

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

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(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. ☒ Yes ☐ No

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

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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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.

Table of Contents**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,		For the Nine Months Ended September 30,	
	2010	2009	2010	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

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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.

Table of Contents**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	

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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.

Table of Contents**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		

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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%

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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.

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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):

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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):

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			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

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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,	
	2010	2009	2010	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	Total Assets	September 30, 2010 (1) 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.

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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):

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	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	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)

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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	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		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	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,		For the Nine Months Ended September 30,	
	2010	2009	2010	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.

Table of Contents**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	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

Table of Contents**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												
Revenues from real estate operations	\$ 48,984	\$ 14,493	\$ 18,897	\$ 6,261	\$ 4,736	\$ 3,269	\$	\$ 1,343	\$ 3,528	\$	\$ 3,332	\$ 104,843
Property operating expenses	17,802	5,844	7,378	1,814	2,064	1,231		561	877		1,012	38,583
NOI from real estate operations	\$ 31,182	\$ 8,649	\$ 11,519	\$ 4,447	\$ 2,672	\$ 2,038	\$	\$ 782	\$ 2,651	\$	\$ 2,320	\$ 66,260

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Additions to properties, net	\$	12,556	\$	5,394	\$	2,883	\$	2,179	\$	608	\$	11,535	\$	(140)	\$	1,054	\$	(1,758)	\$	34,311
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Nine Months Ended September 30, 2010

Revenues from real estate operations	\$	154,627	\$	52,980	\$	55,780	\$	18,662	\$	16,524	\$	13,775	\$	135	\$	4,505	\$	10,550	\$	162	\$	10,315	\$	338,015
Property operating expenses		57,953		24,149		21,214		6,928		7,518		6,426		50		1,795		3,300		251		3,160		132,744
NOI from real estate operations	\$	96,674	\$	28,831	\$	34,566	\$	11,734	\$	9,006	\$	7,349	\$	85	\$	2,710	\$	7,250	\$	(89)	\$	7,155	\$	205,271
Additions to properties, net	\$	67,313	\$	29,737	\$	44,896	\$	2,541	\$	3,454	\$	16,199	\$	92,816	\$	18,518	\$	3,988	\$	111,510	\$	14,318	\$	405,290
Segment assets at September 30, 2010		\$ 1,382,234		\$ 584,429		\$ 487,898		\$ 266,228		\$ 175,181		\$ 151,058		\$ 122,737		\$ 121,695		\$ 96,813		\$ 115,722		\$ 233,377		\$ 3,737,372

Nine Months Ended September 30, 2009

Revenues from real estate operations	\$	146,929	\$	42,010	\$	59,946	\$	16,935	\$	14,923	\$	9,761	\$		\$	6,356	\$	10,394	\$		\$	10,151	\$	317,405
Property operating expenses		53,868		18,496		22,609		4,863		6,154		3,028				625		2,566				2,569		114,778
NOI from real estate operations	\$	93,061	\$	23,514	\$	37,337	\$	12,072	\$	8,769	\$	6,733	\$		\$	5,731	\$	7,828	\$		\$	7,582	\$	202,627
Additions to properties, net	\$	46,057	\$	14,297	\$	5,251	\$	20,246	\$	18,256	\$	30,912	\$		\$	4,271	\$	1,579	\$		\$	8,452	\$	149,321
Segment assets at September 30, 2009		\$ 1,285,704		\$ 440,343		\$ 454,037		\$ 269,517		\$ 176,185		\$ 127,573				\$ 100,129		\$ 95,026				\$ 282,133		\$ 3,230,647

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The following table reconciles our segment revenues to total revenues as reported on our Consolidated Statements of Operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Segment revenues from real estate operations	\$ 115,028	\$ 104,843	\$ 338,015	\$ 317,405
Construction contract and other service revenues	13,608	95,321	77,038	273,534
Less: Revenues from discontinued operations (Note 14)	(478)	(711)	(1,980)	(2,158)
Total revenues	\$ 128,158	\$ 199,453	\$ 413,073	\$ 588,781

The following table reconciles our segment property operating expenses to property operating expenses as reported on our Consolidated Statements of Operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Segment property operating expenses	\$ 44,304	\$ 38,583	\$ 132,744	\$ 114,778
Less: Property operating expenses from discontinued operations (Note 14)	(44)	(60)	(344)	(191)
Total property operating expenses	\$ 44,260	\$ 38,523	\$ 132,400	\$ 114,587

As previously discussed, we 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. The primary manner in which we evaluate the operating performance of our service activities is through a measure we define as net operating income from service operations (NOI from service operations), which is based on the net of revenues and expenses from these activities. Construction contract and other service revenues and expenses consist primarily of subcontracted costs that are reimbursed to us by the customer along with a management fee. The operating margins from these activities are small relative to the revenue. We believe NOI from service operations is a useful measure in assessing both our level of activity and our profitability in conducting such operations. The table below sets forth the computation of our NOI from service operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Construction contract and other service revenues	\$ 13,608	\$ 95,321	\$ 77,038	\$ 273,534
Construction contract and other service expenses	(13,347)	(93,805)	(75,148)	(268,289)
NOI from service operations	\$ 261	\$ 1,516	\$ 1,890	\$ 5,245

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The following table reconciles our NOI from real estate operations for reportable segments and NOI from service operations to income from continuing operations as reported on our Consolidated Statements of Operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
NOI from real estate operations	\$ 70,724	\$ 66,260	\$ 205,271	\$ 202,627
NOI from service operations	261	1,516	1,890	5,245
Interest and other income	395	2,619	1,942	4,949
Equity in income (loss) of unconsolidated entities	648	(758)	371	(1,075)
Income tax expense	(27)	(47)	(75)	(169)
Other adjustments:				
Depreciation and other amortization associated with real estate operations	(30,745)	(26,498)	(87,889)	(81,268)
General and administrative expenses	(6,079)	(5,898)	(17,905)	(17,275)
Business development expenses	(2,886)	(458)	(3,506)	(1,550)
Interest expense on continuing operations	(26,537)	(20,931)	(74,987)	(58,914)
NOI from discontinued operations	(434)	(651)	(1,636)	(1,967)
Income from continuing operations	\$ 5,320	\$ 15,154	\$ 23,476	\$ 50,603

The accounting policies of the segments are the same as those used to prepare our consolidated financial statements, except that discontinued operations are not presented separately for segment purposes. We did not allocate interest expense, amortization of deferred financing costs and depreciation and amortization to our real estate segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate general and administrative expenses, business development expenses, interest and other income, equity in income (loss) of unconsolidated entities, income taxes and noncontrolling interests because these items represent general corporate items not attributable to segments.

