CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 10, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

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

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

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

x Yes o No

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

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

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

o Yes x No

As of October 31, 2008, 51,594,302 of the Company s Common Shares of Beneficial Interest, $0.01 par value, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

FORM 10-Q

		PAGE
PART I: FINANCIAL INFORMATION		
Item 1:	Financial Statements:	
	Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 (unaudited)	3

Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 (unaudited) 4

Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (unaudited) 5

Notes to Consolidated Financial Statements (unaudited) 6

Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	27

Item 3:	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4:	Controls and Procedures	44

PART II: OTHER INFORMATION

Item 1: Legal Proceedings 45

Item 1A:	Risk Factors	45

Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	45

Item 3:	Defaults Upon Senior Securities	45

Item 4:	Submission of Matters to a Vote of Security Holders	46

Item 5:	Other Information	46

Item 6:	Exhibits	46

SIGNATURES	47

2

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands)

(unaudited)

	September 30, 2008	December 31, 2007
Assets		
Investment in real estate:		
Operating properties, net	$ 2,241,412	$ 2,192,939
Property held for sale, net		14,988
Projects under construction or development	495,875	396,012
Total commercial real estate properties, net	2,737,287	2,603,939
Cash and cash equivalents	21,316	24,638
Restricted cash	15,534	15,121
Accounts receivable, net	13,044	24,831
Deferred rent receivable	62,137	53,631
Intangible assets on real estate acquisitions, net	98,282	108,661
Deferred charges, net	51,680	49,051
Prepaid expenses and other assets	100,448	51,981
Total assets	$ 3,099,728	$ 2,931,853
Liabilities and shareholders equity		
Liabilities:		
Mortgage and other loans payable	$ 1,656,280	$ 1,625,842
3.5% Exchangeable Senior Notes	200,000	200,000
Accounts payable and accrued expenses	93,676	75,535
Rents received in advance and security deposits	26,372	31,234
Dividends and distributions payable	25,774	22,441
Deferred revenue associated with acquired operating leases	11,832	11,530
Distributions in excess of investment in unconsolidated real estate joint venture	4,668	4,246
Other liabilities	7,059	8,288
Total liabilities	2,025,661	1,979,116
Minority interests:		
Common units in the Operating Partnership	122,557	114,127
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated real estate joint ventures	10,169	7,168
Total minority interests	141,526	130,095
Commitments and contingencies (Note 20)		
Shareholders equity:		
Preferred Shares of beneficial interest ($0.01 par value; shares authorized of 15,000,000, issued and outstanding of 8,121,667 at September 30, 2008 and December 31, 2007 (Note 13))	81	81
	515	474

Common Shares of beneficial interest ($0.01 par value; 75,000,000 shares authorized, shares issued and outstanding of 51,530,162 at September 30, 2008 and 47,366,475 at December 31, 2007)				
Additional paid-in capital		1,086,210		950,615
Cumulative distributions in excess of net income		(152,589)		(126,156)
Accumulated other comprehensive loss		(1,676)		(2,372)
Total shareholders equity		932,541		822,642
Total liabilities and shareholders equity	$	3,099,728	$	2,931,853

See accompanying notes to consolidated financial statements.

3

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, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Revenues				
Rental revenue	$ 85,060	$ 80,038	$ 249,924	$ 233,650
Tenant recoveries and other real estate operations revenue	16,584	14,064	46,982	39,694
Construction contract revenues	89,653	10,047	121,688	29,358
Other service operations revenues	349	910	1,352	3,369
Total revenues	191,646	105,059	419,946	306,071
Expenses				
Property operating expenses	35,854	31,577	104,353	92,168
Depreciation and other amortization associated with real estate operations	25,583	26,025	75,430	78,811
Construction contract expenses	87,111	9,507	118,488	28,126
Other service operations expenses	546	806	1,602	3,337
General and administrative expenses	6,103	5,743	18,072	15,946
Total operating expenses	155,197	73,658	317,945	218,388
Operating income	36,449	31,401	102,001	87,683
Interest expense	(20,506)	(20,968)	(60,252)	(61,181)
Amortization of deferred financing costs	(1,169)	(901)	(2,882)	(2,706)
Gain on sale of non-real estate investment	1		52	1,033
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	14,775	9,532	38,919	24,829
Equity in loss of unconsolidated entities	(57)	(46)	(167)	(197)
Income tax expense	(97)	(197)	(102)	(480)
Income from continuing operations before minority interests	14,621	9,289	38,650	24,152
Minority interests in income from continuing operations				
Common units in the Operating Partnership	(1,593)	(789)	(3,958)	(1,877)
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	90	12	(16)	90
Income from continuing operations	12,953	8,347	34,181	21,870
(Loss) income from discontinued operations, net of minority interests	(8)	2,046	2,179	1,786
Income before gain on sales of real estate	12,945	10,393	36,360	23,656
Gain on sales of real estate, net	4	1,038	837	1,199
Net income	12,949	11,431	37,197	24,855
Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,043)
Net income available to common shareholders	$ 8,924	$ 7,406	$ 25,121	$ 12,812
Basic earnings per common share				
Income from continuing operations	$ 0.19	$ 0.11	$ 0.49	$ 0.24
Discontinued operations		0.05	0.04	0.04

Net income available to common shareholders	$	0.19	$	0.16	$	0.53	$	0.28
Diluted earnings per common share								
Income from continuing operations	$	0.19	$	0.11	$	0.48	$	0.23
Discontinued operations				0.04		0.04		0.04
Net income available to common shareholders	$	0.19	$	0.15	$	0.52	$	0.27
Dividends declared per common share	$	0.3725	$	0.3400	$	1.0525	$	0.9600

See accompanying notes to consolidated financial statements.

