CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
October 28, 2011
Table of Contents

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, 2011

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 17, 2011, 71,986,146 of the Company s Common Shares of Beneficial Interest, $0.01 par value, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

FORM 10-Q

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Properties, net:		
Operating properties, net	$ 2,772,303	$ 2,802,773
Properties under construction or development	696,914	642,682
Total properties, net	3,469,217	3,445,455
Assets held for sale, net	72,767	
Cash and cash equivalents	11,504	10,102
Restricted cash and marketable securities	39,232	22,582
Accounts receivable (net of allowance for doubtful accounts of $3,404 and $2,796, respectively)	20,991	18,938
Deferred rent receivable	87,148	79,160
Intangible assets on real estate acquisitions, net	97,954	113,735
Deferred leasing and financing costs, net	70,791	60,649
Prepaid expenses and other assets	95,788	93,896
Total assets	$ 3,965,392	$ 3,844,517
Liabilities and equity		
Liabilities:		
Debt, net	$ 2,420,073	$ 2,323,681
Accounts payable and accrued expenses	114,834	99,699
Rents received in advance and security deposits	28,241	31,603
Dividends and distributions payable	35,029	32,986
Deferred revenue associated with operating leases	15,621	14,802
Distributions received in excess of investment in unconsolidated real estate joint venture	5,953	5,545
Interest rate derivatives	30,629	4,226
Other liabilities	7,389	8,837
Total liabilities	2,657,769	2,521,379
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 shares issued and outstanding at September 30, 2011 and December 31, 2010)	81	81
Common Shares of beneficial interest ($0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 71,986,936 at September 30, 2011 and 66,931,582 at December 31, 2010)	720	669
Additional paid-in capital	1,663,850	1,511,844
Cumulative distributions in excess of net income	(416,342)	(281,794)
Accumulated other comprehensive loss	(28,618)	(4,163)

Total Corporate Office Properties Trust s shareholders equity		1,219,691		1,226,637
Noncontrolling interests in subsidiaries:				
Common units in the Operating Partnership		60,583		69,337
Preferred units in the Operating Partnership		8,800		8,800
Other consolidated entities		18,549		18,364
Noncontrolling interests in subsidiaries		87,932		96,501
Total equity		1,307,623		1,323,138
Total liabilities and equity	$	3,965,392	$	3,844,517

See accompanying notes to consolidated financial statements.

Table of Contents

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Revenues				
Rental revenue	$ 99,068	$ 90,264	$ 293,547	$ 266,334
Tenant recoveries and other real estate operations revenue	22,825	20,810	65,395	59,337
Construction contract and other service revenues	18,729	13,608	67,854	77,038
Total revenues	140,622	124,682	426,796	402,709
Expenses				
Property operating expenses	47,655	43,013	141,287	128,331
Depreciation and amortization associated with real estate operations	35,719	29,503	97,720	84,368
Construction contract and other service expenses	18,171	13,347	65,698	75,148
Impairment losses			57,824	
General and administrative expenses	6,154	6,079	19,251	17,905
Business development expenses	1,050	2,886	2,126	3,506
Total operating expenses	108,749	94,828	383,906	309,258
Operating income	31,873	29,854	42,890	93,451
Interest expense	(25,381)	(26,174)	(78,412)	(74,042)
Interest and other (loss) income	(242)	395	3,682	1,942
Loss on early extinguishment of debt	(1,655)		(1,680)	
Income (loss) from continuing operations before equity in (loss) income of unconsolidated entities and income taxes	4,595	4,075	(33,520)	21,351
Equity in (loss) income of unconsolidated entities	(159)	648	(223)	371
Income tax benefit (expense)	457	(27)	6,043	(75)
Income (loss) from continuing operations	4,893	4,696	(27,700)	21,647
Discontinued operations	2,577	1,753	(12,120)	4,276
Income (loss) before gain on sales of real estate	7,470	6,449	(39,820)	25,923
Gain on sales of real estate, net of income taxes		2,477	2,717	2,829
Net income (loss)	7,470	8,926	(37,103)	28,752
Net (income) loss attributable to noncontrolling interests:				
Common units in the Operating Partnership	(178)	(363)	3,188	(1,254)
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	(561)	434	(1,038)	233
Net income (loss) attributable to Corporate Office Properties Trust	6,566	8,832	(35,448)	27,236
Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,076)
Net income (loss) attributable to Corporate Office Properties Trust common shareholders	$ 2,541	$ 4,807	$ (47,524)	$ 15,160
Net income (loss) attributable to Corporate Office Properties Trust:				
Income (loss) from continuing operations	$ 4,138	$ 7,206	$ (24,106)	$ 23,284