12. Share-Based Compensation

On May 13, 2010, we adopted the Amended and Restated 2008 Omnibus Equity and Incentive Plan, under which we may issue equity-based awards to officers, employees, non-employee trustees and any other key persons of us and our subsidiaries, as defined in the plan. The plan provides for a maximum of 5,900,000 common shares of beneficial interest, of which 3,000,000 were added pursuant to the amendment and restatement, to be issued in the form of options to purchase common shares (options), share appreciation rights, deferred share awards, restricted share awards, unrestricted share awards, performance shares, dividend equivalent rights and other equity-based awards and for the granting of cash-based awards. The plan expires on May 13, 2020.

Restricted Shares

During the nine months ended September 30, 2010, certain employees and members of our Board of Trustees were granted a total of 287,081 restricted shares with a weighted average grant date fair value of \$37.78 per share. Shares granted to employees are subject to forfeiture restrictions that lapse in equal increments annually over periods of three to five years, beginning on or about the first anniversary of the grant date, provided that the employees remain employed by us. Shares granted to the Trustees vest on the first anniversary of the grant date provided that the Trustee remains in his position. During the nine months ended September 30, 2010, forfeiture restrictions lapsed on 271,112 common shares previously issued to employees; these shares had a weighted average grant date fair value of \$32.33 per share, and the total intrinsic value of the shares on the vesting dates was \$10.1 million.

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Performance Share Units (PSUs)

On March 4, 2010, our Board of Trustees granted 100,645 PSUs to executives. The PSUs have a performance period beginning on the grant date and concluding the earlier of three years from the grant date or the date of: (1) termination by the Company without cause, death or disability of the executive or constructive discharge of the executive (collectively, "qualified termination"); or (2) a sale event. The number of PSUs earned ("earned PSUs") at the end of the performance period will be determined based on the percentile rank of the Company's total shareholder return relative to a peer group of companies, as set forth in the following schedule:

Percentile Rank	Earned PSUs Payout %
75th or greater	200% of PSUs granted
50th or greater	100% of PSUs granted
25th	50% of PSUs granted
Below 25th	0% of PSUs granted

If the percentile rank exceeds the 25th percentile and is between two of the percentile ranks set forth in the table above, then the percentage of the earned PSUs will be interpolated between the ranges set forth in the table above to reflect any performance between the listed percentiles. At the end of the performance period, we, in settlement of the award, will issue a number of fully-vested common shares equal to the sum of:

- the number of earned PSUs in settlement of the award plan; plus
- the aggregate dividends that would have been paid with respect to the common shares issued in settlement of the earned PSUs through the date of settlement had such shares been issued on the grant date, divided by the share price on such settlement date, as defined under the terms of the agreement.

If a performance period ends due to a sale event or qualified termination, the number of earned PSUs is prorated based on the portion of the three-year performance period that has elapsed. If employment is terminated by the employee or by the Company for cause, all PSUs are forfeited. PSUs do not carry voting rights.

We computed a grant date fair value of \$53.31 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$37.84; expected volatility for our common shares of 62.2%; and risk-free interest rate of 1.38%. We are recognizing the grant date fair value in connection with these PSU awards over a three-year period that commenced on March 4, 2010.

Options

During the nine months ended September 30, 2010, 271,242 options were exercised. The weighted average exercise price of these options was \$16.21 per share, and the total intrinsic value of the options exercised was \$5.9 million.

Table of Contents**13. Income Taxes**

We own a taxable REIT subsidiary (TRS) that is subject to Federal and state income taxes. Our TRS provision for income tax consisted of the following (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Deferred				
Federal	\$ (39)	\$ 26	\$ (26)	\$ 126
State	(9)	4	(6)	26
	(48)	30	(32)	152
Current				
Federal	62	14	97	14
State	13	3	21	3
	75	17	118	17
Total income tax expense	\$ 27	\$ 47	\$ 86	\$ 169
Reported on line entitled income tax expense	\$ 27	\$ 47	\$ 75	\$ 169
Reported on line entitled gain on sale of real estate, net			11	
Total income tax expense	\$ 27	\$ 47	\$ 86	\$ 169

Items in our TRS contributing to temporary differences that lead to deferred taxes include depreciation and amortization, share-based compensation, certain accrued compensation, compensation paid in the form of contributions to a deferred nonqualified compensation plan and net operating losses that are not deductible until future periods.

Our TRS combined Federal and state effective tax rate was 35% for the three and nine months ended September 30, 2010 and 39% for the three and nine months ended September 30, 2009.

14. Discontinued Operations

Income from discontinued operations primarily includes revenues and expenses associated with the following:

- 11101 McCormick Road property in the Greater Baltimore region that was sold on February 1, 2010; and
- 431 and 437 Ridge Road properties in Central New Jersey (included in the Other region) that were sold on September 8, 2010.

Certain reclassifications have been made in prior periods to reflect discontinued operations consistent with the current presentation. The table below sets forth the components of discontinued operations reported on our Consolidated Statements of Operations (in thousands):

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue from real estate operations	\$ 478	\$ 711	\$ 1,980	\$ 2,158
Expenses from real estate operations:				
Property operating expenses	44	60	344	191
Depreciation and amortization		214	7	643
Interest expense	89	55	263	174
Expenses from real estate operations	133	329	614	1,008
Discontinued operations before gain on sales of real estate	345	382	1,366	1,150
Gain on sales of real estate	784		1,081	
Discontinued operations	\$ 1,129	\$ 382	\$ 2,447	\$ 1,150

15. Earnings Per Share (EPS)

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

- the denominator is increased to include: (1) the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into our common shares were converted; and (2) the effect of dilutive potential common shares outstanding during the period attributable to share-based compensation using the treasury stock or if-converted methods; and
- the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion into common shares that we added to the denominator.

