPMorgan Chase Bank, N.A.; Bank of America, N.A.; PNC Bank, National Association; Royal Bank of Canada; Wells Fargo Bank, National Association; Barclays Bank PLC; Regions Bank; Citizens Bank of Pennsylvania; and Citibank, N.A. (filed with the Company's Current Report on Form 8-K dated May 12, 2015 and incorporated herein by reference).

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

EXHIBIT NO.	DESCRIPTION
10.21	First Supplemental Indenture, dated September 16, 2013, by and among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated September 19, 2013 and incorporated herein by reference).
10.22	Second Supplemental Indenture, dated as of May 14, 2014, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee. (filed with the Company's Current Report on Form 8-K dated May 14, 2014 and incorporated herein by reference).
10.23	Third Supplemental Indenture, dated as of June 29, 2015, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and U.S. Bank National Association, as trustee (filed with the Company's Current Report on Form 8-K dated July 1, 2015 and incorporated herein by reference).
10.24.1	Term Loan Agreement, dated as of December 17, 2015, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; Capital One, National Association, PNC Capital Markets LLC and Regions Capital Markets, a division of Regions Bank, PNC Bank, National Association and Regions Bank (filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference).
10.24.2	First Amendment to Term Loan Agreement, dated as of September 15, 2016, by and among Corporate Office Properties, L.P.; Corporate Office Properties Trust; Capital One, National Association, PNC Capital Markets LLC and Regions Capital Markets, a division of Regions Bank, PNC Bank, National Association and Regions Bank (filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30 2016 and incorporated herein by reference).
12.1	COPT's Statement regarding Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends (filed herewith).
12.2	COPLP's Statement regarding Computation of Consolidated Ratio of Earnings to Fixed Charges (filed herewith).
21.1	Subsidiaries of COPT (filed herewith).
21.2	Subsidiaries of COPLP (filed herewith).
23.1	COPT's Consent of Independent Registered Public Accounting Firm (filed herewith).
23.2	COPLP's Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.3	Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.4	Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
32.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject

	to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith).
32.3	Certification of the Chief Executive Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).

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EXHIBIT NO.	DESCRIPTION
32.4	Certification of the Chief Financial Officer of Corporate Office Properties, L.P. required by Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended). (Furnished herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.LAB	XBRL Extension Labels Linkbase (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).

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

(c) Not applicable.

SIGNATURES

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

CORPORATE OFFICE PROPERTIES TRUST

Date:	February 17, 2017	By:	/s/ Stephen E. Budorick
			Stephen E. Budorick
			President and Chief Executive Officer
Date:	February 17, 2017	By:	/s/ Anthony Mifsud
			Anthony Mifsud
			Executive Vice President and Chief Financial Officer

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

Signatures	Title	Date
/s/ Thomas F. Brady (Thomas F. Brady)	Chairman of the Board and Trustee	February 17, 2017
/s/ Stephen E. Budorick (Stephen E. Budorick)	President and Chief Executive Officer and Trustee	February 17, 2017
/s/ Anthony Mifsud (Anthony Mifsud)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 17, 2017
/s/ Gregory J. Thor (Gregory J. Thor)	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 17, 2017
/s/ Robert L. Denton (Robert L. Denton)	Trustee	February 17, 2017
/s/ Philip L. Hawkins (Philip L. Hawkins)	Trustee	February 17, 2017
/s/ Elizabeth A. Hight (Elizabeth A. Hight)	Trustee	February 17, 2017
/s/ David M. Jacobstein (David M. Jacobstein)	Trustee	February 17, 2017
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	February 17, 2017
/s/ C. Taylor Pickett (C. Taylor Pickett)	Trustee	February 17, 2017
/s/ Richard Szafranski (Richard Szafranski)	Trustee	February 17, 2017

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

CORPORATE OFFICE PROPERTIES, L.P.
By: Corporate Office Properties Trust,
its General Partner