Discontinued operations, net		2,428		1,626		(11,342)		3,952
Net income (loss) attributable to Corporate Office Properties Trust	$	6,566	$	8,832	$	(35,448)	$	27,236
Basic earnings per common share (1)								
Income (loss) from continuing operations	$		$	0.05	$	(0.54)	$	0.18
Discontinued operations		0.03		0.03		(0.16)		0.07
Net income (loss) attributable to COPT common shareholders	$	0.03	$	0.08	$	(0.70)	$	0.25
Diluted earnings per common share (1)								
Income (loss) from continuing operations	$		$	0.05	$	(0.54)	$	0.17
Discontinued operations		0.03		0.03		(0.16)		0.07
Net income (loss) attributable to COPT common shareholders	$	0.03	$	0.08	$	(0.70)	$	0.24

(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.

Table of Contents

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Equity

(in thousands, except share data)

(unaudited)

	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income (Loss)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
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)
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT			(1,347)			1,347	
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 noncontrolling 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
Balance at December 31, 2010 (66,931,582 common shares outstanding)	$ 81	$ 669	$ 1,511,844	$ (281,794)	$ (4,163)	$ 96,501	$ 1,323,138
Conversion of common units to common shares (83,506 shares)		1	1,275			(1,276)	
Common shares issued to the public (4,600,000 shares)		46	145,315				145,361

Exercise of share options (185,714 shares)		2	2,393				2,395
Share-based compensation		2	9,536				9,538
Restricted common share redemptions (112,683 shares)			(3,948)				(3,948)
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT			(2,542)			2,542	
Adjustments related to derivatives designated as cash flow hedges					(24,455)	(2,562)	(27,017)
Net loss				(35,448)		(1,655)	(37,103)
Dividends				(99,100)			(99,100)
Distributions to owners of common and preferred units in the Operating Partnership						(5,894)	(5,894)
Contributions from noncontrolling interests in other consolidated entities			(23)			284	261
Distributions to noncontrolling interests in other consolidated entities						(8)	(8)
Balance at September 30, 2011 (71,986,936 common shares outstanding)	$ 81	$ 720	$ 1,663,850	$ (416,342)	$ (28,618)	$ 87,932	$ 1,307,623

See accompanying notes to consolidated financial statements.

Table of Contents

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Revenues from real estate operations received	$ 350,593	$ 324,445
Construction contract and other service revenues received	73,382	92,817
Property operating expenses paid	(143,481)	(138,379)
Construction contract and other service expenses paid	(73,009)	(107,016)
General and administrative and business development expenses paid	(15,921)	(13,726)
Interest expense paid	(69,237)	(63,298)
Previously accreted interest expense paid	(17,314)	
Interest and other income received	377	709
Payments in connection with early extinguishment of debt	(350)	
Income taxes paid	(174)	
Net cash provided by operating activities	104,866	95,552
Cash flows from investing activities		
Purchases of and additions to properties		
Construction, development and redevelopment	(169,873)	(240,092)
Acquisitions of operating properties	(32,806)	(103,277)
Tenant improvements on operating properties	(27,421)	(11,259)
Other capital improvements on operating properties	(11,575)	(5,870)
Proceeds from sales of properties	27,312	27,580
Proceeds from sale of equity method investment	5,773	
Mortgage and other loan receivables funded or acquired	(20,401)	(1,729)
Mortgage and other loan receivables payments received	5,203	
Leasing costs paid	(10,357)	(7,717)
Investment in unconsolidated entities	(250)	(4,500)
Other	(3,330)	(2,241)
Net cash used in investing activities	(237,725)	(349,105)
Cash flows from financing activities		
Proceeds from debt, including issuance of exchangeable senior notes	1,548,619	825,475
Repayments of debt		
Scheduled principal amortization	(10,647)	(10,389)
Other repayments	(1,432,050)	(459,614)
Deferred financing costs paid	(12,771)	(7,086)
Net proceeds from issuance of common shares	147,781	4,378
Acquisition of noncontrolling interests in consolidated entities		(4,462)
Dividends paid	(97,047)	(81,376)
Distributions paid	(5,937)	(6,100)
Restricted share redemptions	(3,948)	(3,862)
Other	261	60
Net cash provided by financing activities	134,261	257,024
Net increase in cash and cash equivalents	1,402	3,471
Cash and cash equivalents		

