

CORPORATE OFFICE PROPERTIES TRUST  
Form 10-Q  
July 29, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended June 30, 2011

or

- 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**

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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 July 18, 2011, 71,912,302 of the Company's Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. Financial Statements****Corporate Office Properties Trust and Subsidiaries****Consolidated Balance Sheets****(Dollars in thousands)****(unaudited)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Properties, net:		
Operating properties, net	\$ 2,741,433	\$ 2,802,773
Properties under construction or development	656,321	642,682
Properties held for sale, net	75,107	
Total properties, net	3,472,861	3,445,455
Cash and cash equivalents	11,703	10,102
Restricted cash and marketable securities	22,909	22,582
Accounts receivable (net of allowance for doubtful accounts of \$3,360 and \$2,796, respectively)	13,083	18,938
Deferred rent receivable	85,190	79,160
Intangible assets on real estate acquisitions, net	99,917	113,735
Deferred leasing and financing costs, net	60,988	60,649
Prepaid expenses and other assets	101,579	93,896
<b>Total assets</b>	<b>\$ 3,868,230</b>	<b>\$ 3,844,517</b>
<b>Liabilities and equity</b>		
<b>Liabilities:</b>		
Debt, net	\$ 2,299,416	\$ 2,323,681
Accounts payable and accrued expenses	115,154	99,699
Rents received in advance and security deposits	26,779	31,603
Dividends and distributions payable	35,021	32,986
Deferred revenue associated with operating leases	12,883	14,802
Distributions received in excess of investment in unconsolidated real estate joint venture	5,841	5,545
Interest rate derivatives	10,020	4,226
Other liabilities	9,744	8,837
Total liabilities	2,514,858	2,521,379
<b>Commitments and contingencies (Note 15)</b>		
<b>Equity:</b>		
Corporate Office Properties Trust's shareholders' equity:		
Preferred Shares of beneficial interest with an aggregate liquidation preference of \$216,333 (\$0.01 par value; 15,000,000 shares authorized and 8,121,667 shares issued and outstanding at June 30, 2011 and December 31, 2010)	81	81
Common Shares of beneficial interest (\$0.01 par value; 125,000,000 shares authorized, shares issued and outstanding of 71,891,631 at June 30, 2011 and 66,931,582 at December 31, 2010)	719	669
Additional paid-in capital	1,657,536	1,511,844

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Cumulative distributions in excess of net income	(389,195)	(281,794)
Accumulated other comprehensive loss	(9,624)	(4,163)
Total Corporate Office Properties Trust s shareholders equity	1,259,517	1,226,637
Noncontrolling interests in subsidiaries:		
Common units in the Operating Partnership	66,482	69,337
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated entities	18,573	18,364
Noncontrolling interests in subsidiaries	93,855	96,501
Total equity	1,353,372	1,323,138
<b>Total liabilities and equity</b>	\$ 3,868,230	\$ 3,844,517