Date:	February 17, 2017	By:	/s/ Stephen E. Budorick
			Stephen E. Budorick
			President and Chief Executive Officer
Date:	February 17, 2017	By:	/s/ Anthony Mifsud
			Anthony Mifsud
			Executive Vice President and Chief Financial Officer

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

Signatures	Title	Date
/s/ Thomas F. Brady (Thomas F. Brady)	Chairman of the Board and Trustee	February 17, 2017
/s/ Stephen E. Budorick (Stephen E. Budorick)	President and Chief Executive Officer and Trustee	February 17, 2017
/s/ Anthony Mifsud (Anthony Mifsud)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 17, 2017
/s/ Gregory J. Thor (Gregory J. Thor)	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 17, 2017
/s/ Robert L. Denton (Robert L. Denton)	Trustee	February 17, 2017
/s/ Philip L. Hawkins (Philip L. Hawkins)	Trustee	February 17, 2017
/s/ Elizabeth A. Hight (Elizabeth A. Hight)	Trustee	February 17, 2017
/s/ David M. Jacobstein (David M. Jacobstein)	Trustee	February 17, 2017
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	February 17, 2017
/s/ C. Taylor Pickett (C. Taylor Pickett)	Trustee	February 17, 2017
/s/ Richard Szafranski (Richard Szafranski)	Trustee	February 17, 2017

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 based upon criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2016 based on the criteria in Internal Control-Integrated Framework (2013) issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 based upon criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2016 based on the criteria in Internal Control-Integrated Framework (2013) issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corporate Office Properties Trust and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management's Report on Internal Control over Financial Reporting”. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
February 17, 2017

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corporate Office Properties, L.P. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management's Report on Internal Control over Financial Reporting”. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
February 17, 2017

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

	December 31,	
	2016	2015
Assets		
Properties, net:		
Operating properties, net	$2,671,831	$2,920,529
Projects in development or held for future development	401,531	429,219
Total properties, net	3,073,362	3,349,748
Assets held for sale, net	94,654	96,782
Cash and cash equivalents	209,863	60,310
Restricted cash and marketable securities	8,193	7,716
Investment in unconsolidated real estate joint venture	25,548	—
Accounts receivable (net of allowance for doubtful accounts of $603 and $1,525, respectively)	34,438	29,167
Deferred rent receivable (net of allowance of $373 and $1,962, respectively)	90,219	105,484
Intangible assets on real estate acquisitions, net	78,351	98,338
Deferred leasing costs (net of accumulated amortization of $65,988 and $66,364, respectively)	41,214	53,868
Investing receivables	52,279	47,875
Prepaid expenses and other assets, net	72,764	60,024
Total assets	$3,780,885	$3,909,312
Liabilities and equity		
Liabilities:		
Debt, net	$1,904,001	$2,077,752
Accounts payable and accrued expenses	108,682	91,755
Rents received in advance and security deposits	29,798	37,148
Dividends and distributions payable	31,335	30,178
Deferred revenue associated with operating leases	12,666	19,758
Interest rate derivatives	1,572	3,160
Redeemable preferred shares of beneficial interest	26,583	—
Other liabilities	48,605	13,779
Total liabilities	2,163,242	2,273,530
Commitments and contingencies (Note 19)		
Redeemable noncontrolling interests	22,979	19,218
Equity:		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest at liquidation preference	172,500	199,083
Common Shares of beneficial interest ($0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 98,498,651 at December 31, 2016 and 94,531,512 at December 31, 2015)	985	945
Additional paid-in capital	2,116,581	2,004,507
Cumulative distributions in excess of net income	(765,276)	(657,172)
Accumulated other comprehensive loss	(1,731)	(2,838)
Total Corporate Office Properties Trust's shareholders' equity	1,523,059	1,544,525
Noncontrolling interests in subsidiaries:		
Common units in COPLP	49,228	52,359