Beginning of period		10,102		8,262
End of period	$	11,504	$	11,733

See accompanying notes to consolidated financial statements.

Table of Contents

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,			
		2011		**2010**
Reconciliation of net (loss) income to net cash provided by operating activities:				
Net (loss) income	$	(37,103)	$	28,752
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and other amortization		102,963		89,830
Impairment losses		72,347		
Settlement of previously accreted interest expense		(17,314)		
Amortization of deferred financing costs		5,090		4,175
Increase in deferred rent receivable		(7,587)		(3,295)
Amortization of net debt discounts		4,778		4,360
Gain on sales of real estate		(4,166)		(3,921)
Gain on equity method investment		(2,452)		
Share-based compensation		8,156		8,726
Loss on early extinguishment of debt		1,670		
Other		18		(2,194)
Changes in operating assets and liabilities:				
Increase in accounts receivable		(1,311)		(1,648)
(Increase) decrease in restricted cash and marketable securities and prepaid expenses and other assets		(5,162)		8,165
Decrease in accounts payable, accrued expenses and other liabilities		(11,699)		(31,696)
Decrease in rents received in advance and security deposits		(3,362)		(5,702)
Net cash provided by operating activities		104,866		95,552
Supplemental schedule of non-cash investing and financing activities:				
Increase in accrued capital improvements, leasing and other investing activity costs	$	25,314	$	4,308
Increase in property, debt and other liabilities in connection with acquisitions	$	3,040	$	74,244
Increase in property and noncontrolling interests in connection with property contribution by a noncontrolling interest in a joint venture	$		$	9,000
Decrease in fair value of derivatives applied to AOCL and noncontrolling interests	$	27,064	$	3,206
Dividends/distribution payable	$	35,029	$	29,899
Decrease in noncontrolling interests and increase in shareholders equity in connection with the conversion of common units into common shares	$	1,276	$	8,970
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT	$	2,542	$	1,347

See accompanying notes to consolidated financial statements.

Table of Contents

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 and defense information technology sectors and data centers serving such 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 strong markets that we believe possess growth opportunities. As of September 30, 2011, our investments in real estate included the following:

- 246 wholly owned operating office properties totaling 20.2 million square feet;
- 16 wholly owned office properties under construction, development or redevelopment that we estimate will total approximately 2.1 million square feet upon completion, including three partially operational properties included above;
- wholly owned land parcels totaling 1,520 acres that we believe are potentially developable into approximately 13.1 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 construction or 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, 2011 follows:

Common Units	94%
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 5% of the Operating Partnership s common units (common units) as of September 30, 2011.

In addition to owning 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.

Table of Contents

We use the equity method of accounting when we own an interest in an entity and can exert significant influence over the entity s 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, 2010 included in our 2010 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 2010 Annual Report on Form 10-K.

Reclassifications

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance to amend measurement and disclosure requirements related to fair value measurements to improve consistency with International Financial Reporting Standards. This guidance will be effective prospectively for interim and annual periods beginning after December 15, 2011. We are in the process of evaluating this guidance and currently do not believe that it will have a material effect on our consolidated financial statements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income that will require us to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In September 2011, the FASB issued guidance on the testing of goodwill for impairment that will permit us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance eliminates the requirement to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The guidance will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are in the process of evaluating this guidance and currently do not believe that it will have a material effect on our consolidated financial statements.