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Rental revenue	\$ 98,589	\$ 88,779	\$ 195,864	\$ 177,423
Tenant recoveries and other real estate operations revenue	19,954	17,950	42,837	38,937
Construction contract and other service revenues	28,097	26,065	49,125	63,430
<b>Total revenues</b>	<b>146,640</b>	<b>132,794</b>	<b>287,826</b>	<b>279,790</b>
<b>Expenses</b>				
Property operating expenses	44,721	39,260	94,431	86,206
Depreciation and amortization associated with real estate operations	31,440	28,720	62,830	55,531
Construction contract and other service expenses	26,909	25,402	47,527	61,801
Impairment losses	38,290		66,032	
General and administrative expenses	6,320	5,926	13,097	11,826
Business development expenses	588	465	1,076	620
<b>Total operating expenses</b>	<b>148,268</b>	<b>99,773</b>	<b>284,993</b>	<b>215,984</b>
Operating (loss) income	(1,628)	33,021	2,833	63,806
Interest expense	(26,607)	(25,576)	(53,246)	(48,068)
Interest and other income	2,756	245	3,924	1,547
Loss on early extinguishment of debt	(25)		(25)	
(Loss) income from continuing operations before equity in loss of unconsolidated entities and income taxes	(25,504)	7,690	(46,514)	17,285
Equity in loss of unconsolidated entities	(94)	(72)	(64)	(277)
Income tax benefit (expense)	5,042	(7)	5,586	(48)
(Loss) income from continuing operations	(20,556)	7,611	(40,992)	16,960
Discontinued operations	(5,467)	1,205	(6,298)	2,514
(Loss) income before gain on sales of real estate	(26,023)	8,816	(47,290)	19,474
Gain on sales of real estate, net of income taxes	16	335	2,717	352
<b>Net (loss) income</b>	<b>(26,007)</b>	<b>9,151</b>	<b>(44,573)</b>	<b>19,826</b>
Net loss (income) attributable to noncontrolling interests:				
Common units in the Operating Partnership	1,887	(364)	3,366	(891)
Preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Other consolidated entities	61	(156)	(477)	(201)
Net (loss) income attributable to Corporate Office Properties Trust	(24,224)	8,466	(42,014)	18,404
Preferred share dividends	(4,026)	(4,026)	(8,051)	(8,051)
Net (loss) income attributable to Corporate Office Properties Trust common shareholders	\$ (28,250)	\$ 4,440	\$ (50,065)	\$ 10,353
Net (loss) income attributable to Corporate Office Properties Trust:				

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(Loss) income from continuing operations	\$	(19,102)	\$	7,351	\$	(36,114)	\$	16,087
Discontinued operations, net		(5,122)		1,115		(5,900)		2,317
Net (loss) income attributable to Corporate Office Properties Trust	\$	(24,224)	\$	8,466	\$	(42,014)	\$	18,404
Basic earnings per common share (1)								
(Loss) income from continuing operations	\$	(0.34)	\$	0.05	\$	(0.66)	\$	0.13
Discontinued operations		(0.08)		0.02		(0.09)		0.04
Net (loss) income attributable to COPT common shareholders	\$	(0.42)	\$	0.07	\$	(0.75)	\$	0.17
Diluted earnings per common share (1)								
(Loss) income from continuing operations	\$	(0.34)	\$	0.05	\$	(0.66)	\$	0.13
Discontinued operations		(0.08)		0.02		(0.09)		0.04
Net (loss) income attributable to COPT common shareholders	\$	(0.42)	\$	0.07	\$	(0.75)	\$	0.17

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

See accompanying notes to consolidated financial statements.

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## Corporate Office Properties Trust and Subsidiaries

## Consolidated Statements of Equity

(Dollars in thousands)

(unaudited)

	Preferred Shares	Common Shares	Additional Paid- in Capital	Cumulative Distributions in Excess of Net Income (Loss)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2009 (58,342,673 common shares outstanding)	\$ 81	\$ 583	\$ 1,238,704	\$ (209,941)	\$ (1,907)	\$ 93,112	\$ 1,120,632
Issuance of 4.25% Exchangeable Senior Notes			18,149				18,149
Conversion of common units to common shares (610,598 shares)		6	8,821			(8,827)	
Costs associated with common shares issued to the public			(19)				(19)
Exercise of share options (175,443 shares)		2	3,082				3,084
Share-based compensation		2	5,640				5,642
Restricted common share redemptions (99,692 shares)			(3,713)				(3,713)
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT			(1,496)			1,496	
Adjustments related to derivatives designated as cash flow hedges					(2,356)	(161)	(2,517)
Net income				18,404		1,422	19,826
Dividends				(54,471)			(54,471)
Distributions to owners of common and preferred units in the Operating Partnership						(3,946)	(3,946)
Contributions from noncontrolling interests in other consolidated entities						9,260	9,260
Acquisition of noncontrolling interests in other consolidated entities			(26)			(335)	(361)
Balance at June 30, 2010 (59,287,761 common shares outstanding)	\$ 81	\$ 593	\$ 1,269,142	\$ (246,008)	\$ (4,263)	\$ 92,021	\$ 1,111,566
Balance at December 31, 2010 (66,931,582 common shares outstanding)	\$ 81	\$ 669	\$ 1,511,844	\$ (281,794)	\$ (4,163)	\$ 96,501	\$ 1,323,138
Conversion of common units to common shares (21,045 shares)			328			(328)	
Common shares issued to the public (4,600,000 shares)		46	145,315				145,361
Exercise of share options (180,464 shares)		2	2,307				2,309
Share-based compensation		2	6,356				6,358
Restricted common share redemptions (107,442 shares)			(3,813)				(3,813)
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT			(4,778)			4,778	
					(5,461)	(866)	(6,327)



