CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2010

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

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**23-2947217** (IRS Employer Identification No.)
6711 Columbia Gateway Drive, Suite 300, Columbia, MD (Address of principal executive offices)	**21046** (Zip Code)

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

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. x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (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) o Yes x No

As of October 21, 2010, 59,419,001 of the Company s Common Shares of Beneficial Interest, $0.01 par value, were issued and outstanding.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands)

(unaudited)

	September 30, 2010	December 31, 2009
Assets		
Properties, net:		
Operating properties, net	$ 2,762,289	$ 2,510,277
Properties held for sale, net		18,533
Projects under construction or development	586,861	501,090
Total properties, net	3,349,150	3,029,900
Cash and cash equivalents	11,733	8,262
Restricted cash and marketable securities	21,095	16,549
Accounts receivable, net	18,906	17,459
Deferred rent receivable	76,833	71,805
Intangible assets on real estate acquisitions, net	123,307	100,671
Deferred leasing and financing costs, net	56,568	51,570
Prepaid expenses and other assets	79,780	83,806
Total assets	$ 3,737,372	$ 3,380,022
Liabilities and equity		
Liabilities:		
Debt, net	$ 2,468,419	$ 2,053,841
Accounts payable and accrued expenses	88,461	116,455
Rents received in advance and security deposits	26,919	32,177
Dividends and distributions payable	29,899	28,440
Deferred revenue associated with operating leases	15,790	14,938
Distributions received in excess of investment in unconsolidated real estate joint venture	5,458	5,088
Other liabilities	12,698	8,451
Total liabilities	2,647,644	2,259,390
Commitments and contingencies (Note 16)		
Equity:		
Corporate Office Properties Trust s shareholders equity:		
Preferred Shares of beneficial interest with an aggregate liquidation preference of $216,333 ($0.01 par value; 15,000,000 shares authorized and 8,121,667 issued and outstanding at September 30, 2010 and December 31, 2009)	81	81
Common Shares of beneficial interest ($0.01 par value; 125,000,000 shares authorized and 59,406,247 shares issued and outstanding at September 30, 2010; 75,000,000 shares authorized and 58,342,673 shares issued and outstanding at December 31, 2009)	594	583
Additional paid-in capital	1,271,363	1,238,704
Cumulative distributions in excess of net income	(265,695)	(209,941)
Accumulated other comprehensive loss	(4,861)	(1,907)

Total Corporate Office Properties Trust s shareholders equity		1,001,482		1,027,520
Noncontrolling interests in subsidiaries:				
Common units in the Operating Partnership		61,867		73,892
Preferred units in the Operating Partnership		8,800		8,800
Other consolidated entities		17,579		10,420
Noncontrolling interests in subsidiaries		88,246		93,112
Total equity		1,089,728		1,120,632
Total liabilities and equity	$	3,737,372	$	3,380,022

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Revenues				
Rental revenue	$ 93,345	$ 86,973	$ 275,528	$ 263,467
Tenant recoveries and other real estate operations revenue	21,205	17,159	60,507	51,780
Construction contract and other service revenues	13,608	95,321	77,038	273,534
Total revenues	128,158	199,453	413,073	588,781
Expenses				
Property operating expenses	44,260	38,523	132,400	114,587
Depreciation and amortization associated with real estate operations	30,745	26,498	87,889	81,268
Construction contract and other service expenses	13,347	93,805	75,148	268,289
General and administrative expenses	6,079	5,898	17,905	17,275
Business development expenses	2,886	458	3,506	1,550
Total operating expenses	97,317	165,182	316,848	482,969
Operating income	30,841	34,271	96,225	105,812
Interest expense	(26,537)	(20,931)	(74,987)	(58,914)
Interest and other income	395	2,619	1,942	4,949
Income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	4,699	15,959	23,180	51,847
Equity in income (loss) of unconsolidated entities	648	(758)	371	(1,075)
Income tax expense	(27)	(47)	(75)	(169)
Income from continuing operations	5,320	15,154	23,476	50,603
Discontinued operations	1,129	382	2,447	1,150
Income before gain on sales of real estate	6,449	15,536	25,923	51,753
Gain on sales of real estate, net of income taxes	2,477		2,829	
Net income	8,926	15,536	28,752	51,753
Less net income attributable to noncontrolling interests:				
Common units in the Operating Partnership	(363)	(956)	(1,254)	(4,032)
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	434	40	233	15
Net income attributable to Corporate Office Properties Trust	8,832	14,455	27,236	47,241
Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,076)
Net income attributable to Corporate Office Properties Trust common shareholders	$ 4,807	$ 10,430	$ 15,160	$ 35,165
Net income attributable to Corporate Office Properties Trust:				
Income from continuing operations	$ 7,785	$ 14,106	$ 24,975	$ 46,207
Discontinued operations, net	1,047	349	2,261	1,034
Net income attributable to Corporate Office Properties Trust	$ 8,832	$ 14,455	$ 27,236	$ 47,241
Basic earnings per common share (1)				
Income from continuing operations	$ 0.06	$ 0.17	$ 0.21	$ 0.60

Discontinued operations		0.02		0.01		0.04		0.02
Net income attributable to COPT common shareholders	$	0.08	$	0.18	$	0.25	$	0.62
Diluted earnings per common share (1)								
Income from continuing operations	$	0.06	$	0.17	$	0.20	$	0.60
Discontinued operations		0.02		0.01		0.04		0.02
Net income attributable to COPT common shareholders	$	0.08	$	0.18	$	0.24	$	0.62

(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.