Preferred units in COPLP	8,800	8,800
Other consolidated entities	13,577	10,880
Noncontrolling interests in subsidiaries	71,605	72,039
Total equity	1,594,664	1,616,564
Total liabilities, redeemable noncontrolling interest and equity	$3,780,885	$3,909,312

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Rental revenue	$417,711	$420,340	$386,396
Tenant recoveries and other real estate operations revenue	108,253	98,724	93,329
Construction contract and other service revenues	48,364	106,402	106,748
Total revenues	574,328	625,466	586,473
Expenses			
Property operating expenses	197,530	194,494	179,934
Depreciation and amortization associated with real estate operations	132,719	140,025	136,086
Construction contract and other service expenses	45,481	102,696	100,058
Impairment losses	101,391	23,289	1,416
General, administrative and leasing expenses	36,553	31,361	31,794
Business development expenses and land carry costs	8,244	13,507	5,573
Total operating expenses	521,918	505,372	454,861
Operating income	52,410	120,094	131,612
Interest expense	(83,163)	(89,074)	(92,393)
Interest and other income	5,444	4,517	4,923
(Loss) gain on early extinguishment of debt	(1,110)	85,275	(9,552)
(Loss) income from continuing operations before equity in income of unconsolidated entities and income taxes	(26,419)	120,812	34,590
Equity in income of unconsolidated entities	1,332	62	229
Income tax expense	(244)	(199)	(310)
(Loss) income from continuing operations	(25,331)	120,675	34,509
Discontinued operations	—	156	26
(Loss) income before gain on sales of real estate	(25,331)	120,831	34,535
Gain on sales of real estate	40,986	68,047	10,671
Net income	15,655	188,878	45,206
Net income attributable to noncontrolling interests:			
Common units in COPLP	155	(6,403)	(1,006)
Preferred units in COPLP	(660)	(660)	(660)
Other consolidated entities	(3,711)	(3,515)	(3,285)
Net income attributable to COPT	11,439	178,300	40,255
Preferred share dividends	(14,297)	(14,210)	(15,939)
Issuance costs associated with redeemed preferred shares	(17)	—	(1,769)
Net (loss) income attributable to COPT common shareholders	$(2,875)	$164,090	$22,547
Net income attributable to COPT:			
Income from continuing operations	$11,439	$178,147	$40,225
Discontinued operations, net	—	153	30
Net income attributable to COPT	$11,439	$178,300	$40,255
Basic earnings per common share (1)			
(Loss) income from continuing operations	$(0.03)	$1.74	$0.25
Net (loss) income attributable to COPT common shareholders	$(0.03)	$1.74	$0.25
Diluted earnings per common share (1)			
(Loss) income from continuing operations	$(0.03)	$1.74	$0.25

Net (loss) income attributable to COPT common shareholders	$(0.03)	$1.74	$0.25

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

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Net income	$15,655	$188,878	$45,206
Other comprehensive loss			
Unrealized losses on interest rate derivatives	(2,915)	(4,739)	(7,799)
Losses on interest rate derivatives included in interest expense	4,230	3,599	2,990
Losses on interest rate derivatives included in loss on early extinguishment of debt	—	—	38
Equity in other comprehensive loss of equity method investee	(184)	(264)	—
Other comprehensive income (loss)	1,131	(1,404)	(4,771)
Comprehensive income	16,786	187,474	40,435
Comprehensive income attributable to noncontrolling interests	(4,240)	(10,715)	(4,957)
Comprehensive income attributable to COPT	$12,546	$176,759	$35,478

See accompanying notes to consolidated financial statements.