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Summaries of the numerator and denominator for purposes of basic and diluted EPS calculations are set forth below (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Income from continuing operations	\$ 5,320	\$ 15,154	\$ 23,476	\$ 50,603
Add: Gain on sales of real estate, net	2,477		2,829	
Less: Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,076)
Less: Income from continuing operations attributable to noncontrolling interests	(12)	(1,048)	(1,330)	(4,396)
Less: Income from continuing operations attributable to restricted shares	(267)	(253)	(807)	(763)
Numerator for basic and diluted EPS from continuing operations attributable to COPT common shareholders	3,493	9,828	12,092	33,368
Add: Discontinued operations, net	1,129	382	2,447	1,150
Less: Discontinued operations, net attributable to noncontrolling interests	(82)	(33)	(186)	(116)
Numerator for basic and diluted EPS on net income attributable to COPT common shareholders	\$ 4,540	\$ 10,177	\$ 14,353	\$ 34,402
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	58,656	57,470	58,333	55,366
Dilutive effect of share-based compensation awards	296	485	367	506
Denominator for diluted EPS	58,952	57,955	58,700	55,872
Basic EPS:				
Income from continuing operations attributable to COPT common shareholders	\$ 0.06	\$ 0.17	\$ 0.21	\$ 0.60
Discontinued operations attributable to COPT common shareholders	0.02	0.01	0.04	0.02
Net income attributable to COPT common shareholders	\$ 0.08	\$ 0.18	\$ 0.25	\$ 0.62
Diluted EPS:				
Income from continuing operations attributable to COPT common shareholders	\$ 0.06	\$ 0.17	\$ 0.20	\$ 0.60
Discontinued operations attributable to COPT common shareholders	0.02	0.01	0.04	0.02
Net income attributable to COPT common shareholders	\$ 0.08	\$ 0.18	\$ 0.24	\$ 0.62

Our diluted EPS computations do not include the effects of the following securities since the conversions of such securities would increase diluted EPS for the respective periods (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Conversion of common units	4,453	5,084	4,674	5,932

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Conversion of convertible preferred units	176	176	176	176
Conversion of convertible preferred shares	434	434	434	434

The following share-based compensation securities were excluded from the computation of diluted EPS because their effect was antidilutive:

- weighted average restricted shares for the three months ended September 30, 2010 and 2009 of 667,000 and 681,000, respectively and for the nine months ended September 30, 2010 and 2009 of 664,000 and 658,000, respectively; and

- weighted average options to purchase common shares for the three months ended September 30, 2010 and 2009 of 650,000 and 714,000, respectively, and for the nine months ended September 30, 2010 and 2009 of 616,000 and 813,000, respectively.

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In addition, as discussed in Note 8, we have outstanding senior notes that have an exchange settlement feature but did not affect our diluted EPS reported above since the weighted average closing price of our common shares during each of the periods was less than the exchange prices per common share applicable for such periods.

16. Commitments and Contingencies

In the normal course of business, we are involved in legal actions arising from our ownership and administration of properties. We establish reserves for specific legal proceedings when we determine that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Management does not anticipate that any liabilities that may result from such proceedings will have a materially adverse effect on our financial position, operations or liquidity. Our assessment of the potential outcomes of these matters involves significant judgment and is subject to change based on future developments.

We are subject to various Federal, state and local environmental regulations related to our property ownership and operation. We have performed environmental assessments of our properties, the results of which have not revealed any environmental liability that we believe would have a materially adverse effect on our financial position, operations or liquidity.

Joint Ventures

In connection with our 2005 contribution of properties to an unconsolidated partnership in which we hold a limited partnership interest, we entered into standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation, including springing guarantees of partnership debt in the event of a voluntary bankruptcy of the partnership). The maximum amount we could be required to pay under the guarantees is approximately \$66 million. We are entitled to recover 20% of any amounts paid under the guarantees from an affiliate of the general partner pursuant to an indemnity agreement so long as we continue to manage the properties. In the event that we no longer manage the properties, the percentage that we are entitled to recover is increased to 80%. Management estimates that the aggregate fair value of the guarantees is not material and would not exceed the amounts included in distributions received in excess of investment in unconsolidated real estate joint venture reported on the consolidated balance sheets.

We are party to a contribution agreement that formed a joint venture relationship with a limited partnership to develop up to 1.8 million square feet of office space on 63 acres of land located in Hanover, Maryland. As we and the joint venture partner agree to proceed with the construction of buildings in the future, our joint venture partner would contribute land into newly-formed entities and we would make cash capital contributions into such entities to fund development and construction activities for which financing is not obtained. We owned a 50% interest in one such joint venture as of September 30, 2010.

We may be required to make our pro rata share of additional investments in our real estate joint ventures (generally based on our percentage ownership) in the event that additional funds are needed. In the event that the other members of these joint ventures do not pay their share of investments when additional funds are needed, we may then deem it appropriate to make even larger investments in these joint ventures.

Tax Incremental Financing Obligation

In August 2010, Anne Arundel County, Maryland issued \$30 million in tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as National Business Park North. The real estate taxes on increases in assessed value of a development district encompassing National Business Park North are to be transferred to a special fund pledged to the repayment of the bonds. We recognized a \$3.5 million liability through September 30, 2010

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representing the estimated fair value of our obligation to fund through a special tax any future shortfalls between debt service on the bonds and real estate taxes available to repay the bonds.

Environmental Indemnity Agreement

We agreed to provide certain environmental indemnifications in connection with a lease of three New Jersey properties. The prior owner of the properties, a Fortune 100 company that is responsible for groundwater contamination at such properties, previously agreed to indemnify us for (1) direct losses incurred in connection with the contamination and (2) its failure to perform remediation activities required by the State of New Jersey, up to the point that the state declares the remediation to be complete. Under the lease agreement, we agreed to the following:

- to indemnify the tenant against losses covered under the prior owner's indemnity agreement if the prior owner fails to indemnify the tenant for such losses. This indemnification is limited to \$5.0 million in perpetuity after the State of New Jersey declares the remediation to be complete;
- to indemnify the tenant for consequential damages (e.g., business interruption) at one of the buildings in perpetuity and another of the buildings for 15 years after the tenant's acquisition of the property from us. This indemnification is limited to \$12.5 million; and
- to pay 50% of additional costs related to construction and environmental regulatory activities incurred by the tenant as a result of the indemnified environmental condition of the properties. This indemnification is limited to \$300,000 annually and \$1.5 million in the aggregate.

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

Overview

We are a specialty office 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.