4

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, 2008	For the Nine Months Ended September 30, 2007
Cash flows from operating activities		
Net income	$ 37,197	$ 24,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	5,128	2,829
Depreciation and other amortization	76,659	80,660
Amortization of deferred financing costs	2,882	2,706
Amortization of deferred market rental revenue	(1,457)	(1,569)
Equity in loss of unconsolidated entities	167	197
Gain on sales of real estate	(4,208)	(4,199)
Gain on sale of non-real estate investment	(52)	(1,033)
Share-based compensation	6,812	4,969
Excess income tax benefits from share-based compensation	(1,053)	
Changes in operating assets and liabilities:		
Increase in deferred rent receivable	(8,600)	(9,248)
Decrease in accounts receivable	11,787	5,687
Increase in restricted cash and prepaid and other assets	(26,864)	(10,217)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	31,521	(3,847)
(Decrease) increase in rents received in advance and security deposits	(4,862)	4,679
Other	404	(887)
Net cash provided by operating activities	125,461	95,582
Cash flows from investing activities		
Purchases of and additions to commercial real estate properties	(220,392)	(301,065)
Proceeds from sales of properties	33,412	8,763
Proceeds from sale of non-real estate investment	67	2,526
Mortgage loan receivable funded	(24,836)	
Acquisition of partner interests in consolidated joint ventures		(1,262)
Leasing costs paid	(4,497)	(8,984)
(Increase) decrease in restricted cash associated with investing activities	(629)	14,631
Other	(7,402)	(1,847)
Net cash used in investing activities	(224,277)	(287,238)
Cash flows from financing activities		
Proceeds from mortgage and other loans payable	684,763	506,571
Repayments of mortgage and other loans payable	(654,255)	(243,942)
Deferred financing costs paid	(6,347)	(1,847)
Net proceeds from issuance of common shares	141,432	7,013
Dividends paid	(60,541)	(54,163)
Distributions paid	(8,815)	(8,245)
Excess income tax benefits from share-based compensation	1,053	
Restricted share redemptions	(1,316)	
Other	(480)	241

Net cash provided by financing activities		95,494		205,628
Net (decrease) increase in cash and cash equivalents		(3,322)		13,972
Cash and cash equivalents				
Beginning of period		24,638		7,923
End of period	$	21,316	$	21,895

See accompanying notes to consolidated financial statements.

Table of Contents

Corporate Office Properties Trust and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

(unaudited)

1. Organization

Corporate Office Properties Trust (COPT) and subsidiaries (collectively, the Company , we or us) is a specialty office real estate investment trus (REIT) that focuses 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 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, 2008, our investments in real estate included the following:

- 235 wholly owned operating properties totaling 18.3 million square feet;
- 18 wholly owned properties under construction or development that we estimate will total approximately 1.9 million square feet upon completion;
- wholly owned land parcels totaling 1,598 acres that we believe are potentially developable into approximately 13.5 million square feet; and
- partial ownership interests in a number of other real estate projects in operation, under development or redevelopment or held for future development.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership), for 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 securities owned by COPT as of September 30, 2008 follows:

Common Units	86%
Series G Preferred Units	100%
Series H Preferred Units	100%
Series I Preferred Units	0%
Series J Preferred Units	100%
Series K Preferred Units	100%

Three of our trustees also controlled at that date, either directly or through ownership by other entities or family members, 12% of the Operating Partnership s common units.

In addition to owning interests in real estate, the Operating Partnership also owns 100% of Corporate Office Management, Inc. (COMI) and owns, either directly or through COMI, 100% of the consolidated subsidiaries that are set forth below (collectively defined as the Service Companies):

Entity Name	Type of Service Business
COPT Property Management Services, LLC (CPM)	Real Estate Management
COPT Development & Construction Services, LLC (CDC)	Construction and Development
Corporate Development Services, LLC (CDS)	Construction and Development
COPT Environmental Systems, LLC (CES)	Heating and Air Conditioning

Most of the services that CPM and CES provide are for us. CDC and CDS provide services to us and to third parties.

6

1. Organization

Table of Contents

2. Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements have been prepared in accordance with the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States for complete Consolidated Financial Statements are not included herein. These interim financial statements should be read together with the financial statements and notes thereto included in our 2007 Annual Report on Form 10-K. The interim financial statements reflect all adjustments that we believe are necessary for the fair statement of our financial position and results of operations for the interim periods presented. These adjustments are of a normal recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for a full year.

We reclassified certain amounts from the prior period to conform to the current period presentation of our Consolidated Financial Statements. These reclassifications did not affect previously reported consolidated net income or shareholders equity. Construction contract revenues and expenses for the nine months ended September 30, 2008 also includes adjustments that increased these amounts by $1,622 pertaining to the three months ended March 31, 2008 and $7,280 pertaining to the three months ended June 30, 2008. Since the increases to construction contract revenues and construction contract expenses were by equal dollar amounts, these adjustments did not affect the operating income or net income previously reported on the Forms 10-Q filed with respect to such periods and are not material to the financial statements.

3. Earnings Per Share (EPS)

We present both basic and diluted EPS. We compute basic EPS by dividing net income available to common shareholders by the weighted average number of common shares of beneficial interest (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 method; 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.

Our computation of diluted EPS does not assume conversion of securities into our common shares if conversion of those securities would increase our diluted EPS in a given period. A summary of the numerator and denominator for purposes of basic and diluted EPS calculations is set forth below (dollars and shares in thousands, except per share data):

3.   Earnings Per Share (EPS   )

Table of Contents

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Income from continuing operations	$ 12,953	$ 8,347	$ 34,181	$ 21,870
Add: Gain on sales of real estate, net	4	1,038	837	1,199
Less: Preferred share dividends	(4,025)	(4,025)	(12,076)	(12,043)
Numerator for basic and diluted EPS from continuing operations	8,932	5,360	22,942	11,026
(Loss) income from discontinued operations, net	(8)	2,046	2,179	1,786
Numerator for basic and diluted EPS on net income available to common shareholders	$ 8,924	$ 7,406	$ 25,121	$ 12,812
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	47,273	46,781	47,128	46,386
Dilutive effect of share-based compensation awards	916	1,005	820	1,180
Denominator for diluted EPS	48,189	47,786	47,948	47,566
Basic EPS:				
Income from continuing operations	$ 0.19	$ 0.11	$ 0.49	$ 0.24
Income from discontinued operations		0.05	0.04	0.04
Net income available to common shareholders	$ 0.19	$ 0.16	$ 0.53	$ 0.28
Diluted EPS:				
Income from continuing operations	$ 0.19	$ 0.11	$ 0.48	$ 0.23
Income from discontinued operations		0.04	0.04	0.04
Net income available to common shareholders	$ 0.19	$ 0.15	$ 0.52	$ 0.27

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:

	Weighted Average Shares in Denominator			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Conversion of weighted average common units	8,130	8,297	8,145	8,339
Conversion of weighted average convertible preferred shares	434	434	434	421
Conversion of weighted average convertible preferred units	176	176	176	176

The 3.5% Exchangeable Senior Notes 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 price per common share applicable for such periods.