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

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive 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 (140,149 shares)	—	2	1,841	—	—	(1,843)	—
Common shares issued to the public (5,520,000 shares)	—	55	148,611	—	—	—	148,666
Exercise of share options (62,888 shares)	—	—	1,489	—	—	—	1,489
Share-based compensation (137,735 shares issued, net of redemptions)	—	2	7,048	—	—	—	7,050
Redemption of vested equity awards	—	—	(1,554)	—	—	—	(1,554)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(3,382)	—	—	3,382	—
Comprehensive income	—	—	—	40,255	(4,777)	2,796	38,274
Dividends	—	—	—	(113,882)	—	—	(113,882)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,929)	(4,929)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	3	3
Distributions to noncontrolling interest in other consolidated entities	—	—	—	—	—	(1,613)	(1,613)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	134	—	—	—	134
Tax loss from share-based compensation	—	—	(3)	—	—	—	(3)
Balance at December 31, 2014 (93,255,284 common shares outstanding)	199,083	933	1,969,968	(717,264)	(1,297)	69,461	1,520,884

Conversion of common units to common shares (160,160 shares)	—	2	2,149	—	—	(2,151)	—
Common shares issued under at-the-market program (890,241 shares)	—	9	26,526	—	—	—	26,535
Exercise of share options (76,474 shares)	—	—	2,008	—	—	—	2,008
Share-based compensation (149,353 shares issued, net of redemptions)	—	1	7,397	—	—	—	7,398
Redemption of vested equity awards	—	—	(2,462)	—	—	—	(2,462)
Adjustments to noncontrolling interests resulting from changes in ownership of COPLP	—	—	(682)	—	—	682	—
Comprehensive income	—	—	—	178,300	(1,541)	8,488	185,247
Dividends	—	—	—	(118,208)	—	—	(118,208)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,706)	(4,706)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	300	300
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(35)	(35)
Adjustment to arrive at fair value of redeemable noncontrolling interest	—	—	116	—	—	—	116
Tax loss from share-based compensation	—	—	(513)	—	—	—	(513)
Balance at December 31, 2015 (94,531,512 common shares outstanding)	199,083	945	2,004,507	(657,172)	(2,838)	72,039	1,616,564
Reclassification of preferred shares to be redeemed to liability (531,667 shares)	(26,583)	—	17	(17)	—	—	(26,583)
Conversion of common units to common shares (87,000 shares)	—	1	1,166	—	—	(1,167)	—
Common shares issued under at-the-market program (3,721,227 shares)	—	37	109,016	—	—	—	109,053
Share-based compensation (158,912 shares issued, net of redemptions)	—	2	7,451	—	—	—	7,453
Redemption of vested equity awards	—	—	(2,466)	—	—	—	(2,466)
	—	—	(2,158)	—	—	2,158	—

Adjustments to noncontrolling interests resulting from changes in ownership of COPLP							
Comprehensive income	—	—	—	11,439	1,107	1,997	14,543
Dividends	—	—	—	(119,526)	—	—	(119,526)
Distributions to owners of common and preferred units in COPLP	—	—	—	—	—	(4,650)	(4,650)
Contributions from noncontrolling interests in other consolidated entities	—	—	—	—	—	1,244	1,244
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	—	(16)	(16)
Adjustment to arrive at fair value of redeemable noncontrolling interests	—	—	(621)	—	—	—	(621)
Tax loss from share-based compensation	—	—	(331)	—	—	—	(331)
Balance at December 31, 2016 (98,498,651 common shares outstanding)	$172,500	$ 985	$2,116,581	$ (765,276)	$ (1,731)	$ 71,605	$1,594,664