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Adjustments related to derivatives

designated as cash flow hedges

Net loss				(42,014)		(2,559)		(44,573)						
Dividends				(65,387)				(65,387)						
Distributions to owners of common and preferred units in the Operating Partnership						(3,947)		(3,947)						
Contributions from noncontrolling interests in other consolidated entities				(23)		284		261						
Distributions to noncontrolling interests in other consolidated entities						(8)		(8)						
Balance at June 30, 2011 (71,891,631 common shares outstanding)	\$	81	\$	719	\$	1,657,536	\$	(389,195)	\$	(9,624)	\$	93,855	\$	1,353,372

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)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Revenues from real estate operations received	\$ 233,541	\$ 216,789
Construction contract and other service revenues received	49,441	81,275
Property operating expenses paid	(81,173)	(82,158)
Construction contract and other service expenses paid	(51,538)	(87,253)
General and administrative and business development expenses paid	(10,429)	(9,800)
Interest expense paid	(47,425)	(40,861)
Interest and other income received	250	563
Income taxes paid	(170)	
Net cash provided by operating activities	92,497	78,555
<b>Cash flows from investing activities</b>		
Purchases of and additions to properties		
Construction, development and redevelopment	(99,152)	(94,071)
Acquisitions of operating properties		(40,000)
Tenant improvements on operating properties	(20,721)	(7,623)
Other capital improvements on operating properties	(6,009)	(4,256)
Proceeds from sales of properties	6,943	3,947
Proceeds from sale of equity method investment	5,773	
Mortgage and other loan receivables funded or acquired	(15,796)	(603)
Leasing costs paid	(6,802)	(5,297)
Investment in unconsolidated entities	(250)	(4,500)
Other	(1,295)	(3,278)
Net cash used in investing activities	(137,309)	(155,681)
<b>Cash flows from financing activities</b>		
Proceeds from debt, including issuance of exchangeable senior notes	284,662	500,459
Repayments of debt		
Scheduled principal amortization	(7,421)	(6,969)
Other repayments	(307,913)	(349,006)
Deferred financing costs paid	(557)	(6,252)
Net proceeds from issuance of common shares	145,361	3,065
Dividends paid	(63,466)	(54,091)
Distributions paid	(3,964)	(4,186)
Restricted share redemptions	(3,813)	(3,713)
Other	3,524	(564)
Net cash provided by financing activities	46,413	78,743
Net increase in cash and cash equivalents	1,601	1,617
<b>Cash and cash equivalents</b>		
Beginning of period	10,102	8,262
End of period	\$ 11,703	\$ 9,879