4. Recent Accounting Pronouncements

SFAS 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Statement does not require or permit any new fair value measurements but does apply under other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the Statement relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. With respect to SFAS 157, the FASB also issued FASB Staff Position SFAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1) and FASB Staff Position SFAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-1 amends SFAS 157 to exclude from the scope of SFAS 157 certain leasing transactions accounted for under Statement of Financial

Table of Contents

Accounting Standards No. 13, Accounting for Leases. FSP FAS 157-2 amends SFAS 157 to defer the effective date of SFAS 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. Effective January 1, 2008, we adopted, on a prospective basis, the portions of SFAS 157 not deferred by FSP FAS 157-2; this adoption did not have a material effect on our financial position, results of operations or cash flows. We are evaluating the impact that SFAS 157 will have on our non-financial assets and non-financial liabilities since the application of SFAS 157 for such items for us was deferred to January 1, 2009.

We also adopted FASB Staff Position SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS-157-3) effective upon its issuance by the FASB on October 10, 2008. The adoption of FSP FAS-157-3 did not have a material effect on our financial position, results of operations or cash flows.

Under SFAS 157, fair value is defined as the exit price, or the amount that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy of these inputs is broken down into three levels: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs include (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active and (3) inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The assets held in connection with our non-qualified elective deferred compensation plan and the corresponding liability to the participants are measured at fair value on a recurring basis on our consolidated balance sheet using quoted market prices. The assets are treated as trading securities for accounting purposes and included in restricted cash on our consolidated balance sheet. The offsetting liability is adjusted to fair value at the end of each accounting period based on the fair value of the plan assets and reported in other liabilities in our consolidated balance sheet. The assets and corresponding liability of our non-qualified elective deferred compensation plan are classified in Level 1 of the fair value hierarchy.

The valuation of our derivatives is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate market data and implied volatilities in such interest rates. While we determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy under SFAS 157, the credit valuation adjustments associated with our derivatives also utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. However, as of September 30, 2008, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivatives and determined that these adjustments are not significant to the overall valuation of our derivatives. As a result, we determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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, 2008:

Table of Contents

Description		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
Assets:								
Deferred compensation plan assets (1)	$	5,630	$		$		$	5,630
Liabilities:								
Deferred compensation plan liability (2)	$	5,630	$		$		$	5,630
Interest rate swap contracts (2)				1,531				1,531
Liabilities	$	5,630	$	1,531	$		$	7,161

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

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

Other Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. We adopted SFAS 159 on a prospective basis effective January 1, 2008. Our adoption of SFAS 159 did not have a material effect on our financial position, results of operations or cash flows since we did not elect to apply the fair value option for any of our eligible financial instruments or other items on the January 1, 2008 effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transactions; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. While we are currently assessing the impact of SFAS 141(R) on our consolidated financial position and results of operations, SFAS 141(R) will require us to expense transaction costs associated with property acquisitions occurring subsequent to the pronouncement s effective date, which is a significant change since our current practice is to capitalize such costs into the cost of the acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of SFAS 160 on our consolidated financial position and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). This new standard expands the disclosure requirements for derivative instruments and for hedging activities in order to provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations; and (3) how derivative instruments and related hedged items affect

an entity s financial position, financial performance, and cash flows. SFAS 161 is to be applied prospectively for the first annual reporting period beginning on or after November 15, 2008. We are evaluating the impact that SFAS 161 will have on our reporting for derivatives.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB-14-1). FSP APB-14-1 requires that the initial proceeds from convertible debt instruments that may be settled in cash, including partial cash settlements, be allocated between a liability component and an equity component associated with the embedded conversion option. This pronouncement s objective is to require the liability and equity components of convertible debt to be separately accounted for in order to enable interest expense to be recorded at a

Table of Contents

rate that would reflect the issuer s conventional debt borrowing rate (previously, interest expense on such debt was recorded based on the contractual rate of interest under the debt). Under this pronouncement, the liability component is recorded at its fair value, as calculated based on the present value of its cash flows discounted using the issuer s conventional debt borrowing rate. The equity component is recorded based on the difference between the debt proceeds and the fair value of the liability. The difference between the liability s principal amount and fair value is reported as a debt discount and amortized as interest expense over the debt s expected life using the effective interest method. The provisions of FSP APB-14-1 will be effective beginning January 1, 2009 and are to be applied retrospectively to all periods presented. While we are in the process of evaluating FSP APB-14-1, we currently believe that this pronouncement will affect the accounting for our 3.5% Exchangeable Senior Notes by resulting in our recognition of additional annual interest expense of approximately $3,000 to $4,000 over the five-year expected life of the debt, beginning on the debt s September 18, 2006 origination date.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 requires that all unvested share-based payment awards that contain nonforfeitable rights to dividends be considered participating securities and therefore shall be included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common shares and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and the EPS of prior periods will be adjusted retrospectively. We believe that upon our adoption of FSP EITF 03-6-1, we will be required to include a larger number of shares in our denominator for EPS attributable to our weighted average unvested restricted shares outstanding, which will have a decreasing effect to our EPS; however, we do not believe that the decreasing effect to our EPS from the larger number of shares will be material.

5. Commercial Real Estate Properties

Operating properties consisted of the following:

	September 30, 2008	December 31, 2007
Land	$ 421,311	$ 413,779
Buildings and improvements	2,159,530	2,064,960
	2,580,841	2,478,739
Less: accumulated depreciation	(339,429)	(285,800)
	$ 2,241,412	$ 2,192,939

As of December 31, 2007, 429 Ridge Road, an office property located in Dayton, New Jersey that we were under contract to sell for $17,000, was classified as held for sale (Dayton, New Jersey is located in the Northern/Central New Jersey Region). We completed the sale of this property on January 31, 2008. The components associated with 429 Ridge Road as of December 31, 2007 included the following:

	December 31, 2007
Land	$ 2,932
Buildings and improvements	15,003
	17,935
Less: accumulated depreciation	(2,947)
	$ 14,988

Projects we had under construction or development consisted of the following:

	September 30, 2008	December 31, 2007
Land	$ 221,066	$ 214,696
Construction in progress	274,809	181,316
	$ 495,875	$ 396,012

Table of Contents

2008 Acquisitions

5. Commercial Real Estate Properties 47

We acquired the following office properties during the nine months ended September 30, 2008:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet		Acquisition Cost
3535 Northrop Grumman Point	Colorado Springs, CO	6/10/2008	1	124,305	$	23,240
1560 Cable Ranch Road (Buildings A and B)	San Antonio, TX	6/19/2008	2	122,975		17,317
			3	247,280	$	40,557

The table below sets forth the allocation of the acquisition costs of these properties:

5. Commercial Real Estate Properties

	3535 Northrop Grumman Point	1560 Cable Ranch Road	Total
Land, operating properties	$	$ 3,396	$ 3,396
Building and improvements	22,163	10,315	32,478
Intangible assets on real estate acquisitions	3,423	4,208	7,631
Total assets	25,586	17,919	43,505
Deferred revenue associated with acquired operating leases	(2,346)	(602)	(2,948)
Total acquisition cost	$ 23,240	$ 17,317	$ 40,557

Intangible assets recorded in connection with the above acquisitions included the following:

5. Commercial Real Estate Properties

			Weighted Average Amortization Period (in Years)
Lease-up value	$	4,558	10
Tenant relationship value		1,537	12
Lease cost portion of deemed cost avoidance		1,536	11
	$	7,631	11

We also completed the following acquisitions during the nine months ended September 30, 2008:

5. Commercial Real Estate Properties 55

- a 107-acre land parcel in Frederick, Maryland that we believe can support approximately 1.0 million developable square feet for $8,696 on August 28, 2008 (Frederick, Maryland is located in our Suburban Maryland region); and

- a 31-acre land parcel located in San Antonio, Texas (San Antonio) that we believe can support approximately 500,000 developable square feet for $8,126 on July 16, 2008.

2008 Construction, Development and Redevelopment Activities

During the nine months ended September 30, 2008, we had five properties totaling 438,347 square feet become fully operational (89,497 of these square feet were placed into service in 2007); three of these properties are located in Colorado Springs, Colorado (Colorado Springs) and two in the Baltimore/Washington Corridor. We also placed into service an aggregate of 85,221 square feet in two partially operational properties located in Colorado Springs and Suburban Maryland.

As of September 30, 2008, we had construction underway on four new properties each in Colorado Springs and the Baltimore/Washington Corridor (including one through a joint venture) and two each in San Antonio and Suburban Maryland (including two through a joint venture). We also had development activities underway on three new properties each in the Baltimore/Washington Corridor and Suburban Baltimore, two in San Antonio and one in Suburban Maryland. In addition, we had redevelopment underway on two properties owned by a joint venture (one located in the Baltimore/Washington Corridor and the other in Northern Virginia).

12

Table of Contents

5. Commercial Real Estate Properties

2008 Dispositions

We sold the following operating properties during the nine months ended September 30, 2008:

Project Name	Location	Date of Sale	Number of Buildings	Total Rentable Square Feet		Sale Price		Gain on Sale
429 Ridge Road	Dayton, New Jersey	1/31/2008	1	142,385	$	17,000	$	1,365
7253 Ambassador Road	Woodlawn, Maryland	6/2/2008	1	38,930		5,100		1,278
47 Commerce Road	Cranbury, New Jersey	4/1/2008	1	41,398		3,150		
			3	222,713	$	25,250	$	2,643

The gain from these sales is included on the line of our Consolidated Statements of Operations entitled (loss) income from discontinued operations, net of minority interests.

During the nine months ended September 30, 2008, we also completed the sale of six recently constructed office condominiums located in Herndon Virginia (located in the Northern Virginia region) for sale prices totaling $8,388 in the aggregate. We recognized an aggregate gain before minority interests and taxes of $1,368 on these sales, which is included on the line of our Consolidated Statements of Operations entitled gain on sales of real estate, net .

The table below sets forth the components of the line on our Consolidated Statements of Operations entitled gain on sales of real estate for the three and nine months ended September 30, 2008:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
		2008		2007		2008		2007
Gain on sales of real estate	$	4	$	1,227	$	1,682	$	1,421
Income taxes						(578)		(3)
Minority interests								
Common units in the Operating Partnership				(189)		(151)		(219)
Other consolidated entities						(116)		
Gain on sale of real estate, net	$	4	$	1,038	$	837	$	1,199

6. Real Estate Joint Ventures

During the nine months ended September 30, 2008, 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.

	Investment Balance at										
		September 30, 2008		December 31, 2007	Date Acquired	Ownership	Nature of Activity			Total Assets at 9/30/2008	Maximum Exposure to Loss (1)
Harrisburg Corporate Gateway Partners, L.P.	$	(4,668)(2)	$	(4,246)(2)	9/29/2005	20%	Operates 16 buildings	(3)	$	70,387	$

(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, which we would be required to make if certain contingent events occur.

(2) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $5,196 at September 30, 2008 and December 31, 2007 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation. A difference will continue to exist to the extent the nature of our continuing involvement in the joint venture remains the same.

(3) This joint venture s properties are located in Greater Harrisburg, Pennsylvania.

The following table sets forth condensed balance sheets for Harrisburg Corporate Gateway Partners, L.P.:

Table of Contents

	September 30, 2008	December 31, 2007
Commercial real estate property	$ 62,711	$ 63,773
Other assets	7,676	9,051
Total assets	$ 70,387	$ 72,824
Liabilities	$ 67,762	$ 67,991
Owners equity	2,625	4,833
Total liabilities and owners equity	$ 70,387	$ 72,824

The following table sets forth condensed statements of operations for Harrisburg Corporate Gateway Partners, L.P.:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 2,432	$ 2,455	$ 7,228	$ 7,325
Property operating expenses	(870)	(850)	(2,571)	(2,686)
Interest expense	(991)	(991)	(2,951)	(3,109)
Depreciation and amortization expense	(824)	(842)	(2,484)	(2,564)
Net loss	$ (253)	$ (228)	$ (778)	$ (1,034)

On January 29, 2008, we completed the formation of M Square Associates, LLC (M Square), a consolidated joint venture in which we hold a 50% equity interest through Enterprise Campus Developer, LLC, another consolidated joint venture in which we own a 90% interest. M Square was formed to develop and own office properties, approved for up to approximately 750,000 square feet, located in M Square Research Park in College Park, Maryland (located in the Suburban Maryland region).

The table below sets forth information pertaining to our investments in consolidated joint ventures at September 30, 2008:

	Date Acquired	Ownership % at 9/30/2008	Nature of Activity	Total Assets at 9/30/2008	Collateralized Assets at 9/30/2008
COPT Opportunity Invest I, LLC	12/20/2005	92.5%	Redeveloping two properties (1)	$ 43,833	$
Arundel Preserve #5, LLC	7/2/2007	50.0%	Developing land parcel (2)	27,126	
Enterprise Campus Developer, LLC	6/26/2007	90.0%	Developing land parcels (3)	25,402	
COPT-FD Indian Head, LLC	10/23/2006	75.0%	Developing land parcel (4)	4,959	
MOR Forbes 2 LLC	12/24/2002	50.0%	Operates one building (5)	4,472	
13849 Park Center Road, LLC	10/2/2007	92.5%	Redeveloping one property (6)	563	
				$ 106,355	$

(1) This joint venture owns one property in the Northern Virginia region and one in the Baltimore/Washington Corridor region.
(2) This joint venture is developing a land parcel located in Hanover, Maryland (located in the Baltimore/Washington Corridor region).
(3) This joint venture is developing land parcels located in College Park, Maryland through the M Square joint venture.
(4) This joint venture s property is located in Charles County, Maryland (located in our other business segment).
(5) This joint venture s property is located in Lanham, Maryland (located in the Suburban Maryland region).
(6) This joint venture is redeveloping a property in the Northern Virginia region.