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Revenues from real estate operations received	$511,338	$501,779	$479,605
Construction contract and other service revenues received	76,824	117,107	89,180
Property operating expenses paid	(197,254)	(190,281)	(178,803)
Construction contract and other service expenses paid	(46,318)	(124,481)	(79,271)
General, administrative, leasing, business development and land carry costs paid	(34,877)	(38,113)	(29,521)
Interest expense paid	(78,158)	(65,816)	(79,095)
Payments in connection with early extinguishment of debt	(654)	(373)	(9,017)
Interest and other income received	960	4,194	607
Income taxes (paid) refunded	(5)	(8)	200
Other	682	—	—
Net cash provided by operating activities	232,538	204,008	193,885
Cash flows from investing activities			
Construction, development and redevelopment	(161,519)	(234,346)	(200,385)
Acquisitions of operating properties and related intangible assets	—	(202,866)	—
Tenant improvements on operating properties	(34,275)	(29,413)	(27,037)
Other capital improvements on operating properties	(26,345)	(23,147)	(28,720)
Proceeds from dispositions of properties	262,866	193,735	57,782
Proceeds from partial sales of properties, net of related debt	43,681	—	—
Investing receivables funded	(48)	(22)	(3,731)
Investing receivables payments received	—	5,114	10,279
Leasing costs paid	(10,296)	(13,710)	(16,234)
Other	(2,615)	(2,877)	(1,643)
Net cash provided by (used in) investing activities	71,449	(307,532)	(209,689)
Cash flows from financing activities			
Proceeds from debt			
Revolving Credit Facility	495,500	522,000	232,000
Unsecured senior notes	—	296,580	297,342
Other debt proceeds	255,000	164,000	11,569
Repayments of debt			
Revolving Credit Facility	(539,000)	(561,500)	(149,000)
Scheduled principal amortization	(5,395)	(6,728)	(6,517)
Other debt repayments	(323,107)	(155,307)	(394,653)
Deferred financing costs paid	(825)	(7,522)	(708)
Net proceeds from issuance of common shares	109,069	28,567	150,174
Redemption of preferred shares	—	—	(50,000)
Common share dividends paid	(104,135)	(103,638)	(96,330)
Preferred share dividends paid	(14,210)	(14,210)	(16,731)
Distributions paid to noncontrolling interests in COPLP	(4,619)	(4,752)	(5,008)
Distributions paid to redeemable noncontrolling interests	(15,206)	(2,993)	(1,467)
Redemption of vested equity awards	(2,466)	(2,462)	(1,554)
Other	(5,040)	5,722	(1,609)
Net cash (used in) provided by financing activities	(154,434)	157,757	(32,492)

Net increase (decrease) in cash and cash equivalents	149,553	54,233	(48,296)
Cash and cash equivalents			
Beginning of year	60,310	6,077	54,373
End of year	$209,863	$60,310	$6,077

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Reconciliation of net income to net cash provided by operating activities:			
Net income	$15,655	$188,878	$45,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and other amortization	134,870	142,231	138,490
Impairment losses	101,341	23,523	1,419
Amortization of deferred financing costs and net debt discounts	5,885	5,588	5,587
Increase in deferred rent receivable	(145)	(14,969)	(3,520)
Gain on sales of real estate	(40,986)	(68,047)	(10,695)
Share-based compensation	6,843	6,574	6,164
Loss (gain) on early extinguishment of debt	456	(86,028)	651
Other	(4,295)	528	(3,242)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(5,262)	1,331	(2,011)
(Increase) decrease in restricted cash and marketable securities	(365)	(1,241)	1,352
(Increase) decrease in prepaid expenses and other assets, net	(17,272)	2,853	(10,126)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	43,163	(3,620)	25,091
(Decrease) increase in rents received in advance and security deposits	(7,350)	6,407	(481)
Net cash provided by operating activities	$232,538	$204,008	$193,885
Supplemental schedule of non-cash investing and financing activities:			
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	$5,950	$(14,797)	$(3,779)
Increase in property and redeemable noncontrolling interests in connection with property contributed in a joint venture	$22,600	$—	$—
Decrease in redeemable noncontrolling interests and increase in other liabilities in connection with distribution payable to redeemable noncontrolling interest	$6,675	$—	$—
Non-cash changes from partial sale of properties, net of debt:			
Decrease in properties, net	$(114,597)	$—	$—
Increase in investment in unconsolidated real estate joint venture	$25,680	$—	$—
Decrease in debt	$59,534	$—	$—
Other net decreases in assets and liabilities	$3,619	$—	$—
Debt assumed on acquisition of operating property	$—	$55,490	$—
Other liabilities assumed on acquisition of operating properties	$—	$5,179	$—
Decrease in property in connection with surrender of property in settlement of debt	$—	$(82,738)	$—
Decrease in debt in connection with surrender of property in settlement of debt	$—	$(150,000)	$—
Increase in property and redeemable noncontrolling interests in connection with property contribution by a redeemable noncontrolling interest in a joint venture	$—	$1,415	$—
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive income (loss) and noncontrolling interests	$1,315	$(1,140)	$(4,866)
Equity in other comprehensive loss of an equity method investee	$(184)	$(264)	$—
Reclassification of preferred shares to be redeemed to liability	$26,583	$—	$—
Dividends/distribution payable	$31,335	$30,178	$29,862
Decrease in noncontrolling interests and increase in shareholders’ equity in connection with the conversion of common units into common shares	$1,167	$2,151	$1,843