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Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Equity

(Dollars in thousands)

(unaudited)

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2008 (51,790,442 common shares outstanding)	$ 81	$ 518	$ 1,112,734	$ (162,572)	$ (4,749)	$ 136,411	$ 1,082,423
Conversion of common units to common shares (2,824,000 shares)		28	61,368			(61,396)	
Common shares issued to the public (2,990,000 shares)		30	71,795				71,825
Exercise of share options (388,487 common shares)		4	4,280				4,284
Share-based compensation		3	7,905				7,908
Restricted common share redemptions (76,090 shares)			(1,930)				(1,930)
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT			(21,090)			21,090	
Adjustments related to derivatives designated as cash flow hedges					2,458	549	3,007
Decrease in tax benefit from share-based compensation			(152)				(152)
Net income				47,241		4,512	51,753
Dividends				(76,788)			(76,788)
Distributions to owners of common and preferred units in the Operating Partnership						(6,469)	(6,469)
Contributions from noncontrolling interests in other consolidated entities						757	757
Distributions to noncontrolling interests in other consolidated entities						(435)	(435)
Balance at September 30, 2009 (58,250,295 common shares outstanding)	$ 81	$ 583	$ 1,234,910	$ (192,119)	$ (2,291)	$ 95,019	$ 1,136,183
Balance at December 31, 2009 (58,342,673 common shares outstanding)	$ 81	$ 583	$ 1,238,704	$ (209,941)	$ (1,907)	$ 93,112	$ 1,120,632
Issuance of 4.25% Exchangeable Senior Notes			18,149				18,149
Conversion of common units to common shares (620,598 shares)		6	8,964			(8,970)	
Costs associated with common shares issued to the public			(19)				(19)
Exercise of share options (271,242 shares)		3	4,394				4,397
Share-based compensation		2	8,724				8,726
Restricted common share redemptions (103,721 shares)			(3,862)				(3,862)
			(1,347)			1,347	

Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT							
Adjustments related to derivatives designated as cash flow hedges					(2,954)	(206)	(3,160)
Net income				27,236		1,516	28,752
Dividends				(82,990)			(82,990)
Distributions to owners of common and preferred units in the Operating Partnership						(5,945)	(5,945)
Contributions from noncontrolling interests in other consolidated entities						9,510	9,510
Acquisition of nontrolling interests in other consolidated entities			(2,344)			(2,118)	(4,462)
Balance at September 30, 2010 (59,406,247 common shares outstanding)	$ 81	$ 594	$ 1,271,363	$ (265,695)	$ (4,861)	$ 88,246	$ 1,089,728

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2010	2009
Cash flows from operating activities		
Net income	$ 28,752	$ 51,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	89,830	83,660
Amortization of deferred financing costs	4,175	3,089
Increase in deferred rent receivable	(3,295)	(5,685)
Amortization of above or below market leases	(1,470)	(1,448)
Amortization of net debt discounts	4,360	2,520
Gain on sales of real estate	(3,921)	
Share-based compensation	8,726	7,908
Other	(724)	(3,558)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,648)	(320)
Decrease (increase) in restricted cash and marketable securities and prepaid expenses and other assets	8,165	(18,059)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(31,696)	15,311
(Decrease) increase in rents received in advance and security deposits	(5,702)	2,858
Net cash provided by operating activities	95,552	138,029
Cash flows from investing activities		
Purchases of and additions to properties	(360,498)	(146,120)
Proceeds from sales of properties	27,580	65
Mortgage and other loan receivables funded	(1,729)	(1,995)
Leasing costs paid	(7,717)	(6,778)
Investment in unconsolidated entity	(4,500)	(3,000)
Other	(2,241)	(3,118)
Net cash used in investing activities	(349,105)	(160,946)
Cash flows from financing activities		
Proceeds from debt, including issuance of exchangeable senior notes	825,475	775,147
Repayments of debt		
Scheduled principal amortization	(10,389)	(8,200)
Other repayments	(459,614)	(728,366)
Deferred financing costs paid	(7,086)	(1,830)
Net proceeds from issuance of common shares	4,378	76,109
Acquisition of noncontrolling interests in consolidated entities	(4,462)	
Dividends paid	(81,376)	(73,220)
Distributions paid	(6,100)	(7,420)
Restricted share redemptions	(3,862)	(1,930)
Other	60	(4,167)
Net cash provided by financing activities	257,024	26,123
Net increase in cash and cash equivalents	3,471	3,206
Cash and cash equivalents		