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 20.

7. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

Table of Contents

	September 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Lease-up value	$ 129,613	$ 68,893	$ 60,720	$ 125,338	$ 58,435	$ 66,903
Tenant relationship value	36,514	11,914	24,600	35,189	7,892	27,297
Lease cost portion of deemed cost avoidance	18,587	10,436	8,151	17,133	8,697	8,436
Lease to market value	14,428	10,744	3,684	14,428	9,555	4,873
Market concentration premium	1,333	206	1,127	1,333	181	1,152
	$ 200,475	$ 102,193	$ 98,282	$ 193,421	$ 84,760	$ 108,661

Amortization of the intangible asset categories set forth above totaled $17,578 in the nine months ended September 30, 2008 and $24,451 in the nine months ended September 30, 2007. The approximate weighted average amortization periods of the categories set forth above follow: lease-up value: nine years; tenant relationship value: seven years; lease cost portion of deemed cost avoidance: six years; lease to market value: four years; and market concentration premium: 34 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 $5,083 for the three months ending December 31, 2008, $19,002 for 2009, $14,815 for 2010, $11,984 for 2011, $9,739 for 2012 and $7,170 for 2013.

8. Deferred Charges

Deferred charges consisted of the following:

	September 30, 2008	December 31, 2007
Deferred leasing costs	$ 66,632	$ 63,052
Deferred financing costs	27,869	32,617
Goodwill	1,853	1,853
Deferred other	155	155
	96,509	97,677
Accumulated amortization	(44,829)	(48,626)
Deferred charges, net	$ 51,680	$ 49,051

9. Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of $1,328 at September 30, 2008 and $798 at December 31, 2007.

10. Prepaid Expenses and Other Assets

Prepaid and other assets consisted of the following:

		September 30, 2008		December 31, 2007
Construction contract costs incurred in excess of billings	$	28,893	$	19,425
Mortgage loan receivable (1)		28,418		3,582
Prepaid expenses		21,013		13,907
Furniture, fixtures and equipment		11,951		11,410
Other assets		10,173		3,657
Prepaid expenses and other assets	$	100,448	$	51,981

(1) On August 26, 2008, we loaned $24,813 to the owner of a 17-story Class A+ rental office property containing 470,603 square feet in Baltimore, Maryland. We have a secured interest in the ownership of the entity that owns the property and adjacent land parcels that is subordinate to that of a first mortgage on the property. The loan, which matures on August 26, 2011, carries a primary interest rate of 16.0%, although certain fundings available under the loan agreement totaling up to $1,550 carry an interest rate of 20%.

Table of Contents

While interest is payable to us under the loan on a monthly basis, to the extent that the borrower does not have sufficient net operating cash flow (as defined in the agreement) to pay all or a portion of the interest due under the loan in a given month, such unpaid portion of the interest shall be added to the loan principal amount used to compute interest in the following month. We are obligated to fund an aggregate of up to $26,550 under this loan, excluding any future compounding of unpaid interest. Our maximum exposure to loss under this loan is equal to any outstanding principal, including any unpaid compounded interest. The balance of this mortgage loan receivable was $24,836 at September 30, 2008.

11. Debt

Our debt consisted of the following:

	Maximum Principal Amount Under Debt at September 30, 2008	Carrying Value at September 30, 2008	December 31, 2007	Stated Interest Rates at September 30, 2008	Scheduled Maturity Dates at September 30, 2008
Mortgage and other loans payable:					
Revolving Credit Facility	$ 600,000	$ 380,500	$ 361,000	LIBOR + 0.75% to 1.25%	September 30, 2011 (1)
Mortgage and Other Secured Loans					
Fixed rate mortgage loans (2)	N/A	970,510	1,124,551	5.20% - 8.63% (3)	2009 - 2034 (4)
Revolving Construction Facility (5)	225,000	41,532		LIBOR + 1.60% to 2.00%	May 2, 2011 (1)
Other variable rate secured loans	N/A	221,400	34,500	LIBOR + 2.25%	August 1, 2012 (1)
Other construction loan facilities	48,000	40,588	104,089	LIBOR + 1.50%	2009
Total mortgage and other secured loans		1,274,030	1,263,140		
Note payable					
Unsecured seller notes	N/A	1,750	1,702	0% - 5.95%	2008-2016
Total mortgage and other loans payable		1,656,280	1,625,842		
3.5% Exchangeable Senior Notes	N/A	200,000	200,000	3.50%	September 2026 (6)
Total debt		$ 1,856,280	$ 1,825,842		

(1) These facilities may be extended for a one-year period at our option, subject to certain conditions.
(2) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore are recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net premiums totaling $535 at September 30, 2008 and $605 at December 31, 2007.
(3) The weighted average interest rate on these loans was 5.72% at September 30, 2008.
(4) A loan with a balance of $4,762 at September 30, 2008 that matures in 2034 may be repaid in March 2014, subject to certain conditions.
(5) This loan is described in further detail below.
(6) Refer to our 2007 Annual Report on Form 10-K for descriptions of provisions for early redemption and repurchase of these notes.

On May 2, 2008, we entered into a construction loan agreement with a group of lenders for which KeyBanc Capital Markets, Inc. acted as arranger, KeyBank National Association acted as administrative agent, Bank of America, N.A. acted as syndication agent and Manufacturers and Traders Trust Company acted as documentation agent; this loan is referred to in the table above as the Revolving Construction Facility. The

construction loan agreement provides for an aggregate commitment by the lenders of $225,000, with a right for us to further increase the lenders aggregate commitment during the term to a maximum of $325,000, subject to certain conditions. Ownership interests in the properties for which construction costs are being financed through loans under the agreement are pledged as collateral. Borrowings are generally available for properties included in this construction loan agreement based on 85% of the total budgeted costs of construction of the applicable improvements for such properties as set forth in the properties construction budgets, subject to certain other loan-to-value and debt coverage requirements. As loans for properties under the construction loan agreement are repaid in full and the ownership interests in such properties are no longer pledged as collateral, capacity under the construction loan agreement s aggregate commitment will be restored, giving us the ability to obtain new loans for other construction properties in which we pledge the ownership interests as collateral. The construction loan agreement matures on May 2, 2011 and may be extended by one year at our option, subject to certain conditions. The variable interest rate on each loan is based on one of the following, to be selected by us: (1) subject to certain conditions, the LIBOR rate for the interest period designated by us (customarily the 30-day rate) plus 1.6% to 2.0%, as determined by our

Table of Contents

leverage levels at different points in time; or (2) the greater of (a) the prime rate of the lender then acting as agent or (b) the Federal Funds Rate, as defined in the construction loan agreement, plus 0.50%. Interest is payable at the end of each interest period (as defined in the agreement), and principal outstanding under each loan under the agreement is payable on the maturity date. The construction loan agreement also carries a quarterly fee that is based on the unused amount of the commitment multiplied by a per annum rate of 0.125% to 0.20%.