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)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Reconciliation of net (loss) income to net cash provided by operating activities:</b>		
Net (loss) income	\$ (44,573)	\$ 19,826
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and other amortization	66,317	58,433
Impairment losses	72,347	
Amortization of deferred financing costs	3,461	2,621
Increase in deferred rent receivable	(7,213)	(4,289)
Amortization of above or below market leases	(348)	(1,037)
Amortization of net debt discounts	3,367	2,649
Gain on sales of real estate	(2,867)	(660)
Gain on equity method investment	(2,442)	(367)
Share-based compensation	5,734	5,642
Other	(376)	275
Changes in operating assets and liabilities:		
Decrease in accounts receivable	6,044	4,704
Decrease in restricted cash and marketable securities and prepaid expenses and other assets	5,392	21,820
Decrease in accounts payable, accrued expenses and other liabilities	(7,522)	(27,213)
Decrease in rents received in advance and security deposits	(4,824)	(3,849)
Net cash provided by operating activities	92,497	78,555
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Increase (decrease) in accrued capital improvements, leasing and other investing activity costs	\$ 23,053	\$ (2,064)
Increase in property and debt in connection with loan assumption	\$ 3,040	\$
Increase in property and noncontrolling interests in connection with property contribution by a noncontrolling interest in a joint venture	\$	\$ 9,000
(Decrease) increase in fair value of derivatives applied to AOCL and noncontrolling interests	\$ (6,358)	\$ 2,547
Dividends/distribution payable	\$ 35,021	\$ 28,580
Decrease in noncontrolling interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 328	\$ 8,827
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT	\$ 4,778	\$ 1,496

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 and defense information technology sectors and data centers serving such sectors. We acquire, develop, manage and lease office and data center properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in strong markets that we believe possess growth opportunities. As of June 30, 2011, our investments in real estate included the following:

- 249 wholly owned operating office properties totaling 20.2 million square feet;
- 17 wholly owned office properties under construction, development or redevelopment that we estimate will total approximately 2.2 million square feet upon completion, including two partially operational properties included above;
- wholly owned land parcels totaling 1,516 acres that we believe are potentially developable into approximately 13.0 million square feet;
- a wholly owned, partially operational, wholesale data center which upon completion is expected to have an initial stabilization critical load of 18 megawatts; and
- partial ownership interests in a number of other real estate projects in operations, under construction or development or held for future development.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership ), of which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies ( LLCs ). A summary of our Operating Partnership s forms of ownership and the percentage of those ownership forms owned by COPT as of June 30, 2011 follows:

Common Units	94%
Series G Preferred Units	100%
Series H Preferred Units	100%
Series I Preferred Units	0%
Series J Preferred Units	100%
Series K Preferred Units	100%

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Three of our trustees also controlled, either directly or through ownership by other entities or family members, an additional 5% of the Operating Partnership's common units (common units) as of June 30, 2011.

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

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

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

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

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

These interim financial statements should be read together with the financial statements and notes thereto as of and for the year ended December 31, 2010 included in our 2010 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly present our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 2010 Annual Report on Form 10-K.

**Reclassifications**

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

**Recent Accounting Pronouncements**

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

In June 2011, the FASB issued guidance on the presentation of comprehensive income that will require us to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are in the process of evaluating this guidance but currently do not believe that it will have a material effect on our consolidated financial statements.

**3. Fair Value Measurements**

For a description on how we estimate fair value, see Note 3 to the consolidated financial statements in our 2010 Annual Report on Form 10-K.

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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 June 30, 2011 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
<b>Assets:</b>				
Marketable securities in deferred compensation plan (1)				
Mutual funds	\$ 6,380	\$	\$	\$ 6,380
Common stocks	1,175			1,175
Preferred stocks	324			324
Cash and cash equivalents	418			418
Other	200			200
Common stock (1)	520			520
Interest rate derivative (2)		80		80
Warrants to purchase common shares in KEYW (2)		327		327
<b>Assets</b>	<b>\$ 9,017</b>	<b>\$ 407</b>	<b>\$</b>	<b>\$ 9,424</b>
<b>Liabilities:</b>				
Deferred compensation plan liability (3)	\$ 8,497	\$	\$	\$ 8,497
Interest rate derivatives		10,020		10,020
<b>Liabilities</b>	<b>\$ 8,497</b>	<b>\$ 10,020</b>	<b>\$</b>	<b>\$ 18,517</b>

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

(2) Included in the line entitled prepaid expenses and other assets on our consolidated balance sheet. We own warrants to purchase common shares in The KEYW Holding Corporation ( KEYW ), an equity method investee (see Note 6).