Beginning of period		8,262		6,775
End of period	$	11,733	$	9,981
Supplemental schedule of non-cash investing and financing activities:				
Debt and other liabilities assumed in connection with acquisitions	$	74,244	$	
Increase in accrued capital improvements, leasing and other investing activity costs	$	4,308	$	6,297
Increase in property and noncontrolling interests in connection with property contribution to joint venture	$	9,000	$	
Increase in fair value of derivatives applied to AOCL and noncontrolling interests	$	3,206	$	2,962
Dividends/distribution payable	$	29,899	$	28,411
Decrease in noncontrolling interests and increase in shareholders equity in connection with the conversion of common units into common shares	$	8,970	$	61,396
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT	$	1,347	$	21,090

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

1. Organization

Corporate Office Properties Trust (COPT) and subsidiaries (collectively, the Company, we or us) is a fully-integrated and self-managed real estate investment trust (REIT) that focuses primarily on strategic customer relationships and specialized tenant requirements in the United States Government, defense information technology and data sectors. We acquire, develop, manage and lease office and data center properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in demographically strong markets possessing growth opportunities. As of September 30, 2010, our investments in real estate included the following:

- 249 wholly owned operating office properties totaling 19.9 million square feet;
- 18 wholly owned office properties under construction, development or redevelopment that we estimate will total approximately 2.6 million square feet upon completion, including two partially operational properties included above;
- wholly owned land parcels totaling 1,559 acres that we believe are potentially developable into approximately 14.4 million square feet;
- a wholly owned, partially operational, wholesale data center which upon completion is expected to have an initial stabilization critical load of 18 megawatts; and
- partial ownership interests in a number of other real estate projects in operations, under development or held for future development.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership), of which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies (LLCs). A summary of our Operating Partnership s forms of ownership and the percentage of those ownership forms owned by COPT as of September 30, 2010 follows:

Common Units	93%
Series G Preferred Units	100%
Series H Preferred Units	100%
Series I Preferred Units	0%
Series J Preferred Units	100%
Series K Preferred Units	100%

Three of our trustees also controlled, either directly or through ownership by other entities or family members, an additional 6% of the Operating Partnership s common units.

In addition to owning interests in real estate, the Operating Partnership also owns entities that provide real estate services such as property management, construction and development and heating and air conditioning services primarily for our properties but also for third parties.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of COPT, the Operating Partnership, their subsidiaries and other entities in which we have a majority voting interest and control. We also consolidate certain entities when control of such entities can be achieved through means other than voting rights (variable interest entities or VIEs) if we are deemed to be the primary beneficiary of such entities. We eliminate all significant intercompany balances and transactions in consolidation. We use the equity method of accounting when we own an interest in an entity and can exert significant influence over the entity s

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

These interim financial statements should be read together with the financial statements and notes thereto as of and for the year ended December 31, 2009 included in our 2009 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 2009 Annual Report on Form 10-K except for the implementation of recent accounting pronouncements as discussed below.

Reclassifications

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

Recent Accounting Pronouncements

We adopted amended guidance issued by the Financial Accounting Standards Board (FASB) effective January 1, 2010 related to the accounting and disclosure requirements for the consolidation of VIEs. This guidance requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE based primarily on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The guidance also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the standard requires enhanced disclosures about an enterprise s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise s financial statements. As discussed further in Note 5, the adoption of this guidance did not affect our financial position, results of operations or cash flows.

We adopted guidance issued by the FASB effective January 1, 2010 that requires new disclosures and clarifications to existing disclosures pertaining to transfers in and out of Level 1 and Level 2 fair value measurements, presentation of activity within Level 3 fair value measurements and details of valuation techniques and inputs utilized. Our adoption of this guidance did not have a material effect on our financial statements or disclosures.

3. Fair Value Measurements

For a description on how we estimate fair value, see Note 2 to the consolidated financial statements in our 2009 Form 10-K.

The table below sets forth our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2010 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

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Description		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
Assets:								
Marketable securities (1)	$	7,996	$		$		$	7,996
Liabilities:								
Deferred compensation plan liability (2)	$	7,377	$		$		$	7,377
Interest rate derivatives (2)				4,943				4,943
Liabilities	$	7,377	$	4,943	$		$	12,320

(1) Included in the line entitled restricted cash and marketable securities on our Consolidated Balance Sheet.

(2) Included in the line entitled other liabilities on our Consolidated Balance Sheet.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding mortgage loans receivable) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision.

For additional fair value information, see Note 7 for mortgage loans receivable, Note 8 for debt and Note 9 for derivatives.