On July 18, 2008, we borrowed $221,400 under a mortgage loan requiring interest only payments for the term at a variable rate of LIBOR plus 225 basis points. This loan facility has a four-year term with an option to extend by an additional year.

We capitalized interest costs of $13,428 in the nine months ended September 30, 2008 and $13,957 in the nine months ended September 30, 2007.

12. Derivatives

The following table sets forth our interest rate swap contracts in place during the nine months ended September 30, 2008 and their respective fair values:

Notional Amount	One-Month LIBOR Base	Effective Date	Expiration Date	Fair Value at September 30, 2008	Fair Value at December 31, 2007
$ 50,000	4.3300%	10/23/2007	10/23/2009	$ (625)	$ (596)
50,000	5.0360%	3/28/2006	3/30/2009	(376)	(765)
25,000	5.2320%	5/1/2006	5/1/2009	(265)	(486)
25,000	5.2320%	5/1/2006	5/1/2009	(265)	(486)
				$ (1,531)	$ (2,333)

These amounts are included on our Consolidated Balance Sheets as other liabilities.

We designated these derivatives as cash flow hedges. These contracts hedge the risk of changes in interest rates on certain of our one-month LIBOR-based variable rate borrowings until their respective maturities.

The table below sets forth our accounting application of changes in derivative fair values:

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Beginning balance	$ (2,648)	$ 113	$ (2,333)	$ (308)

Increase (decrease) in fair value applied to accumulated other comprehensive loss and minority interests	1,117	(1,065)	802	(644)
Ending balance	$ (1,531)	$ (952)	$ (1,531)	$ (952)

11. Debt

Table of Contents

13. Shareholders Equity

Preferred Shares

Preferred shares of beneficial interest (preferred shares) consisted of the following:

	September 30, 2008	December 31, 2007
2,200,000 designated as Series G Cumulative Redeemable Preferred Shares of beneficial interest (2,200,000 shares issued with an aggregate liquidation preference of $55,000)	$ 22	$ 22
2,000,000 designated as Series H Cumulative Redeemable Preferred Shares of beneficial interest (2,000,000 shares issued with an aggregate liquidation preference of $50,000)	20	20
3,390,000 designated as Series J Cumulative Redeemable Preferred Shares of beneficial interest (3,390,000 shares issued with an aggregate liquidation preference of $84,750)	34	34
531,667 designated as Series K Cumulative Redeemable Convertible Preferred Shares of beneficial interest (531,667 shares issued with an aggregate liquidation preference of $26,583)	5	5
Total preferred shares	$ 81	$ 81

Common Shares

During the nine months ended September 30, 2008, we converted 55,242 common units in our Operating Partnership into common shares on the basis of one common share for each common unit.

In September 2008, we issued 3.7 million common shares at a public offering price of $39 per share. We contributed the net proceeds after underwriting discounts but before offering costs totaling $139,203 to our Operating Partnership in exchange for 3.7 million common units.

See Note 17 for disclosure of common share activity pertaining to our share-based compensation plans.

Accumulated Other Comprehensive Loss

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

	For the Nine Months Ended September 30,	
	2008	2007
Beginning balance	$ (2,372)	$ (693)
Unrealized gain (loss) on derivatives, net of minority interests	657	(561)
Realized loss on derivatives, net of minority interests	39	39
Ending balance	$ (1,676)	$ (1,215)

The table below sets forth our comprehensive income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 12,949	$ 11,431	$ 37,197	$ 24,855
Unrealized gain (loss) on derivatives, net of minority interests	926	(903)	657	(561)
Realized loss on derivatives, net of minority interests	13	13	39	39
Total comprehensive income	$ 13,888	$ 10,541	$ 37,893	$ 24,333

Table of Contents

14. Dividends and Distributions

The following table summarizes our dividends and distributions when either the payable dates or record dates occurred during the nine months ended September 30, 2008:

	Record Date	Payable Date	Dividend/ Distribution Per Share/Unit	Total Dividend/ Distribution
Series G Preferred Shares:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.5000	$ 1,100
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.5000	$ 1,100
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.5000	$ 1,100
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.5000	$ 1,100
Series H Preferred Shares:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.4688	$ 938
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.4688	$ 938
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.4688	$ 938
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.4688	$ 938
Series J Preferred Shares:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.4766	$ 1,616
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.4766	$ 1,616
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.4766	$ 1,616
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.4766	$ 1,616
Series K Preferred Shares:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.7000	$ 372
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.7000	$ 372
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.7000	$ 372
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.7000	$ 372
Common Shares:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.3400	$ 16,097
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.3400	$ 16,173
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.3400	$ 16,197
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.3725	$ 19,183
Series I Preferred Units:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.4688	$ 165
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.4688	$ 165
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.4688	$ 165
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.4688	$ 165
Common Units:				
Fourth Quarter 2007	December 31, 2007	January 15, 2008	$ 0.3400	$ 2,777
First Quarter 2008	March 31, 2008	April 15, 2008	$ 0.3400	$ 2,771
Second Quarter 2008	June 30, 2008	July 15, 2008	$ 0.3400	$ 2,772
Third Quarter 2008	September 30, 2008	October 15, 2008	$ 0.3725	$ 3,021