During the nine months ended September 30, 2010, we:

- had a decrease in net income attributable to common shareholders of \$19.3 million, or 54.9%, from the nine months ended September 30, 2009;
- had a decrease of \$9.1 million, or 4.7%, from the nine months ended September 30, 2009 in our NOI from continuing real estate operations (defined below) attributable to properties that were owned and 100% operational throughout the two periods (properties that we refer to collectively as Same-Office Properties);
- finished the period with occupancy of our wholly owned portfolio of office properties at 87.4%;
- acquired three office properties totaling 514,000 square feet for \$162.1 million;
- acquired a partially operational 233,000 square foot wholesale data center for \$115.5 million that 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;

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- placed into service an aggregate of 751,000 square feet in newly constructed space in seven office properties;
- completed the formation of LW Redstone Company, LLC, a joint venture created to develop Redstone Gateway, a 468-acre land parcel adjacent to Redstone Arsenal in Huntsville, Alabama;
- issued a \$240.0 million aggregate principal amount of 4.25% Exchangeable Senior Notes due 2030 and redeemable by us on or after April 20, 2015; and
- increased the borrowing capacity under our Revolving Credit Facility by \$100.0 million, from \$600.0 million to \$700.0 million.

In this section, we discuss our financial condition and results of operations as of and for the three and nine months ended September 30, 2010. This section includes discussions on, among other things:

- our results of operations and why various components of our Consolidated Statements of Operations changed for the three and nine months ended September 30, 2010 compared to the same periods in 2009;
- our cash flows;
- how we expect to generate cash for short and long-term capital needs;
- our commitments and contingencies at September 30, 2010; and

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- the computation of our funds from operations.

You should refer to our Consolidated Financial Statements as you read this section.

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

- our ability to borrow on favorable terms;
- general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development and operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or our views of market economic conditions that could result in recognition of impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- governmental actions and initiatives; and
- environmental requirements.

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

Table of Contents**Occupancy and Leasing**

The table below sets forth leasing information pertaining to our portfolio of wholly owned operating office properties:

	September 30, 2010	December 31, 2009
Occupancy rates		
Total	87.4%	90.8%
Baltimore/Washington Corridor	89.1%	91.6%
Northern Virginia	91.9%	96.6%
Greater Baltimore	80.4%	80.3%
Colorado Springs	76.7%	85.8%
Suburban Maryland	72.5%	91.9%
St. Mary's and King George Counties	89.2%	97.8%
Greater Philadelphia	100.0%	100.0%
San Antonio	100.0%	100.0%
Washington, DC - Capitol Riverfront	99.6%	N/A
Other	100.0%	100.0%
Average contractual annual rental rate per square foot at period end (1)	\$ 25.48	\$ 24.63

(1) Includes estimated expense reimbursements.

The decrease in occupancy rates for our properties in Northern Virginia since December 31, 2009 was due primarily to 119,000 square feet vacated upon the expiration of one tenant's leases in two properties. The decrease in occupancy rates for our properties in Colorado Springs since December 31, 2009 was due primarily to 127,000 newly constructed square feet placed into service during the nine months ended September 30, 2010 that were unoccupied. The decrease in occupancy rates for our properties in the Suburban Maryland region since December 31, 2009 was due primarily to 149,000 square feet vacated upon the expiration of two large leases. As discussed in greater detail in our 2009 Annual Report on Form 10-K, we expect that the leasing environment will continue to be under stress from the lagging effects of the global downturn in the economy throughout 2010 and beyond. We believe that our continuing exposure to the challenging leasing environment is cushioned to a certain extent by the generally long-term nature of our leases and the staggered timing of our future lease expirations.

The table below sets forth occupancy information pertaining to operating office properties in which we have a partial ownership interest:

Geographic Region	Ownership Interest	Occupancy Rates at	
		September 30, 2010	December 31, 2009
Greater Harrisburg, Pennsylvania (1)	20.0%	73.8%	79.0%
Suburban Maryland (2)	50.0%	88.3%	84.1%
Baltimore/Washington Corridor (3)	50.0%	6.0%	6.0%

(1) Includes 16 properties totaling 671,000 square feet.

- (2) Includes three properties totaling 298,000 square feet.
- (3) Includes one property with 144,000 square feet.

Results of Operations

One manner in which we evaluate the operating performance of our properties is through a measure we define as NOI from real estate operations, which is derived by subtracting property operating expenses from revenues from real estate operations. We believe that NOI from real estate operations is an important supplemental measure of 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

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geographic segments, same-office property groupings and individual properties. The amount of NOI from real estate operations included in income from continuing operations is referred to herein as NOI from continuing real estate operations. We view our NOI from continuing real estate as being comprised of the following primary categories:

- operating properties owned and 100% operational throughout the current and prior year reporting periods. We define these as changes from Same-Office Properties ;
- constructed properties placed into service that were not 100% operational throughout the current and prior year reporting periods; and
- operating properties acquired during the current and prior year reporting periods.

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

We believe that operating income, as reported on our Consolidated Statements of Operations, is the most directly comparable GAAP measure for both NOI from continuing real estate operations and NOI from service operations. Since both of these measures exclude certain items includable in operating income, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures.

The table below reconciles NOI from continuing real estate operations and NOI from service operations to operating income reported on our Consolidated Statement of Operations (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
NOI from continuing real estate operations	\$ 70,290	\$ 65,609	\$ 203,635	\$ 200,660
NOI from service operations	261	1,516	1,890	5,245
Depreciation and amortization associated with real estate operations	(30,745)	(26,498)	(87,889)	(81,268)
General and administrative expense	(6,079)	(5,898)	(17,905)	(17,275)
Business development expenses	(2,886)	(458)	(3,506)	(1,550)
Operating income	\$ 30,841	\$ 34,271	\$ 96,225	\$ 105,812

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Comparison of the Three Months Ended September 30, 2010 to the Three Months Ended September 30, 2009