4. Properties, net

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

		September 30, 2010		December 31, 2009
Land	$	493,979	$	479,545
Buildings and improvements		2,747,528		2,445,775
		3,241,507		2,925,320
Less: accumulated depreciation		(479,218)		(415,043)
	$	2,762,289	$	2,510,277

As of December 31, 2009, 431 and 437 Ridge Road, two office properties in Dayton, New Jersey totaling 201,000 square feet, and a contiguous land parcel that we were under contract to sell were classified as held for sale. We completed the sale of the office properties on September 8, 2010 for $20.9 million and recognized a gain of $784,000. We also completed the sale of the contiguous land parcel on September 8, 2010 for $3.0 million and recognized a gain of $2.5 million. The components associated with these properties as of December 31, 2009 included the following (in thousands):

Land, operating properties	$	3,498
Land, development		512
Buildings and improvements		21,509
Construction in progress		583
		26,102
Less: accumulated depreciation		(7,569)
	$	18,533

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Projects under construction or development consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Land	$ 241,937	$ 231,297
Construction in progress	344,924	269,793
	$ 586,861	$ 501,090

2010 Acquisitions

Our acquisitions during the nine months ended September 30, 2010 included:

- 1550 Westbranch Drive, a 152,000 square foot office property in McLean, Virginia that was 100% leased, for $40.0 million on June 28, 2010;

- 9651 Hornbaker Road, a 233,000 square foot wholesale data center known as Power Loft @ Innovation in Manassas, Virginia, for $115.5 million on September 14, 2010. Rents for this property are based on the amount of megawatts of power made available for the exclusive use of tenants in the property; we refer to this power as critical load. This property, the shell of which was completed in early 2010, was 17% leased on the date of acquisition to two tenants who have a combined initial critical load of 3 megawatts and further expansion rights of up to a combined 5 megawatts. We expect to complete the development of the property to an initial stabilization critical load of 18 megawatts for additional development costs estimated at $166 million. Full critical load of the property is expected to be up to 30 megawatts; and

- two office properties totaling 362,000 square feet at 1201 M Street SE and 1220 12th Street SE (known as Maritime Plaza I and II) in Washington, DC that were 100% leased for $122.1 million on September 28, 2010. The buildings are subject to ground leases that expire in 2099 and 2100. In connection with this acquisition, we assumed a $70.1 million mortgage loan having a fair value at assumption of $73.3 million with a stated fixed interest rate of 5.35% (effective interest rate of 3.95%) that matures in March 2014.

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

Land, operating properties	$ 6,100
Land, development	5,545
Building and improvements	138,335
Construction in progress	85,525
Intangible assets on real estate acquisitions	42,315
Total assets	277,820
Below-market leases	(231)
Total acquisition cost	$ 277,589

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

			Weighted Average Amortization Period (in Years)
In-place lease value	$	21,289	4
Tenant relationship value		14,309	10
Below-market ground leases		6,193	40
Above-market leases		524	2
	$	42,315	6

2010 Construction, Development and Redevelopment Activities

During the nine months ended September 30, 2010, we had six newly constructed office properties totaling 804,000 square feet (two in the Baltimore/Washington Corridor, two in Colorado Springs, Colorado and two in San Antonio, Texas) become fully operational (94,000 of these square feet were placed into service in 2009) and placed into service 42,000 square feet in one partially operational office property in Greater Baltimore.

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As of September 30, 2010, we had construction underway on eight office properties totaling 845,000 square feet (three in the Baltimore/Washington Corridor, three in Greater Baltimore, one in San Antonio and one in St. Mary s and King George Counties) (including 42,000 square feet placed into service in one partially operational property). We also had development activities underway on ten office properties totaling 1.4 million square feet, including two through a consolidated real estate joint venture (four in the Baltimore/Washington Corridor, two in San Antonio, two in Huntsville, Alabama, one in Greater Baltimore and one in Northern Virginia). In addition, we had redevelopment underway on two office properties totaling 576,000 square feet (one in the Baltimore/Washington Corridor and one in Greater Philadelphia).

5. Real Estate Joint Ventures

During the nine months ended September 30, 2010, we had an investment in one unconsolidated real estate joint venture accounted for using the equity method of accounting. Information pertaining to this joint venture investment is set forth below (in thousands):

Investment Balance at September 30, 2010	Investment Balance at December 31, 2009	Date Acquired	Ownership	Nature of Activity	Maximum Exposure to Loss (1)
$ (5,458)(2)	$ (5,088)(2)	9/29/2005	20%	Operates 16 buildings	$

(1) Derived from the sum of our investment balance and maximum additional unilateral capital contributions or loans required from us. Not reported above are additional amounts that we and our partner are required to fund when needed by this joint venture; these funding requirements are proportional to our respective ownership percentages. Also not reported above are additional unilateral contributions or loans from us, the amounts of which are uncertain, that we would be required to make if certain contingent events occur (see Note 16).

(2) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $5.2 million at September 30, 2010 and December 31, 2009 due to our deferral of gain on our contribution of real estate into the joint venture upon its formation. A difference will continue to exist to the extent the nature of our continuing involvement in the joint venture remains the same.