Table of Contents

15. Supplemental Information to Statements of Cash Flows

	For the Nine Months Ended September 30,			
	2008		2007	
Supplemental schedule of non-cash investing and financing activities:				
Debt assumed in connection with acquisition of properties	$		$	38,848
Issuance of common shares in connection with acquisition of properties	$		$	156,691
Issuance of preferred shares in connection with acquisition of properties	$		$	26,583
Restricted cash used in connection with acquisitions of properties	$		$	20,827
Issuance of common units in the Operating Partnership in connection with acquisition of interest in properties	$		$	12,125
Note receivable assumed upon sale of real estate property	$		$	3,582
(Decrease) increase in accrued capital improvements, leasing and acquisition costs	$	(14,326)	$	14,501
Consolidation of real estate joint venture:				
Real estate assets	$	14,208	$	3,864
Prepaid and other assets		(10,859)		1,021
Minority interest		(3,349)		(4,885)
Net adjustment	$		$	
Proceeds from sale of property invested in restricted cash	$		$	701
Reclassification of operating assets to investment in consolidated real estate joint venture	$		$	16,725
Amortization of discounts and premiums on mortgage loans to commercial real estate properties	$	39	$	296
Increase (decrease) in fair value of derivatives applied to AOCL and minority interests	$	802	$	(644)
Adjustments to minority interests resulting from changes in ownership of the Operating Partnership by COPT	$	14,323	$	29,693
Dividends/distribution payable	$	25,774	$	22,433
Decrease in minority interests and increase in shareholders equity in connection with the conversion of common units into common shares	$	1,982	$	25,358

Table of Contents

16. Information by Business Segment

As of September 30, 2008, we had nine primary office property segments: Baltimore/Washington Corridor; Northern Virginia; Suburban Baltimore; Colorado Springs; Suburban Maryland; Greater Philadelphia; St. Mary s and King George Counties; San Antonio; and Northern/Central New Jersey.

The table below reports segment financial information. Our segment entitled Other includes assets and operations not specifically associated with the other defined segments, including corporate assets and investments in unconsolidated entities. We measure the performance of our segments based on total revenues less property operating expenses, a measure we define as net operating income (NOI). We believe that NOI 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	Northern Virginia	Suburban Baltimore	Colorado Springs	Suburban Maryland	Greater Philadelphia	St. Mary s & King George Counties	San Antonio	Northern/ Central New Jersey	Other	Intersegment Elimination	Total
Three Months Ended September 30, 2008												
Revenues	$ 46,139	$ 19,523	$ 13,912	$ 5,612	$ 4,966	$ 2,507	$ 3,328	$ 2,641	$ 591	$ 3,330	$ (902)	$ 101,647
Property operating expenses	16,463	7,518	5,994	1,859	1,998	43	857	696	58	1,122	(742)	35,866
NOI	$ 29,676	$ 12,005	$ 7,918	$ 3,753	$ 2,968	$ 2,464	$ 2,471	$ 1,945	$ 533	$ 2,208	$ (160)	$ 65,781
Additions to commercial real estate properties	$ 8,408	$ 2,121	$ 3,993	$ 9,092	$ 9,683	$ 428	$ 904	$ 11,333	$	$ 8,737	$ (30)	$ 54,669
Three Months Ended September 30, 2007												
Revenues	$ 43,850	$ 18,555	$ 13,575	$ 4,311	$ 4,410	$ 2,506	$ 3,338	$ 1,832	$ 1,110	$ 2,262	$ (911)	$ 94,838
Property operating expenses	14,681	6,529	5,465	1,973	1,746	35	784	374	678	926	(926)	32,265
NOI	$ 29,169	$ 12,026	$ 8,110	$ 2,338	$ 2,664	$ 2,471	$ 2,554	$ 1,458	$ 432	$ 1,336	$ 15	$ 62,573
Additions to commercial real estate properties	$ 47,776	$ 4,341	$ 13,949	$ 11,959	$ 50	$ 348	$ 250	$ 1,554	$ 6	$ 6,392	$ (548)	$ 86,077
Nine Months Ended September 30, 2008												
Revenues	$ 138,142	$ 57,454	$ 41,324	$ 14,475	$ 14,457	$ 7,519	$ 9,622	$ 6,548	$ 1,929	$ 8,477	$ (2,683)	$ 297,264
Property operating expenses	48,364	21,757	18,008	5,179	5,249	147	2,346	1,572	305	3,601	(1,965)	104,563
NOI	$ 89,778	$ 35,697	$ 23,316	$ 9,296	$ 9,208	$ 7,372	$ 7,276	$ 4,976	$ 1,624	$ 4,876	$ (718)	$ 192,701
Additions to commercial real estate properties	$ 62,482	$ 3,850	$ 11,730	$ 62,538	$ 31,779	$ 1,040	$ 2,140	$ 29,581	$ 43	$ 10,962	$ (45)	$ 216,100
Segment assets at September 30,	$ 1,249,126	$ 466,793	$ 440,933	$ 244,309	$ 169,913	$ 95,004	$ 95,124	$ 90,841	$ 21,929	$ 226,738	$ (982)	$ 3,099,728

2008												
Nine Months Ended September 30, 2007												
Revenues	$ 130,409	$ 53,981	$ 40,104	$ 11,510	$ 12,320	$ 7,519	$ 9,465	$ 5,476	$ 3,902	$ 4,371	$ (2,654)	$ 276,403
Property operating expenses	42,592	19,340	16,212	4,455	5,069	101	2,303	1,121	1,763	3,477	(2,686)	93,747
NOI	$ 87,817	$ 34,641	$ 23,892	$ 7,055	$ 7,251	$ 7,418	$ 7,162	$ 4,355	$ 2,139	$ 894	$ 32	$ 182,656
Additions to commercial real estate properties	$ 146,904	$ 21,257	$ 276,824	$ 36,326	$ 1,958	$ 880	$ 533	$ 1,560	$ 271	$ 50,127	$ (1,493)	$ 535,147
Segment assets at September 30, 2007	$ 1,208,852	$ 483,473	$ 461,461	$ 168,719	$ 132,851	$ 96,463	$ 95,828	$ 58,023	$ 40,450	$ 170,890	$ (987)	$ 2,916,023

Table of Contents

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

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Segment revenues	$ 101,647	$ 94,838	$ 297,264	$ 276,403
Construction contract revenues	89,653	10,047	121,688	29,358
Other service operations revenues	349	910	1,352	3,369
Less: Revenues from discontinued real estate operations (Note 19)	(3)	(736)	(358)	(3,059)
Total revenues	$ 191,646	$ 105,059	$ 419,946	$ 306,071

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

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Segment property operating expenses	$ 35,866	$ 32,265	$ 104,563	$ 93,747
Less: Property operating expenses from discontinued real estate operations (Note 19)	(12)	(688)	(210)	(1,579)
Total property operating expenses	$ 35,854	$ 31,577	$ 104,353	$ 92,168

The following table reconciles our NOI for reportable segments to income from continuing operations as reported on our Consolidated Statements of Operations:

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
NOI for reportable segments	$ 65,781	$ 62,573	$ 192,701	$ 182,656
Construction contract revenues	89,653	10,047	121,688	29,358
Other service operations revenues	349	910	1,352	3,369
Equity in loss of unconsolidated entities	(57)	(46)	(167)	(197)
Income tax expense	(97)	(197)	(102)	(480)
Other adjustments:				
Depreciation and other amortization associated with real estate operations	(25,583)	(26,025)	(75,430)	(78,811)
Construction contract expenses	(87,111)	(9,507)	(118,488)	(28,126)
Other service operations expenses	(546)	(806)	(1,602)	(3,337)
General and administrative expenses	(6,103)	(5,743)	(18,072)	(15,946)
Interest expense on continuing operations	(20,506)	(20,968)	(60,252)	(61,181)
Amortization of deferred financing costs	(1,169)	(901)	(2,882)	(2,706)
Gain on sale of non-real estate investment	1		52	1,033
Minority interests in continuing operations	(1,668)	(942)	(4,469)	(2,282)
NOI from discontinued operations	9	(48)	(148)	(1,480)
Income from continuing operations	$ 12,953	$ 8,347	$ 34,181	$ 21,870

The accounting policies of the segments are the same as those previously disclosed for Corporate Office Properties Trust and subsidiaries, where applicable. We did not allocate interest expense,

amortization of deferred financing costs and depreciation and other amortization to segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate construction contract revenues, other service operations revenues, construction contract expenses, other service operations expenses, equity in loss of unconsolidated entities, general and administrative expense, gain on sale of non-real estate investment, income taxes and minority interests because these items represent general corporate items not attributable to segments.

17. Share-Based Compensation

During the nine months ended September 30, 2008, we granted 40,000 options to purchase common shares (options) to members of our Board of Trustees. The exercise price of these option grants was $37.81 per share. These options vest on the first anniversary of the grant date provided that the Trustees remain in their positions. These options expire ten years after the grant date. We computed share-based compensation expense for these options under the fair value method using the Black-Scholes option-pricing model; the assumptions we used in that model are set forth below:

Fair value of grants on grant date	$	8.00
Risk-free interest rate		3.62%
Expected life (in years)		6.52
Expected volatility		24.22%
Expected annual dividend yield		3.07%

During the nine months ended September 30, 2008, 145,059 options were exercised. The weighted average exercise price of these options was $17.32 per share, and the total intrinsic value of options exercised was $3,003.

During the nine months ended September 30, 2008, certain employees were granted a total of 291,319 restricted shares with a weighted average grant date fair value of $32.32 per share. These shares are subject to forfeiture restrictions that lapse in equal increments annually over a three-year period (for most of the grants) or a five-year period, in each case beginning on the first anniversary of the grant date provided that the employees remain employed by us. During the nine months ended September 30, 2008, forfeiture restrictions lapsed on 141,395 common shares previously issued to employees. These shares had a weighted average grant date fair value of $35.30 per share, and the total fair value of the shares on the vesting dates was $4,541.

We realized a windfall tax benefit of $1,053 in the nine months ended September 30, 2008 on options exercised and vesting restricted shares in connection with employees of our subsidiaries that are subject to income tax. We did not realize a windfall tax benefit in the nine months ended September 30, 2007 because COMI had a net operating loss carryforward for tax purposes; had COMI not had a net operating loss carryforward during the nine months ended September 30, 2007, we would have recognized a windfall tax benefit of $1,687 in that period.

Expenses from share-based compensation are reflected in our Consolidated Statements of Operations as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Increase in general and administrative expenses	$ 1,621	$ 1,202	$ 4,724	$ 3,277
Increase in construction contract and other service operations expenses	428	483	1,526	1,346
Share-based compensation expense	2,049	1,685	6,250	4,623
Income tax expense	(8)	(19)	(37)	(120)
Minority interests	(309)	(259)	(944)	(708)
Net share-based compensation expense	$ 1,732	$ 1,407	$ 5,269	$ 3,795

Table of Contents

18. Income Taxes

The table below sets forth COMI s provision for income tax expense and its presentation on our Consolidated Statements of Operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Deferred				
Federal	$ 60	$ 161	$ 363	$ 395
State	9	36	80	88
	69	197	443	483
Current				
Federal	24		195	
State	4		42	
	28		237	
Total income tax expense	$ 97	$ 197	$ 680	$ 483
Reported on line entitled income tax expense	$ 97	$ 197	$ 102	$ 480
Reported on line entitled gain on sales of real estate, net			578	3
Total income tax expense	$ 97	$ 197	$ 680	$ 483

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

COMI s combined Federal and state effective tax rate was 39% for the three and nine months ended September 30, 2008 and 2007.

19. Discontinued Operations

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

- 2 and 8 Centre Drive properties that were sold on September 7, 2007;
- 7321 Parkway property that was sold on September 7, 2007;
- 429 Ridge Road property that was sold on January 31, 2008;
- 47 Commerce Drive property that was sold on April 1, 2008; and
- 7253 Ambassador Road property that was sold on June 2, 2008.

Table of Contents

The table below sets forth the components of income from discontinued operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue from real estate operations	$ 3	$ 736	$ 358	$ 3,059
Expenses from real estate operations:				
Property operating expenses	12	688	210	1,579
Depreciation and amortization		241	52	842
Interest expense		177	51	1,302
Expenses from real estate operations	12	1,106	313	3,723
(Loss) income from discontinued operations before gain on sales of real estate and minority interests	(9)	(370)	45	(664)
Gain on sales of real estate		2,789	2,526	2,778
Minority interests in discontinued operations	1	(373)	(392)	(328)
(Loss) income from discontinued operations, net of minority interests	$ (8)	$ 2,046	$ 2,179	$ 1,786

20. Commitments and Contingencies

In the normal course of business, we are involved in legal actions arising from our ownership and administration of properties. Management does not anticipate that any liabilities that may result will have a materially adverse effect on our financial position, operations or liquidity. 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

As part of our obligations under the partnership agreement of Harrisburg Corporate Gateway Partners, LP, we agreed to indemnify the partnership s lender for 80% of losses under standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation) during the period of time in which we manage the partnership s properties; we do not expect to incur any losses under these loan guarantees.

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. Under the contribution agreement, we agreed to fund up to $2,200 in pre-construction costs associated with the property. 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 additional 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, 2008.

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.

Table of Contents

Office Space Operating Leases

We are obligated as lessee under five operating leases for office space. Future minimum rental payments due under the terms of these leases as of September 30, 2008 follow:

Three months ended December 31, 2008	$	63
2009		