Adjustments to noncontrolling interests resulting from changes in COPLP ownership	$2,158	$682	$3,382
Increase (decrease) in redeemable noncontrolling interest and decrease (increase) in equity to carry redeemable noncontrolling interests at fair value	$621	$(116)	$(134)

See accompanying notes to consolidated financial statements.

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

	December 31, 2016	December 31, 2015
Assets		
Properties, net:		
Operating properties, net	$2,671,831	$2,920,529
Projects in development or held for future development	401,531	429,219
Total properties, net	3,073,362	3,349,748
Assets held for sale, net	94,654	96,782
Cash and cash equivalents	209,863	60,310
Restricted cash and marketable securities	2,756	1,953
Investment in unconsolidated real estate joint venture	25,548	—
Accounts receivable (net of allowance for doubtful accounts of $603 and $1,525, respectively)	34,438	29,167
Deferred rent receivable (net of allowance of $373 and $1,962, respectively)	90,219	105,484
Intangible assets on real estate acquisitions, net	78,351	98,338
Deferred leasing costs (net of accumulated amortization of $65,988 and $66,364, respectively)	41,214	53,868
Investing receivables	52,279	47,875
Prepaid expenses and other assets, net	72,764	60,024
Total assets	$3,775,448	$3,903,549
Liabilities and equity		
Liabilities:		
Debt, net	$1,904,001	$2,077,752
Accounts payable and accrued expenses	108,682	91,755
Rents received in advance and security deposits	29,798	37,148
Distributions payable	31,335	30,178
Deferred revenue associated with operating leases	12,666	19,758
Interest rate derivatives	1,572	3,160
Redeemable preferred units of general partner, 531,667 units outstanding at December 31, 2016	26,583	—
Other liabilities	43,168	8,016
Total liabilities	2,157,805	2,267,767
Commitments and contingencies (Note 19)		
Redeemable noncontrolling interests	22,979	19,218
Equity:		
Corporate Office Properties, L.P.'s equity:		
Preferred units		
General partner, preferred units outstanding of 6,900,000 and 7,431,667 at December 31, 2016 and 2015, respectively	172,500	199,083
Limited partner, 352,000 preferred units outstanding at December 31, 2016 and 2015	8,800	8,800
Common units, 98,498,651 and 94,531,512 held by the general partner and 3,590,391 and 3,677,391 held by limited partners at December 31, 2016 and 2015, respectively	1,401,597	1,400,745
Accumulated other comprehensive loss	(1,854)	(2,985)
Total Corporate Office Properties, L.P.'s equity	1,581,043	1,605,643
Noncontrolling interests in subsidiaries	13,621	10,921

Total equity	1,594,664	1,616,564
Total liabilities, redeemable noncontrolling interest and equity	$3,775,448	$3,903,549