The following table sets forth condensed balance sheets for this unconsolidated real estate joint venture (in thousands):

	September 30, 2010	December 31, 2009
Properties, net	$ 61,652	$ 62,990
Other assets	4,374	5,148
Total assets	$ 66,026	$ 68,138
Liabilities (primarily debt)	$ 67,351	$ 67,611
Owners equity	(1,325)	527
Total liabilities and owners equity	$ 66,026	$ 68,138

The following table sets forth condensed statements of operations for this unconsolidated real estate joint venture (in thousands):

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Revenues	$ 2,094	$ 2,202	$ 6,283	$ 6,935
Property operating expenses	(902)	(864)	(2,728)	(2,535)
Interest expense	(899)	(1,002)	(2,846)	(2,976)
Depreciation and amortization expense	(826)	(803)	(2,561)	(2,405)
Net loss	$ (533)	$ (467)	$ (1,852)	$ (981)

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The table below sets forth information pertaining to our investments in consolidated real estate joint ventures at September 30, 2010 (dollars in thousands):

	Date Acquired	Ownership % at 9/30/2010	Nature of Activity	September 30, 2010 (1) Total Assets	Pledged Assets	Total Liabilities
M Square Associates, LLC	6/26/2007	50.0%	Operating two buildings and developing others (2)	$ 58,805	$	$ 1,085
Arundel Preserve #5, LLC	7/2/2007	50.0%	Operating one building (3)	29,838	29,481	16,805
LW Redstone Company, LLC	3/23/2010	85.0%	Developing land parcel (4)	14,430		288
COPT-FD Indian Head, LLC	10/23/2006	75.0%	Developing land parcel (5)	7,444		
MOR Forbes 2 LLC	12/24/2002	50.0%	Operating one building (6)	3,926		69
				$ 114,443	$ 29,481	$ 18,247

(1) Excludes amounts eliminated in consolidation.

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

(3) This joint venture s property is in Hanover, Maryland (in the Baltimore/Washington Corridor).

(4) This joint venture s property is in Huntsville, Alabama.

(5) This joint venture s property is in Charles County, Maryland.

(6) This joint venture s property is in Lanham, Maryland (in the Suburban Maryland region).

We determined that all of our real estate joint ventures were VIEs under applicable accounting standards. As discussed in Note 2, we adopted amended guidance issued by the FASB effective January 1, 2010 related to the accounting and disclosure requirements for the consolidation of VIEs. Upon adoption of this standard on January 1, 2010, we re-evaluated our existing:

- unconsolidated real estate joint venture and determined that we should continue to account for our investment using the equity method of accounting primarily because our partner has: (1) the power to direct the matters that most significantly impact the activities of the joint venture, including the management and operations of the properties and disposal rights with respect to such properties; and (2) the right to receive benefits and absorb losses that could be significant to the VIE through its proportionately larger investment; and

- consolidated real estate joint ventures and determined that we should continue to consolidate each of them because we have: (1) the power to direct the matters that most significantly impact the activities of the joint ventures, including development, leasing and management of the properties constructed by the VIEs; and (2) both the obligation to fund the activities of the ventures to the extent that third-party financing is not obtained and the right to receive returns on our fundings, which could be potentially significant to the VIEs.

Therefore, the adoption of this guidance did not affect our financial position, results of operations or cash flows.

In March 2010, we completed the formation of LW Redstone Company, LLC (Redstone), a joint venture created to develop Redstone Gateway, a 468-acre land parcel adjacent to Redstone Arsenal in Huntsville, Alabama. The land is owned by the U.S. Government and is under a long term master lease to the joint venture. Through this master lease, the joint venture will create a business park that we expect will total approximately 4.6 million square feet of office and retail space when completed, including approximately 4.4 million square feet of Class A office space. In addition, the business park will include hotel and other amenities.

We anticipate funding certain infrastructure costs that we expect will be reimbursed by the City of Huntsville; as of September 30, 2010, we had advanced $834,000 to the City to fund such costs. We also expect to fund additional development and construction costs through equity contributions to the extent that third party financing is not obtained. Our partner is not required to make any future contributions to the joint venture. Net cash flow distributions to the partners of Redstone vary depending on the source of the funds distributed and the nature of the capital fundings outstanding at the time of distribution. In the case of all distribution sources, we are first entitled to repayment of operating deficits funded by us and preferred returns on such fundings. We are also generally entitled to repayment of infrastructure and vertical construction costs funded by us and preferred returns on such fundings before our partner is entitled to receive repayment of its equity contribution of $9.0 million. In addition, we will be entitled to 85% of distributable cash in excess of preferred returns.

We determined that Redstone is a VIE under applicable accounting standards and that we should consolidate it because: (1) we control the activities that are most significant to the VIE (we hold two of three positions on the joint venture s management committee, and we are responsible for the development, construction, leasing and

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management of the office properties to be constructed by the VIE); and (2) we have both the obligation to provide significant funding for the project, as noted above, and the right to receive returns on our funding.