(3) Included in the line entitled other liabilities on our consolidated balance sheet.

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

For additional fair value information, please refer to Note 6 for mortgage loans receivable, Note 7 for debt and Note 8 for interest rate derivatives.

#### 4. Properties, net

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

June 30,

December 31,

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	<b>2011</b>		<b>2010</b>	
Land	\$	491,188	\$	501,210
Buildings and improvements		2,777,861		2,804,595
Less: accumulated depreciation		(527,616)		(503,032)
Operating properties, net	\$	2,741,433	\$	2,802,773

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

	<b>June 30, 2011</b>		<b>December 31, 2010</b>	
Land	\$	248,647	\$	256,487
Construction in progress, excluding land		407,674		386,195
Properties under construction or development	\$	656,321	\$	642,682

Table of Contents**Strategic Reallocation Plan and Impairment Losses**

In April 2011, we completed a review of our portfolio and identified a number of properties that are no longer closely aligned with our strategy, and our Board of Trustees approved a plan by management to dispose of some of these properties during the next three years (the Strategic Reallocation Plan). We subsequently identified an additional property with an increased likelihood of a shortened holding period. While we expect to recognize gains on the dispositions of some of these properties, we also determined that the carrying amounts of certain of these properties (the Impaired Properties) will not likely be recovered from the cash flows from the operations and sales of such properties over the shorter holding periods. Accordingly, during the three months ended June 30, 2011, we recognized aggregate non-cash impairment losses of \$44.6 million (including \$6.3 million classified as discontinued operations and excluding \$4.6 million in related income tax benefit) for the amounts by which the carrying values of the Impaired Properties exceeded their respective estimated fair values.

The properties to be disposed of pursuant to the Strategic Reallocation Plan consist primarily of smaller, non-strategic office properties in certain submarkets in the Greater Baltimore, Suburban Maryland and St. Mary's County regions. We expect that net proceeds from the execution of the Strategic Reallocation Plan after the repayment of debt secured by the properties will approximate \$200 million. We expect to invest the proceeds in properties that will serve customers in the United States Government, defense information technology and related data sectors. In May 2011, we completed the sale of three properties under the Strategic Reallocation Plan totaling 39,000 square feet for \$3.8 million and recognized a gain of \$150,000. As of June 30, 2011, we had 17 operating properties and a recently redeveloped property included in the Strategic Reallocation Plan classified as held for sale that consisted of the following (in thousands):

Land, operating properties	\$	10,343
Land, development		5,599(1)
Buildings and improvements		43,022
Construction in progress, excluding land		22,934(1)
Less: accumulated depreciation		(6,791)
Properties held for sale, net	\$	75,107

(1) Pertains to a property nearing completion of redevelopment.

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

**2011 Construction, Development and Redevelopment Activities**

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

As of June 30, 2011, we had construction underway on ten office properties totaling 1.2 million square feet, including four in the Baltimore/Washington Corridor, two in Greater Baltimore, one in San Antonio, one in Northern Virginia, one in Huntsville, Alabama and one in St. Mary's County. We also had development activities underway on eight office properties totaling 1.0 million square feet, including three in the Baltimore/Washington Corridor, two in San Antonio, two in Huntsville and one in Northern Virginia. In addition, we had redevelopment underway on two office properties totaling 297,000 square feet, including one in Greater Philadelphia and one in Northern Virginia.