	For the Three Months Ended September 30,			Variance
	2010	2009		
	(Dollars in thousands)			
Revenues				
Revenues from real estate operations	\$ 114,550	\$ 104,132	\$	10,418
Construction contract and other service revenues	13,608	95,321		(81,713)
Total revenues	128,158	199,453		(71,295)
Expenses				
Property operating expenses	44,260	38,523		5,737
Depreciation and amortization associated with real estate operations	30,745	26,498		4,247
Construction contract and other service expenses	13,347	93,805		(80,458)
General and administrative expense	6,079	5,898		181
Business development expenses	2,886	458		2,428
Total operating expenses	97,317	165,182		(67,865)
Operating income	30,841	34,271		(3,430)
Interest expense	(26,537)	(20,931)		(5,606)
Interest and other income	395	2,619		(2,224)
Equity in income (loss) of unconsolidated entities	648	(758)		1,406
Income tax expense	(27)	(47)		20
Income from continuing operations	5,320	15,154		(9,834)
Discontinued operations	1,129	382		747
Gain on sales of real estate, net of income taxes	2,477			2,477
Net income	8,926	15,536		(6,610)
Net income attributable to noncontrolling interests	(94)	(1,081)		987
Preferred share dividends	(4,025)	(4,025)		
Net income attributable to COPT common shareholders	\$ 4,807	\$ 10,430	\$	(5,623)

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NOI from Continuing Real Estate Operations

	For the Three Months Ended September 30,		
	2010	2009	Variance
	(Dollars in thousands)		
Revenues			
Same office properties	\$ 99,097	\$ 99,770	\$ (673)
Constructed properties placed in service	7,677	2,777	4,900
Acquired properties	7,569	395	7,174
Other	207	1,190	(983)
	114,550	104,132	10,418
Property operating expenses			
Same office properties	37,815	35,849	1,966
Constructed properties placed in service	2,661	908	1,753
Acquired properties	2,785	91	2,694
Other	999	1,675	(676)
	44,260	38,523	5,737
NOI from continuing real estate operations			
Same office properties	61,282	63,921	(2,639)
Constructed properties placed in service	5,016	1,869	3,147
Acquired properties	4,784	304	4,480
Other	(792)	(485)	(307)
	\$ 70,290	\$ 65,609	\$ 4,681

As the table above indicates, much of our change in NOI from continuing real estate operations was attributable to the additions of properties through construction and acquisition activities.

The decrease in NOI from continuing real estate operations attributable to Same-Office Properties was attributable primarily to changes in rental rates and occupancy between the two periods (average occupancy of same office properties was 88.1% in the current period versus 91.5% in the prior period).

NOI from Service Operations

	For the Three Months Ended September 30,		
	2010	2009	Variance
	(Dollars in thousands)		
Construction contract and other service revenues	\$ 13,608	\$ 95,321	\$ (81,713)
Construction contract and other service expenses	13,347	93,805	(80,458)
NOI from service operations	\$ 261	\$ 1,516	\$ (1,255)

NOI from service operations decreased due primarily to a lower volume of construction activity in connection with one large construction contract.

Interest expense

The increase in interest expense included the effect of a \$388.4 million increase in our average outstanding debt resulting from our financing of acquisition and construction activities. Also included was an increase in our weighted average interest rates of debt from 4.85% to 5.06% resulting primarily from our refinancing of variable rate debt with fixed rate debt at a higher rate.

Interest and other income

Interest and other income decreased due primarily to:

- interest income of \$1.2 million earned in the prior period in connection with a mortgage loan receivable that was outstanding from August 2008 until October 2009; and

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- a \$969,000 gain recognized in the three months ended September 30, 2009 on changes in the value of warrants to purchase additional shares of the common stock of The KEYW Holding Corporation (KEYW).

Under the equity method of accounting, additional issuances of equity by KEYW to parties other than us are accounted for as if we sold a proportionate share of our investment and, accordingly, result in our recognition of gain or loss. We expect to recognize a gain of approximately \$6 million in the fourth quarter of 2010 in connection with an initial public offering of common stock completed by KEYW in October 2010.

Gain on sales of real estate, net of income taxes

The increase in gain on sales of real estate was attributable to the sale of a land parcel in Central New Jersey during the current period.

Comparison of the Nine Months Ended September 30, 2010 to the Nine Months Ended September 30, 2009

	For the Nine Months Ended September 30,			Variance
	2010	2009	(Dollars in thousands)	
Revenues				
Revenues from real estate operations	\$ 336,035	\$ 315,247	\$ 20,788	
Construction contract and other service revenues	77,038	273,534	(196,496)	
Total revenues	413,073	588,781	(175,708)	
Expenses				
Property operating expenses	132,400	114,587	17,813	
Depreciation and amortization associated with real estate operations	87,889	81,268	6,621	
Construction contract and other service expenses	75,148	268,289	(193,141)	
General and administrative expense	17,905	17,275	630	
Business development expenses	3,506	1,550	1,956	
Total operating expenses	316,848	482,969	(166,121)	
Operating income	96,225	105,812	(9,587)	
Interest expense	(74,987)	(58,914)	(16,073)	
Interest and other income	1,942	4,949	(3,007)	
Equity in income (loss) of unconsolidated entities	371	(1,075)	1,446	
Income tax expense	(75)	(169)	94	
Income from continuing operations	23,476	50,603	(27,127)	
Discontinued operations	2,447	1,150	1,297	
Gain on sales of real estate, net of income taxes	2,829		2,829	
Net income	28,752	51,753	(23,001)	
Net income attributable to noncontrolling interests	(1,516)	(4,512)	2,996	
Preferred share dividends	(12,076)	(12,076)		
Net income attributable to COPT common shareholders	\$ 15,160	\$ 35,165	\$ (20,005)	

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NOI from Continuing Real Estate Operations

	For the Nine Months Ended September 30,			Variance
	2010	2009		
	(Dollars in thousands)			
Revenues				
Same office properties	\$ 299,532	\$ 303,454	\$	(3,922)
Constructed properties placed in service	16,617	5,107		11,510
Acquired properties	17,981	411		17,570
Other	1,905	6,275		(4,370)
	336,035	315,247		20,788
Property operating expenses				
Same office properties	114,162	109,000		5,162
Constructed properties placed in service	6,284	1,933		4,351
Acquired properties	7,057	91		6,966
Other	4,897	3,563		1,334
	132,400	114,587		17,813
NOI from continuing real estate operations				
Same office properties	185,370	194,454		(9,084)
Constructed properties placed in service	10,333	3,174		7,159
Acquired properties	10,924	320		10,604
Other	(2,992)	2,712		(5,704)
	\$ 203,635	\$ 200,660	\$	2,975

As the table above indicates, much of our change in NOI from continuing real estate operations was attributable to the additions of properties through construction and acquisition activities. In addition, the lines in the table entitled "Other" include the effects of vacancies in the three properties that we expect to redevelop, including approximately 300,000 square feet at two properties in Greater Philadelphia; we recognized a \$4.9 million decrease in NOI from continuing real estate operations attributable to these properties.