At December 31, 2009, we had a 92.5% ownership interest in COPT Opportunity Invest I, LLC, an entity that is redeveloping a property in Hanover, Maryland; in February 2010, we acquired the remaining 7.5% ownership interest in this entity. At December 31, 2009, we also had a 90% ownership interest in Enterprise Campus Developer, LLC, an entity that owned a 50% interest in M Square Associates, LLC (included in the table above); in July 2010, we acquired the remaining 10% ownership interest in this entity.

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 16.

6. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease value	$ 162,381	$ 84,315	$ 78,066	$ 141,408	$ 70,659	$ 70,749
Tenant relationship value	50,179	20,196	29,983	35,909	16,322	19,587
Above-market leases	10,689	7,896	2,793	10,165	7,138	3,027
Acquired real estate tax credit	6,222	1,011	5,211	6,222		6,222
Below-market ground leases	6,193		6,193			
Market concentration premium	1,333	272	1,061	1,333	247	1,086
	$ 236,997	$ 113,690	$ 123,307	$ 195,037	$ 94,366	$ 100,671

Amortization of the intangible asset categories set forth above totaled $18.8 million in the nine months ended September 30, 2010 and $19.0 million in the nine months ended September 30, 2009. The approximate weighted average amortization periods of the categories set forth above follow: in-place lease value: seven years; tenant relationship value: eight years; above-market leases: five years; acquired real estate tax credit: six years; below-market ground leases: 40 years; and market concentration premium: 32 years. The approximate weighted average amortization period for all of the categories combined is nine years. Estimated amortization expense associated with the intangible asset categories set forth above is $7.4 million for the three months ending December 31, 2010; $24.3 million for 2011; $18.8 million for 2012; $13.8 million for 2013; $11.4 million for 2014; and $10.2 million for 2015.

7. Prepaid Expenses and Other Assets

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

		September 30, 2010		December 31, 2009
Prepaid expenses	$	24,108	$	19,769
Equity method investment in unconsolidated entity		15,509		9,461
Mortgage loans receivable (1)		14,806		12,773
Furniture, fixtures and equipment, net		12,258		12,633
Construction contract costs incurred in excess of billings		3,022		19,556
Other assets		10,077		9,614
Prepaid expenses and other assets	$	79,780	$	83,806

(1) The fair value of our mortgage loans receivable totaled $16.3 million at September 30, 2010 and $15.1 million at December 31, 2009.

Our investment in unconsolidated entity reflected above consists of common stock and warrants to purchase additional shares of common stock of The KEYW Holding Corporation (KEYW), an entity supporting the intelligence community s operations and transformation to Cyber Age mission by providing engineering services

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and integrated platforms that support the intelligence process. In October 2010, KEYW completed an initial public offering of its common stock.

8. Debt

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

	Maximum Availability at September 30, 2010	Carrying Value at September 30, 2010	Carrying Value at December 31, 2009	Stated Interest Rates at September 30, 2010	Scheduled Maturity Dates at September 30, 2010
Mortgage and Other Secured Loans:					
Fixed rate mortgage loans (1)	N/A	$ 1,177,095	$ 1,166,443	5.20% - 7.87% (2)	2010 - 2034 (3)
Revolving Construction Facility	$ 225,000	121,903	76,333	LIBOR+ 1.60% to 2.00% (4)	May 2, 2011 (5)
Variable rate secured loans	N/A	270,756	271,146	LIBOR+ 2.25% to 3.00% (6)	2012-2014 (5)
Other construction loan facilities	23,400	16,753	16,753	LIBOR+ 2.75% (7)	2011 (5)
Total mortgage and other secured loans		1,586,507	1,530,675		
Revolving Credit Facility	700,000	498,000	365,000	LIBOR+ 0.75% to 1.25% (8)	September 30, 2011 (5)
Unsecured notes payable (9)	N/A	1,965	2,019	0.00%	2026
Exchangeable Senior Notes:					
4.25% Exchangeable Senior Notes	N/A	223,019		4.25%	April 2030 (10)
3.5% Exchangeable Senior Notes	N/A	158,928	156,147	3.50%	September 2026 (11)
Total debt		$ 2,468,419	$ 2,053,841		

(1) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect unamortized premiums totaling $3.5 million at September 30, 2010 and $371,000 at December 31, 2009.
(2) The weighted average interest rate on these loans was 6.0% at September 30, 2010.
(3) A loan with a balance of $4.6 million at September 30, 2010 that matures in 2034 may be repaid in March 2014, subject to certain conditions.
(4) The weighted average interest rate on this loan was 1.86% at September 30, 2010.
(5) Includes amounts that may be extended for a one-year period at our option, subject to certain conditions.
(6) The loans in this category at September 30, 2010 were subject to floor interest rates ranging from 4.25% to 5.5%.
(7) The interest rate on this loan was 3.1% at September 30, 2010.
(8) The weighted average interest rate on the Revolving Credit Facility was 1.11% at September 30, 2010.
(9) The carrying value of these notes reflects unamortized discount totaling $1.1 million at September 30, 2010 and $1.2 million at December 31, 2009.
(10)

Refer to the second paragraph below, which discusses the issuance of these notes, for descriptions of provisions for early redemption and repurchase of these notes.