3. Fair Value Measurements

For a description on how we estimate fair value, see Note 3 to the consolidated financial statements in our 2010 Annual Report on 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, 2011 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Table of Contents

Description		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
Assets:								
Marketable securities in deferred compensation plan (1)								
Mutual funds	$	5,393	$		$		$	5,393
Common stocks		845						845
Preferred stocks		314						314
Cash and cash equivalents		271						271
Other		200						200
Common stock (1)		18,450						18,450
Warrants to purchase common shares in KEYW (2)				121				121
Assets	$	25,473	$	121	$		$	25,594
Liabilities:								
Deferred compensation plan liability (3)	$	7,023	$		$		$	7,023
Interest rate derivatives				30,629				30,629
Liabilities	$	7,023	$	30,629	$		$	37,652

(1) Included in the line entitled restricted cash and marketable securities on our consolidated balance sheet.

(2) Included in the line entitled prepaid expenses and other assets on our consolidated balance sheet. We own warrants to purchase common shares in The KEYW Holding Corporation (KEYW).

(3) 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, please refer to Note 7 for mortgage loans receivable, Note 8 for debt and Note 9 for interest rate derivatives.

4. Properties, net

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

		September 30, 2011		December 31, 2010
Land	$	486,538	$	501,210
Buildings and improvements		2,839,071		2,804,595
Less: accumulated depreciation		(553,306)		(503,032)

Operating properties, net	$	2,772,303	$	2,802,773

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

		September 30, 2011		December 31, 2010
Land	$	248,945	$	256,487
Construction in progress, excluding land		447,969		386,195
Properties under construction or development	$	696,914	$	642,682

Table of Contents

Strategic Reallocation Plan and Impairment Losses

In April 2011, we completed a review of our portfolio and identified a number of properties that are no longer closely aligned with our strategy, and our Board of Trustees approved a plan by management to dispose of some of these properties during the next three years (the Strategic Reallocation Plan). We subsequently identified additional properties with an increased likelihood of a shortened holding period. While we expect to recognize gains on the dispositions of some of these properties, we also determined that the carrying amounts of certain of these properties (the Impaired Properties) will not likely be recovered from the cash flows from the operations and sales of such properties over the shorter holding periods. Accordingly, during the second quarter of 2011, we recognized aggregate non-cash impairment losses of $44.6 million (including $14.5 million classified as discontinued operations and excluding $4.6 million in related income tax benefit) for the amounts by which the carrying values of the Impaired Properties exceeded their respective estimated fair values.

The properties to be disposed of pursuant to the Strategic Reallocation Plan consist primarily of office properties in certain submarkets in the Greater Baltimore, Suburban Maryland and St. Mary s County regions that no longer fit our strategic focus. We expect that net proceeds from the execution of the Strategic Reallocation Plan after the repayment of debt secured by the properties will approximate $200 million. We expect to invest the proceeds in properties that will serve customers in the United States Government, defense information technology and related data sectors. We completed the sale of the following properties under the Strategic Reallocation Plan during the nine months ended September 30, 2011 (dollars in thousands):

Project Name	Location	Date of Sale	Number of Buildings	Total Rentable Square Feet	Sale Price	Gain on Sale
1344 & 1348 Ashton Road and 1350 Dorsey Road	Hanover, Maryland	5/24/2011	3	39,000	$ 3,800	$ 150
216 Schilling Circle	Hunt Valley, Maryland	8/23/2011	1	36,000	4,700	175
Towson Portfolio	Towson, Maryland	9/29/2011	4	179,000	16,000	1,124
			8	254,000	$ 24,500	$ 1,449

On February 15 and 17, 2011, the United States Army (the Army) provided us disclosures regarding the past testing and use of tactical defoliants/herbicides at our property in Cascade, Maryland that was formerly an Army base known as Fort Ritchie (Fort Ritchie). Upon receipt of these disclosures, we commenced a review of our development plans and prospects for the property. We believe that these disclosures by the Army are likely to cause further delays in the resolution of certain existing litigation related to the property, and that they also increase the level of uncertainty as to our ultimate development rights at the property and future residential and commercial demand for the property. We analyzed various possible outcomes and resulting cash flows expected from the operations and ultimate disposition of the property. After determining that the carrying amount of the property will not likely be recovered from those cash flows, we recognized a non-cash impairment loss of $27.7 million in March 2011 for the amount by which the carrying value of the property exceeded its estimated fair value.