With regard to changes in NOI from continuing real estate operations attributable to Same-Office Properties:

- the decrease in revenues included the following:
 - a \$6.0 million decrease in rental revenue attributable primarily to changes in rental rates and occupancy between the two periods (average occupancy of same office properties was 89.1% in the current period versus 92.0% in the prior period); and
 - a \$3.0 million decrease in net revenue from the early termination of leases, most of which was due to the early termination of one lease at a property in Northern Virginia in the prior period; offset in part by
 - a \$5.0 million increase in tenant recoveries and other revenue due primarily to the increase in property operating expenses described below; and
- the increase in property operating expenses included the following:

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- a \$4.5 million increase in snow removal expenses due primarily to increased snow and ice in most of our regions; offset in part by
- a \$1.2 million decrease in bad debt expense.

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NOI from Service Operations

	For the Nine Months Ended September 30,			
	2010	2009		Variance
	(Dollars in thousands)			
Construction contract and other service revenues	\$ 77,038	\$ 273,534	\$	(196,496)
Construction contract and other service expenses	75,148	268,289		(193,141)
NOI from service operations	\$ 1,890	\$ 5,245	\$	(3,355)

NOI from service operations decreased due primarily to a lower volume of construction activity in connection with one large construction contract.

Interest expense

The increase in interest expense included the effect of a \$307.9 million increase in our average outstanding debt and an increase in our weighted average interest rates of debt from 4.79% to 5.05% for the reasons described above for the three month periods.

Interest and other income

Interest and other income decreased due primarily to the reasons described above for the three month periods.

Gain on sales of real estate, net of income taxes

The increase in gain on sales of real estate was attributable to the sale of a land parcel in Central New Jersey during the current period.

Funds From Operations

Funds from operations (FFO) is defined as net income computed using GAAP, excluding gains on sales of operating properties, plus real estate-related depreciation and amortization. Gains from sales of newly-developed properties less accumulated depreciation, if any, required under GAAP are included in FFO on the basis that development services are the primary revenue generating activity; we believe that inclusion of these development gains is in accordance with the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO, although others may interpret the definition differently and, accordingly, our presentation of FFO may differ from those of other REITs. We believe that FFO is useful to management and investors as a supplemental measure of operating performance because, by excluding gains related to sales of previously depreciated operating real estate properties and excluding real estate-related depreciation and amortization, FFO can help

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one compare our operating performance between periods. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs. We believe that net income is the most directly comparable GAAP measure to FFO.

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

Basic FFO available to common share and common unit holders (Basic FFO) is FFO adjusted to subtract (1) preferred share dividends, (2) income attributable to noncontrolling interests through ownership of preferred units in the Operating Partnership or interests in other consolidated entities not owned by us, (3) depreciation and amortization allocable to noncontrolling interests in other consolidated entities and

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(4) Basic FFO allocable to restricted shares. With these adjustments, Basic FFO represents FFO available to common shareholders and common unitholders. Common units in the Operating Partnership are substantially similar to our common shares and are exchangeable into common shares, subject to certain conditions. We believe that Basic FFO is useful to investors due to the close correlation of common units to common shares. We believe that net income is the most directly comparable GAAP measure to Basic FFO. Basic FFO has essentially the same limitations as FFO; management compensates for these limitations in essentially the same manner as described above for FFO.

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

Diluted FFO, excluding operating property acquisition costs is defined as Diluted FFO adjusted to exclude acquisition costs. We believe that operating property acquisition costs are not reflective of normal operations and, as a result, we believe that a measure that excludes this item is a useful supplemental measure in evaluating our operating performance. We believe that the numerator to diluted EPS is the most directly comparable GAAP measure to this non-GAAP measure. This measure has essentially the same limitations as Diluted FFO, as well as the further limitation of not reflecting operating property acquisition costs; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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

Diluted FFO per share, excluding operating property acquisition costs is (1) Diluted FFO, excluding operating property acquisition costs divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that this measure is useful to investors because it provides investors with a further context for evaluating our FFO results. We believe that diluted EPS is the most directly comparable GAAP measure to this per share measure. This measure has most of the same limitations as Diluted FFO (described above) as well as the further limitation of not reflecting the effect of operating property acquisition costs; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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The computations for all of the above measures on a diluted basis assume the conversion of common units in our Operating Partnership but do not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase per share measures in a given period. The table below sets forth the computation of the above stated measures for the three and nine months ended September 30, 2010 and 2009 and provides reconciliations to the GAAP measures associated with such measures (amounts in thousands, except per share data):

	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
Add: Real estate-related depreciation and amortization	30,745	26,712	87,896	81,911
Add: Depreciation and amortization on unconsolidated real estate entities	166	160	512	481
Less: Gain on sales of operating properties, net of income taxes	(784)		(1,081)	
FFO	39,053	42,408	116,079	134,145
Less: Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Less: Noncontrolling interests-other consolidated entities	434	40	233	15
Less: Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,076)
Less: Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(666)	(91)	(1,245)	(251)
Less: Basic and diluted FFO allocable to restricted shares	(353)	(395)	(1,078)	(1,298)
Basic and Diluted FFO	34,278	37,772	101,418	120,040
Add: Operating property acquisition costs	2,664		2,954	
Diluted FFO, excluding operating property acquisition costs	\$ 36,942	\$ 37,772	\$ 104,372	\$ 120,040
Weighted average common shares	58,656	57,470	58,333	55,366
Conversion of weighted average common units	4,453	5,084	4,674	5,932
Weighted average common shares/units - Basic FFO	63,109	62,554	63,007	61,298
Dilutive effect of share-based compensation awards	296	485	367	506
Weighted average common shares/units - Diluted FFO	63,405	63,039	63,374	61,804
Diluted FFO per share	\$ 0.54	\$ 0.60	\$ 1.60	\$ 1.94
Diluted FFO per share, excluding operating property acquisition costs	\$ 0.58	\$ 0.60	\$ 1.65	\$ 1.94
Numerator for diluted EPS	\$ 4,540	\$ 10,177	\$ 14,353	\$ 34,402
Add: Income allocable to noncontrolling interests-common units in the Operating Partnership	363	956	1,254	4,032
Add: Real estate-related depreciation and amortization	30,745	26,712	87,896	81,911
Add: Depreciation and amortization of unconsolidated real estate entities	166	160	512	481
Add: Numerator for diluted EPS allocable to restricted shares	267	253	807	763
Less: Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(666)	(91)	(1,245)	(251)
Less: Basic and diluted FFO allocable to restricted shares	(353)	(395)	(1,078)	(1,298)
Less: Gain on sales of operating properties, net of income taxes	(784)		(1,081)	
Basic and Diluted FFO	34,278	37,772	101,418	120,040
Add: Operating property acquisition costs	2,664		2,954	
Diluted FFO, excluding operating property acquisition costs	\$ 36,942	\$ 37,772	\$ 104,372	\$ 120,040
Denominator for diluted EPS	58,952	57,955	58,700	55,872