(11) As described further in our 2009 Annual Report on Form 10-K, these notes have an exchange settlement feature that provides that they may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares or a combination of cash and our common shares at an exchange rate (subject to adjustment) of 19.1167 shares per one thousand dollar principal amount of the notes (exchange rate is as of September 30, 2010 and is equivalent to an exchange price of $52.31 per common share). The carrying value of these notes included a principal amount of $162.5 million and an unamortized discount totaling $3.6 million at September 30, 2010 and $6.4 million at December 31, 2009. The effective interest rate under the notes, including amortization of the issuance costs, was 5.97%. Because the closing price of our common shares at September 30, 2010 and December 31, 2009 was less than the exchange price per common share applicable to these notes, the if-converted value of the notes did not exceed the principal amount. The table below sets forth interest expense recognized on these notes before deductions for amounts capitalized:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Interest expense at stated interest rate	$ 1,421	$ 1,421	$ 4,265	$ 4,265
Interest expense associated with amortization of discount	941	886	2,781	2,620
Total	$ 2,362	$ 2,307	$ 7,046	$ 6,885

In April 2010, we increased the borrowing capacity under our Revolving Credit Facility by $100.0 million, from $600.0 million to $700.0 million.

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On April 7, 2010, the Operating Partnership issued a $240.0 million aggregate principal amount of 4.25% Exchangeable Senior Notes due 2030. Interest on the notes is payable on April 15 and October 15 of each year. The notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash and, at the Operating Partnership s discretion, our common shares of beneficial interest (common shares) at an exchange rate (subject to adjustment) of 20.7769 shares per one thousand dollar principal amount of the notes (exchange rate is as of September 30, 2010 and is equivalent to an exchange price of $48.13 per common share) (the initial exchange rate of the notes was based on a 20% premium over the closing price on the NYSE on the transaction pricing date). On or after April 20, 2015, the Operating Partnership may redeem the notes in cash in whole or in part. The holders of the notes have the right to require us to repurchase the notes in cash in whole or in part on each of April 15, 2015, April 15, 2020 and April 15, 2025, or in the event of a fundamental change, as defined under the terms of the notes, for a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. Prior to April 20, 2015, subject to certain exceptions, if (1) a fundamental change occurs as a result of certain forms of transactions or series of transactions and (2) a holder elects to exchange its notes in connection with such fundamental change, we will increase the applicable exchange rate for the notes surrendered for exchange by a number of additional shares of our common shares as a make whole premium. The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. The Operating Partnership s obligations under the notes are fully and unconditionally guaranteed by us. The initial liability component of this debt issuance was $221.4 million and the equity component was $18.6 million. In addition, we recognized $450,000 of the financing fees incurred in relation to these notes in equity. The carrying value of these notes at September 30, 2010 included an unamortized discount totaling $17.0 million at September 30, 2010. The effective interest rate on the liability component, including amortization of the issuance costs, is 6.05%. Because the closing price of our common shares at September 30, 2010 was less than the exchange price per common share applicable to these notes, the if-converted value of the notes did not exceed the principal amount. The table below sets forth interest expense recognized on these notes before deductions for amounts capitalized (in thousands):

	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2010
Interest expense at stated interest rate	$ 2,550	$ 4,930
Interest expense associated with amortization of discount	815	1,618
Total	$ 3,365	$ 6,548

We capitalized interest costs of $3.9 million in the three months ended September 30, 2010, $3.1 million in the three months ended September 30, 2009, $12.0 million in the nine months ended September 30, 2010 and $11.6 million in the nine months ended September 30, 2009.

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt	$ 1,561,007	$ 1,565,549	$ 1,324,609	$ 1,252,126
Variable-rate debt	907,412	903,024	729,232	704,508
	$ 2,468,419	$ 2,468,573	$ 2,053,841	$ 1,956,634

9. Interest Rate Derivatives

The following table sets forth the key terms and fair values of our interest rate derivatives at September 30, 2010 and December 31, 2009, all of which are interest rate swaps (in thousands):

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Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at September 30, 2010	Fair Value at December 31, 2009
$ 120,000	1.7600%	1/2/2009	5/1/2012	$ (2,513)	$ (669)
100,000	1.9750%	1/1/2010	5/1/2012	(2,430)	(1,068)
				$ (4,943)	$ (1,737)

Each of these interest rate swaps was designated as cash flow hedges of interest rate risk. The table below sets forth the fair value of our interest rate derivatives as well as their classification on our Consolidated Balance Sheet as of September 30, 2010 and December 31, 2009 (in thousands):

Derivatives Designated as Hedging Instruments	September 30, 2010 Balance Sheet Location	September 30, 2010 Fair Value	December 31, 2009 Balance Sheet Location	December 31, 2009 Fair Value
Interest rate swaps	Other liabilities	$ (4,943)	Other liabilities	$ (1,737)