2011 Acquisition

On August 9, 2011, we acquired 310 The Bridge Street, a 138,000 square foot office property in Huntsville, Alabama that was 100% leased, for $33.4 million. The table below sets forth the allocation of the acquisition costs of this property (in thousands):

Land, operating properties	$	251
Building and improvements		26,824
Intangible assets on real estate acquisitions		6,338
Total assets	$	33,413

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

Table of Contents

			Weighted Average Amortization Period (in Years)
Tenant relationship value	$	3,072	8
In-place lease value		2,800	3
Above-market leases		466	3
	$	6,338	6

We expensed $152,000 in the nine months ended September 30, 2011 in connection with acquisitions of operating properties that are included in business development expenses on our consolidated statements of operations.

2011 Construction and Redevelopment Activities

During the nine months ended September 30, 2011, we had two newly constructed office properties totaling 228,000 square feet, including one in the Baltimore/Washington Corridor and one in Greater Baltimore, become fully operational (79,000 of these square feet were placed into service in 2010) and placed into service 61,000 square feet in one partially operational office property in the Baltimore/Washington Corridor.

As of September 30, 2011, we had construction underway on ten office properties totaling 1.2 million square feet, including four in the Baltimore/Washington Corridor, two in Greater Baltimore, one in San Antonio, one in Northern Virginia, one in Huntsville, Alabama and one in St. Mary s County. We also had redevelopment underway on two office properties totaling 297,000 square feet, including one in Northern Virginia and one in Greater Philadelphia.

5. Real Estate Joint Ventures

During the nine months ended September 30, 2011, 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 (dollars in thousands):

Investment Balance at (1)							
September 30, 2011		December 31, 2010		Date Acquired	Ownership	Nature of Activity	Maximum Exposure to Loss (2)
$	(5,953)	$	(5,545)	9/29/2005	20%	Operates 16 buildings	$

(1) 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, 2011 and December 31, 2010 due to our deferral of gain on the contribution by us 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.

(2)

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).

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

	September 30, 2011	December 31, 2010
Properties, net	$ 60,332	$ 61,521
Other assets	3,645	4,174
Total assets	$ 63,977	$ 65,695
Liabilities (primarily debt)	$ 67,780	$ 67,454
Owners equity	(3,803)	(1,759)
Total liabilities and owners equity	$ 63,977	$ 65,695

Table of Contents

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,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 1,905	$ 2,094	$ 5,719	$ 6,283
Property operating expenses	(904)	(902)	(2,869)	(2,728)
Interest expense	(984)	(899)	(2,983)	(2,846)
Depreciation and amortization expense	(578)	(826)	(1,753)	(2,561)
Net loss	$ (561)	$ (533)	$ (1,886)	$ (1,852)

The table below sets forth information pertaining to our investments in consolidated real estate joint ventures at September 30, 2011 (dollars in thousands):

	Date Acquired	Ownership % at 9/30/2011	Nature of Activity	September 30, 2011 (1) Total Assets	Pledged Assets	Total Liabilities
M Square Associates, LLC	6/26/2007	50%	Operating two buildings and developing others (2)	$ 60,190	$ 48,435	$ 44,735
LW Redstone Company, LLC	3/23/2010	85%	Developing business park (3)	38,854		2,453
Arundel Preserve #5, LLC	7/2/2007	50%	Operating one building (4)	29,552	28,590	16,908
COPT-FD Indian Head, LLC	10/23/2006	75%	Developing land parcel (5)	6,524		
MOR Forbes 2 LLC	12/24/2002	50%	Operating one building (6)	3,988		44
				$ 139,108	$ 77,025	$ 64,140

(1) Excludes amounts eliminated in consolidation.

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

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

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

(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).