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Weighted average common units	4,453	5,084	4,674	5,932
Denominator for Diluted FFO per share	63,405	63,039	63,374	61,804

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Liquidity and Capital Resources

Our primary cash requirements are for operating expenses, debt service, development of new properties, improvements to existing properties and acquisitions. While we may experience increasing challenges discussed elsewhere herein and in our 2009 Annual Report on Form 10-K due to the current economic environment, we believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements. We maintain sufficient cash and cash equivalents to meet our operating cash requirements and short term investing and financing cash requirements. When we determine that the amount of cash and cash equivalents on hand is more than we need to meet such requirements, we may pay down our Revolving Credit Facility (defined below) or forgo borrowing under construction loan credit facilities to fund development activities.

We rely primarily on fixed-rate, non-recourse mortgage loans from banks and institutional lenders to finance most of our operating properties. We have also made use of the public equity and debt markets to meet our capital needs, principally to repay or refinance corporate and property secured debt and to provide funds for property development and acquisition.

We have an unsecured revolving credit facility (the "Revolving Credit Facility") with a group of lenders that provides for borrowings of up to \$700.0 million, \$200.1 million of which was available at September 30, 2010; this facility is available through September 2011 and may be extended for one year at our option provided that there is no default under the facility and we pay an extension fee of 0.125% of the total availability of the facility. In addition, we have a Revolving Construction Facility, which provides for borrowings of up to \$225.0 million, \$103.1 million of which was available at September 30, 2010 to fund construction costs; this facility is available until May 2011 and may be extended for one year at our option, provided that there is no default and we pay an extension fee equal to 0.125% of the maximum borrowing capacity under the facility.

We expect to restore sufficient capacity under our Revolving Credit Facility and Revolving Construction Facility to fund construction of properties that were under construction at period end or expected to be started during the remainder of 2010 by accessing the secured debt market, the unsecured debt market and/or the public equity market. We are continually evaluating sources of capital and believe that there are satisfactory sources available to meet our capital requirements without necessitating property sales. However, selective dispositions of operating properties and other assets may provide capital resources during the remainder of 2010 and in future years.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of September 30, 2010, we were in compliance with these financial covenants.

Cash Flows

Cash flow from operations decreased \$42.5 million when comparing the nine months ended September 30, 2010 and 2009 due primarily to the timing of cash flow associated with third-party construction projects and increased cash paid for interest. We expect to continue to use cash flow provided by operations as the primary source to meeting our short-term capital needs, including all property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization of debt, dividends to our shareholders, distributions to our noncontrolling interest holders of preferred and common units in the Operating Partnership and capital improvements and leasing costs.

Cash flow used in investing activities increased \$188.2 million when comparing the nine months ended September 30, 2010 and 2009 due primarily to increased acquisition activity in the current period. Our cash flow provided by financing activities increased \$230.9 million when comparing the nine months ended September 30, 2010 and 2009 due primarily to a \$268.8 million decrease in debt repayments resulting from less debt refinancing activities in the current period.

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Investing and Financing Activities During the Nine Months Ended September 30, 2010

We acquired three office properties totaling 514,000 square feet for \$162.1 million. These acquisitions were financed primarily using an 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 and borrowings from our Revolving Credit Facility.

We acquired 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 critical load made available for the exclusive use of tenants in the property. 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. This acquisition was financed primarily using borrowings from our Revolving Credit Facility.

We had six newly-constructed office properties totaling 804,000 square feet (two in the Baltimore/Washington Corridor, two in Colorado Springs and two in San Antonio) become fully operational in 2010 (94,000 of these square feet were placed into service in 2009). These properties were 74% leased as of September 30, 2010. Costs incurred on these properties through September 30, 2010 totaled \$151.1 million, of which \$15.3 million were incurred in 2010.

In March 2010, we completed the formation of LW Redstone Company, LLC, 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. Development and construction of the business park is expected to take place over a 20-year period. Our joint venture partner does not have any funding obligations under the terms of the joint venture agreement.

The table below sets forth the major components of our additions to the line entitled "Total Properties, net" on our Consolidated Balance Sheet for the nine months ended September 30, 2010 (in thousands):

Acquisitions	\$	250,577
Construction, development and redevelopment		135,465
Tenant improvements on operating properties		15,137(1)
Capital improvements on operating properties		4,111
	\$	405,290

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

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Construction, development and redevelopment activities underway for office properties at September 30, 2010 included the following:

Activity	Number of Properties	Square Feet (in thousands)	Estimated Remaining Costs (in millions)	Expected Year For Costs to be Incurred Through
Construction of new properties	8	845	\$ 76.9	2012
Development of new properties	10	1,387	307.3	2014
Redevelopment of existing properties	2	576	6.9	2011

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On September 8, 2010, we sold two office properties in Dayton, New Jersey totaling 201,000 square feet for \$20.9 million and recognized a gain of \$784,000. We also sold on September 8, 2010 a land parcel that was contiguous to these properties for \$3.0 million and recognized a gain of \$2.5 million. The net proceeds from this sale after transaction costs totaled approximately \$23.6 million, which we used primarily to repay our Revolving Credit Facility.

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 at an exchange rate (subject to adjustment) of 20.7769 shares per \$1,000 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. We used the \$234.3 million in net proceeds available after transaction costs from this issuance for general corporate purposes, including the application of \$224.0 million to pay down borrowings under our Revolving Credit Facility.