The table below presents the effect of our interest rate derivatives on our Consolidated Statements of Operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Amount of loss recognized in AOCL (effective portion)	$ (1,530)	$ (2,771)	$ (5,844)	$ (2,494)
Amount of loss reclassified from AOCL into interest expense (effective portion)	(887)	(1,555)	(2,684)	(5,501)
Amount of loss recognized in interest expense (ineffective portion and amount excluded from effectiveness testing)		(39)		(267)

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

We have agreements with each of our interest rate derivative counterparties that contain provisions under which if we default or are capable of being declared in default on any of our indebtedness, we could also be declared in default on our derivative obligations. These agreements also incorporate the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparties. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of September 30, 2010, the fair value of interest rate derivatives in a liability position related to these agreements was $4.9 million, excluding the effects of accrued interest. As of September 30, 2010, we had not posted any collateral related to these agreements. We are not in default with any of these provisions. If we breached any of these provisions, we could be required to settle our obligations under the agreements at their termination value of $5.4 million.

10. Shareholders Equity

Common Shares

During the nine months ended September 30, 2010, holders of 620,598 common units in our Operating Partnership converted their units into common shares on the basis of one common share for each common unit.

See Note 12 for disclosure of common share activity pertaining to our share-based compensation plans.

We declared dividends per common share of $0.4125 in the three months ended September 30, 2010, $0.3925 in the three months ended September 30, 2009, $1.1975 in the nine months ended September 30, 2010 and $1.1375 in the nine months ended September 30, 2009.

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Accumulated Other Comprehensive Loss

The table below sets forth activity in the accumulated other comprehensive loss component of shareholders equity (in thousands):

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Beginning balance	$ (1,907)	$ (4,749)
Amount of loss recognized in AOCL (effective portion)	(5,844)	(2,494)
Amount of loss reclassified from AOCL to income (effective portion)	2,684	5,501
Adjustment to AOCL attributable to noncontrolling interest	206	(549)
Ending balance	$ (4,861)	$ (2,291)

The table below sets forth total comprehensive income and total comprehensive income attributable to COPT (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 8,926	$ 15,536	$ 28,752	$ 51,753
Amount of loss recognized in AOCL	(1,530)	(2,771)	(5,844)	(2,494)
Amount of loss reclassified from AOCL to income	887	1,555	2,684	5,501
Total comprehensive income	8,283	14,320	25,592	54,760
Net income attributable to noncontrolling interests	(94)	(1,081)	(1,516)	(4,512)
Other comprehensive loss (income) attributable to noncontrolling interests	47	102	245	(314)
Total comprehensive income attributable to COPT	$ 8,236	$ 13,341	$ 24,321	$ 49,934

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11. Information by Business Segment

As of September 30, 2010, we had nine primary office property segments (comprised of: the Baltimore/Washington Corridor; Greater Baltimore; Northern Virginia; Colorado Springs; Suburban Maryland; San Antonio; Washington, DC Capitol Riverfront; Greater Philadelphia; and St. Mary s and King George Counties) and a wholesale data center segment.

The table below reports segment financial information for our real estate operations (in thousands). Our segment entitled Other includes assets and operations not specifically associated with the other defined segments, including certain properties as well as corporate assets and investments in unconsolidated entities. We measure the performance of our segments through a measure we define as net operating income from real estate operations (NOI from real estate operations), which is derived by subtracting property expenses from revenues from real estate operations. We believe that NOI from real estate operations is an important supplemental measure of operating performance for a REIT s operating real estate because it provides a measure of the core operations that is unaffected by depreciation, amortization, financing and general and administrative expenses; this measure is particularly useful in our opinion in evaluating the performance of geographic segments, same-office property groupings and individual properties.

	Baltimore/ Washington Corridor	Greater Baltimore	Northern Virginia	Colorado Springs	Suburban Maryland	San Antonio	Washington, DC - Capitol Riverfront	Greater Philadelphia	St. Mary s & King George Counties	Wholesale Data Center	Other	Total
Three Months Ended September 30, 2010												
Revenues from real estate operations	$ 51,946	$ 18,288	$ 18,949	$ 6,176	$ 5,243	$ 5,609	$ 135	$ 1,793	$ 3,431	$ 162	$ 3,296	$ 115,028
Property operating expenses	18,945	7,828	7,195	2,380	2,618	2,697	50	232	1,152	251	956	44,304
NOI from real estate operations	$ 33,001	$ 10,460	$ 11,754	$ 3,796	$ 2,625	$ 2,912	$ 85	$ 1,561	$ 2,279	$ (89)	$ 2,340	$ 70,724
Additions to properties, net	$ 19,097	$ 14,578	$ 7,302	$ 1,028	$ 1,373	$ 5,701	$ 92,816	$ 2,187	$ 3,445	$ 111,510	$ 531	$ 259,568
Three Months Ended September 30, 2009												