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 (in thousands):

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease value	$ 156,477	$ 97,818	$ 58,659	$ 162,708	$ 92,380	$ 70,328
Tenant relationship value	48,556	22,569	25,987	50,320	21,603	28,717
Above-market cost arrangements	12,415	2,489	9,926	12,415	1,387	11,028
Above-market leases	10,909	8,555	2,354	10,802	8,193	2,609
Market concentration premium	1,333	305	1,028	1,333	280	1,053
	$ 229,690	$ 131,736	$ 97,954	$ 237,578	$ 123,843	$ 113,735

Amortization of the intangible asset categories set forth above totaled $20.7 million in the nine months ended September 30, 2011 and $18.8 million in the nine months ended September 30, 2010. 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 cost arrangements: 26 years; above-market leases: five years; and market concentration premium: 31 years. The approximate weighted average amortization period for all of the categories combined is ten years. Estimated amortization expense associated with the intangible asset categories set forth above for the next five years is: $5.7 million for the three months ending December 31, 2011; $18.5 million for 2012; $14.3 million for 2013; $12.0 million for 2014; $10.0 million for 2015; and $8.6 million for 2016.

Table of Contents

7. Prepaid Expenses and Other Assets

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

	September 30, 2011	December 31, 2010
Mortgage and other investing receivables	$ 35,830	$ 18,870
Prepaid expenses	24,769	19,995
Furniture, fixtures and equipment, net	10,181	11,504
Construction contract costs incurred in excess of billings	6,579	9,372
Deferred tax asset	5,676	276
Investment in KEYW	121	22,779
Other assets	12,632	11,100
Prepaid expenses and other assets	$ 95,788	$ 93,896

Investment in The KEYW Holding Corporation

Our investment in KEYW consists of common stock and warrants to purchase additional shares of common stock of KEYW. We owned 2.6 million shares, or approximately 10%, of KEYW s common stock at September 30, 2011 and 3.1 million shares, or approximately 12%, at December 31, 2010. The carrying value of our equity method investment in these common shares was $22.3 million at December 31, 2010, which was included in prepaid expenses and other assets on our consolidated balance sheet as of such date. In March 2011, we entered into a sales plan that complies with the requirements of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, to sell up to 1.6 million shares of our KEYW common stock in 2011; we completed the sale of 500,000 shares under this plan in the three months ended June 30, 2011, resulting in $2.1 million in gain recognized. We subsequently suspended this plan effective June 30, 2011. We used the equity method of accounting for our investment in the common stock until the resignation of our Chief Executive Officer from the Board of Directors of KEYW effective July 1, 2011, at which time we began accounting for our investment in KEYW s common stock as a trading marketable equity security to be reported at fair value, with unrealized gains and losses recognized through earnings. Our investment in these common shares had a fair value of $18.3 million at September 30, 2011 based on the closing price of KEYW s common stock on the NASDAQ Stock Market on that date and is included in the line entitled restricted cash and marketable securities on our consolidated balance sheet. We recognized an unrealized loss on our investment in KEYW s common stock of $883,000 during the three months ended September 30, 2011.

At September 30, 2011 and December 31, 2010, we owned warrants to purchase 50,000 additional shares of KEYW common stock at an exercise price of $9.25 per share. We account for these warrants as derivatives reported at fair value using the Black-Scholes option-pricing model. The estimated fair value of these warrants was $121,000, or $2.42 per warrant, at September 30, 2011 and $466,000, or $9.32 per warrant, at December 31, 2010.

Mortgage and Other Investing Receivables

Mortgage and other investing receivables consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Mortgage loans receivable	$ 21,065	$ 14,227
Notes receivable from City of Huntsville	14,765	4,643
	$ 35,830	$ 18,870

Our mortgage loans receivable reflected above consists of three loans secured by properties in the Baltimore/Washington Corridor and Greater Baltimore. Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture. We did not have an allowance for credit losses in connection with these receivables at September 30, 2011 or December 31, 2010. The fair value of our mortgage and other investing receivables totaled $36.0 million at September 30, 2011 and $18.8 million at December 31, 2010.

Table of Contents

Operating Notes Receivable

We had operating notes receivable due from tenants with terms exceeding one year totaling $628,000 at September 30, 2011 and $655,000 at December 31, 2010. We carried allowances for estimated losses for most of these balances.