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

Off-Balance Sheet Arrangements

We had no significant changes in our off-balance sheet arrangements from those described in the section entitled "Off-Balance Sheet Arrangements" in our 2009 Annual Report on Form 10-K.

Inflation

Most of our tenants are obligated to pay their share of a building's operating expenses to the extent such expenses exceed amounts established in their leases, based on historical expense levels. Some of our tenants are obligated to pay their full share of a building's operating expenses. These arrangements somewhat reduce our exposure to increases in such costs resulting from inflation. In addition, since our average lease life is approximately five years, we generally expect to be able to compensate for increased operating expenses through increased rental rates upon lease renewal or expiration.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks, the most predominant of which is change in interest rates. Increases in interest rates can result in increased interest expense under our Revolving Credit Facility and other variable rate debt. Increases in interest rates can also result in increased interest expense when our fixed rate debt matures and needs to be refinanced. Our capital strategy favors long-term, fixed-rate, secured debt over variable-rate debt to minimize the risk of short-term increases in interest rates.

The following table sets forth as of September 30, 2010 our debt and weighted average interest rates for fixed rate debt by expected maturity date (dollars in thousands):

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	2010	2011 (1)	For the Periods Ending December 31,				2014	Thereafter	Total
Long term debt:									
Fixed rate debt (2)	\$ 3,456	\$ 278,361	\$ 48,647	\$ 144,615	\$ 162,009	\$ 942,116	\$ 1,579,204		
Weighted average interest rate	6.10%	4.35%	6.36%	5.62%	6.40%	5.52%	5.44%		
Variable rate debt	\$ 136	\$ 637,220	\$ 222,005	\$ 649	\$ 47,402	\$	\$ 907,412		

(1) Includes amounts outstanding at September 30, 2010 of \$498.0 million under our Revolving Credit Facility, \$121.9 million under our Revolving Construction Facility and \$16.8 million under another construction loan facility that may be extended for a one-year period, subject to certain conditions.

(2) Represents principal maturities only and therefore excludes net discounts of \$18.2 million.

The fair market value of our debt was \$2.5 billion at September 30, 2010. If interest rates on our fixed-rate debt had been 1% lower, the fair value of this debt would have increased by \$69.9 million at September 30, 2010.

The following table sets forth information pertaining to interest rate swap contracts in place as of September 30, 2010, and their respective fair values (dollars in thousands):

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

Based on our variable-rate debt balances, including the effect of interest rate swaps, our interest expense would have increased by \$1.7 million in the nine months ended September 30, 2010 if short-term interest rates were 1% higher.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 30, 2010 were functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and

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(ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

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

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PART II

Item 1. Legal Proceedings

We are not aware of any material developments during the most recent fiscal quarter regarding the litigation described in our 2009 Annual Report on Form 10-K. We are not currently involved in any other material litigation nor, to our knowledge, is any material litigation currently threatened against the Company (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) During the three months ended September 30, 2010, 10,000 of the Operating Partnership's common units were exchanged for 10,000 common shares in accordance with the Operating Partnership's Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

(b) Not applicable

(c) Not applicable

Item 3. Defaults Upon Senior Securities

(a) Not applicable

(b) Not applicable

Item 4. Removed and Reserved

Item 5. Other Information

Not applicable

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Item 6. Exhibits

(a) Exhibits:

Exhibits 10.1, 10.2, 10.3, 10.4 and 10.5 were filed by us with previous reports under the Securities Exchange Act of 1934, as amended. We are refiling these exhibits solely to include certain schedules and exhibits that were omitted from the exhibits as filed.

EXHIBIT NO.

DESCRIPTION

10.1	Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated September 30, 1999, by affiliates of the Operating Partnership for the benefit of Teachers Insurance and Annuity Association of America (filed herewith).
10.2	Second Amended and Restated Credit Agreement, dated October 1, 2007, among Corporate Office Properties, L.P.; Corporate Office Properties Trust; KeyBanc Capital Markets; Wachovia Capital Markets, LLC; KeyBank National Association; Wachovia Bank, National Association; Bank of America, N.A.; Manufacturers and Traders Trust Company; and Citizens Bank of Pennsylvania (filed herewith).
10.3	Purchase Agreement and Agreement and Plan of Merger, dated December 21, 2006, by and among the Corporate Office Properties Trust; Corporate Office Properties, L.P.; W&M Business Trust; and Nottingham Village, Inc. (filed herewith).
10.4	Purchase and Sale Agreement of Ownership Interests, dated December 21, 2006, by and between Corporate Office Properties, L.P. and Nottingham Properties, Inc. (filed herewith).
10.5	Construction Loan Agreement dated as of May 2, 2008 by and among Corporate Office Properties, L.P., as borrower, Corporate Office Properties Trust, as parent, Keybank Capital Markets, Inc. as arranger, Keybank National Association, as administrative agent, Bank of America, N.A., as syndication agent, Manufacturers and Traders Trust Company, as documentation agent, and the financial institutions initially signatory thereto and their assignees pursuant to Section 12.5 thereof, as lenders (filed herewith).
10.6*	Third Amendment to Employment Agreement, dated September 16, 2010, between Corporate Office Properties, L.P., Corporate Office Properties Trust and Randall M. Griffin (filed herewith).
10.7*	Fifth Amendment to Employment Agreement, dated September 16, 2010, between Corporate Office Properties, L.P., Corporate Office Properties Trust, and Roger A. Waesche, Jr. (filed herewith).
10.8*	Second Amendment to Employment Agreement, dated September 16, 2010, between Corporate Office Properties, L.P., Corporate Office Properties Trust and Stephen E. Riffie (filed herewith).
10.9*	First Amendment to Employment Agreement, dated September 16, 2010, between Corporate Development Services, LLC, Corporate Office Properties Trust and Wayne Lingafelter (filed herewith).
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed

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herewith).

31.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
32.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
101.INS	XBRL Instance Document (furnished herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith).
101.LAB	XBRL Extension Labels Linkbase (furnished herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith).

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORPORATE OFFICE PROPERTIES TRUST

Date: October 29, 2010

By:

/s/ Randall M. Griffin
Randall M. Griffin
Chief Executive Officer

Date: October 29, 2010

By:

/s/ Stephen E. Riffie
Stephen E. Riffie
Executive Vice President and Chief Financial Officer