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Revenues			
Rental revenue	$417,711	$420,340	$386,396
Tenant recoveries and other real estate operations revenue	108,253	98,724	93,329
Construction contract and other service revenues	48,364	106,402	106,748
Total revenues	574,328	625,466	586,473
Expenses			
Property operating expenses	197,530	194,494	179,934
Depreciation and amortization associated with real estate operations	132,719	140,025	136,086
Construction contract and other service expenses	45,481	102,696	100,058
Impairment losses	101,391	23,289	1,416
General, administrative and leasing expenses	36,553	31,361	31,794
Business development expenses and land carry costs	8,244	13,507	5,573
Total operating expenses	521,918	505,372	454,861
Operating income	52,410	120,094	131,612
Interest expense	(83,163)	(89,074)	(92,393)
Interest and other income	5,444	4,517	4,923
(Loss) gain on early extinguishment of debt	(1,110)	85,275	(9,552)
(Loss) income from continuing operations before equity in income of unconsolidated entities and income taxes	(26,419)	120,812	34,590
Equity in income of unconsolidated entities	1,332	62	229
Income tax expense	(244)	(199)	(310)
(Loss) income from continuing operations	(25,331)	120,675	34,509
Discontinued operations	—	156	26
(Loss) income before gain on sales of real estate	(25,331)	120,831	34,535
Gain on sales of real estate	40,986	68,047	10,671
Net income	15,655	188,878	45,206
Net income attributable to noncontrolling interests in consolidated entities	(3,715)	(3,520)	(3,276)
Net income attributable to COPLP	11,940	185,358	41,930
Preferred unit distributions	(14,957)	(14,870)	(16,599)
Issuance costs associated with redeemed preferred units	(17)	—	(1,769)
Net (loss) income attributable to COPLP common unitholders	$(3,034)	$170,488	$23,562
Net income attributable to COPLP:			
Income from continuing operations	$11,940	$185,199	$41,899
Discontinued operations, net	—	159	31
Net income attributable to COPLP	$11,940	$185,358	$41,930
Basic earnings per common unit (1)			
(Loss) income from continuing operations	$(0.04)	$1.74	$0.25
Net (loss) income attributable to COPLP common unitholders	$(0.04)	$1.74	$0.25
Diluted earnings per common unit (1)			
(Loss) income from continuing operations	$(0.04)	$1.74	$0.25
Net (loss) income attributable to COPLP common unitholders	$(0.04)	$1.74	$0.25

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

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2016	2015	2014
Net income	$15,655	$188,878	$45,206
Other comprehensive loss			
Unrealized losses on interest rate derivatives	(2,915)	(4,739)	(7,799)
Losses on interest rate derivatives included in interest expense	4,230	3,599	2,990
Losses on interest rate derivatives included in loss on early extinguishment of debt	—	—	38
Equity in other comprehensive loss of equity method investee	(184)	(264)	—
Other comprehensive income (loss)	1,131	(1,404)	(4,771)
Comprehensive income	16,786	187,474	40,435
Comprehensive income attributable to noncontrolling interests	(3,715)	(3,720)	(3,492)
Comprehensive income attributable to COPLP	$13,071	$183,754	$36,943

See accompanying notes to consolidated financial statements.

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

	Limited Partner Preferred Units		General Partner Preferred Units		Common Units		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Equity
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2013	352,000	$8,800	9,431,667	$249,083	91,372,212	$1,226,318	$3,605	$9,443	$1,497,249
Redemption of preferred units resulting from redemption of preferred shares	—	—	(2,000,000)	(50,000)	—	—	—	—	(50,000)
Issuance of common units resulting from public issuance of common shares	—	—	—	—	5,520,000	148,666	—	—	148,666
Issuance of common units resulting from exercise of share options	—	—	—	—	62,888	1,489	—	—	1,489
Share-based compensation (units net of redemption)	—	—	—	—	137,735	7,050	—	—	7,050
Redemptions of vested equity awards	—	—	—	—	—	(1,554)	—	—	(1,554)
Comprehensive income	—	660	—	15,939	—	25,331	(4,986)	1,330	38,274
Distributions to owners of common and preferred units	—	(660)	—	(15,939)	—	(102,212)	—	—	(118,811)
Contributions from noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	3	3
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	(1,613)	(1,613)

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