8. Debt

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

	Maximum Availability at September 30, 2011	Carrying Value at September 30, 2011	Carrying Value at December 31, 2010	Stated Interest Rates at September 30, 2011	Scheduled Maturity Dates at September 30, 2011
Mortgage and Other Secured Loans:					
Fixed rate mortgage loans (1)	N/A	$ 1,055,540	$ 1,173,358	5.20% - 7.87% (2)	2012 - 2034 (3)
Revolving Construction Facility (4)	N/A		142,339	N/A	N/A
Variable rate secured loans	N/A	39,397	310,555	LIBOR + 2.25% (5)	2015
Other construction loan facilities	104,900	22,710	16,753	LIBOR + 2.75% (6)	2012 - 2013
Total mortgage and other secured loans		1,117,647	1,643,005		
Revolving Credit Facility (7)	$ 1,000,000	671,000	295,000	LIBOR + 1.75% to 2.50% (8)	September 1, 2014 (9)
Term Loan Facility (10)	500,000	400,000		LIBOR + 1.65% to 2.40% (11)	September 1, 2015 (9)
Unsecured notes payable	N/A	5,022	1,947	0% (12)	2015 - 2026
Exchangeable Senior Notes:					
4.25% Exchangeable Senior Notes	N/A	226,404	223,846	4.25%	April 2030 (13)
3.5% Exchangeable Senior Notes (14)	N/A		159,883	N/A	N/A
Total debt		$ 2,420,073	$ 2,323,681		

(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 net unamortized premiums totaling $2.6 million at September 30, 2011 and $3.2 million at December 31, 2010.

(2) The weighted average interest rate on these loans was 6.01% at September 30, 2011.

(3) A loan with a balance of $4.5 million at September 30, 2011 that matures in 2034 may be repaid in March 2014, subject to certain conditions.

(4) As described further below, this facility was extinguished on September 1, 2011.

(5) The interest rate on the loan outstanding at September 30, 2011 was 2.47%.

(6) The weighted average interest rate on these loans was 2.92% at September 30, 2011.

(7) As described further below, we entered into a credit agreement providing for a new unsecured revolving credit facility effective on September 1, 2011, after which our previously existing facility was extinguished.

(8) The weighted average interest rate on the Revolving Credit Facility was 2.2% at September 30, 2011.

(9) This loan may be extended for a one-year period at our option, subject to certain conditions.

(10) As described further below, this loan was entered into effective on September 1, 2011.

(11) The interest rate on this loan was 2.13% at September 30, 2011.

(12) These notes may carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling $1.9 million at September 30, 2011 and $1.1 million at December 31, 2010.

(13) As described further in our 2010 Annual Report on Form 10-K, these 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 at an exchange rate (subject to adjustment) of 20.8318 shares per one thousand dollar principal amount of the notes (exchange rate is as of September 30, 2011 and is equivalent to an exchange price of $48.00 per common share). The carrying value of these notes included a principal amount of $240.0 million and an unamortized discount totaling $13.6 million at September 30, 2011 and $16.2 million at December 31, 2010. The effective interest rate under the notes, including amortization of the issuance costs, was 6.05%. Because the closing price of our common shares at September 30, 2011 and December 31, 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):

Table of Contents

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Interest expense at stated interest rate	$ 2,550	$ 2,550	$ 7,650	$ 4,930
Interest expense associated with amortization of discount	866	815	2,558	1,618
Total	$ 3,416	$ 3,365	$ 10,208	$ 6,548

(14) On September 15, 2011, we repurchased these notes at 100% of the principal amount of $162.5 million after the holders of such notes surrendered them for repurchase pursuant to the terms of the notes and the related Indenture. As described further in our 2010 Annual Report on Form 10-K, these notes had an exchange settlement feature that provided that the notes were, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, were exchangeable into (at our option) cash, our common shares or a combination of cash and our common shares. The carrying value of these notes at December 31, 2010 included a principal amount of $162.5 million and an unamortized discount totaling $2.6 million. 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, 2011 and December 31, 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, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Interest expense at stated interest rate	$ 1,169	$ 1,421	$ 4,013	$ 4,265
Interest expense associated with amortization of discount	664	941	2,617	2,781