Table of Contents**5. Real Estate Joint Ventures**

During the six months ended June 30, 2011, we had an investment in one unconsolidated real estate joint venture accounted for using the equity method of accounting. Information pertaining to this joint venture investment is set forth below (in thousands):

	Investment Balance at (1)		Date Acquired	Ownership	Nature of Activity	Maximum Exposure to Loss (2)
	June 30, 2011	December 31, 2010				
\$	(5,841)	\$ (5,545)	9/29/2005	20%	Operates 16 buildings	\$

- (1) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by \$5.2 million at June 30, 2011 and December 31, 2010 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation. A difference will continue to exist to the extent the nature of our continuing involvement in the joint venture remains the same.
- (2) Derived from the sum of our investment balance and maximum additional unilateral capital contributions or loans required from us. Not reported above are additional amounts that we and our partner are required to fund when needed by this joint venture; these funding requirements are proportional to our respective ownership percentages. Also not reported above are additional unilateral contributions or loans from us, the amounts of which are uncertain, that we would be required to make if certain contingent events occur (see Note 15).

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

	June 30, 2011	December 31, 2010
Properties, net	\$ 60,745	\$ 61,521
Other assets	3,435	4,174
Total assets	\$ 64,180	\$ 65,695
Liabilities (primarily debt)	\$ 67,422	\$ 67,454
Owners equity	(3,242)	(1,759)
Total liabilities and owners equity	\$ 64,180	\$ 65,695

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 1,890	\$ 2,089	\$ 3,814	\$ 4,189
Property operating expenses	(979)	(832)	(1,965)	(1,826)
Interest expense	(988)	(966)	(1,999)	(1,947)
Depreciation and amortization expense	(567)	(857)	(1,175)	(1,735)
Net loss	\$ (644)	\$ (566)	\$ (1,325)	\$ (1,319)



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

	Date Acquired	Ownership % at 6/30/2011	Nature of Activity	Total Assets	June 30, 2011 (1) Pledged Assets	Total Liabilities
M Square Associates, LLC	6/26/2007	50%	Operating two buildings and developing others (2)	\$ 59,363	\$ 48,749	\$ 43,896
LW Redstone Company, LLC	3/23/2010	85%	Developing land parcel (3)	30,065		3,028
Arundel Preserve #5, LLC	7/2/2007	50%	Operating one building (4)	29,711	28,699	17,038
COPT-FD Indian Head, LLC	10/23/2006	75%	Developing land parcel (5)	6,492		
MOR Forbes 2 LLC	12/24/2002	50%	Operating one building (6)	4,002		46
				\$ 129,633	\$ 77,448	\$ 64,008

(1) Excludes amounts eliminated in consolidation.

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

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

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

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

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

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 15.

## **6. Prepaid Expenses and Other Assets**

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

	June 30, 2011	December 31, 2010
Mortgage and other investing receivables	\$ 35,649	\$ 18,870
Investment in KEYW	19,456	22,779
Furniture, fixtures and equipment, net	10,578	11,504
Construction contract costs incurred in excess of billings	9,657	9,372
Prepaid expenses	8,758	19,995
Deferred tax asset	5,676	276
Other assets	11,805	11,100

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Prepaid expenses and other assets	\$	101,579	\$	93,896
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### Investment in The KEYW Holding Corporation

Our investment in KEYW reflected above consists of common stock and warrants to purchase additional shares of common stock of KEYW. We owned 2.6 million shares, or approximately 10%, of KEYW's common stock at June 30, 2011 and 3.1 million shares, or approximately 12%, at December 31, 2010. We use the equity method of accounting for our investment in the common stock. The carrying value of our equity method investment in these common shares was \$19.1 million at June 30, 2011 and \$22.3 million at December 31, 2010. Our investment in these common shares had a fair value of \$31.8 million at June 30, 2011 based on the closing price of KEYW's common stock on the NASDAQ Stock Market on that date. In March 2011, we entered into a sales plan that complies with the requirements of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, to sell up to 1.6 million shares of our KEYW common stock in 2011; we completed the sale of 500,000 shares under this plan in the three and six months ended June 30, 2011, resulting in \$2.1 million in gain recognized. We subsequently suspended this plan effective June 30, 2011. Our Chief Executive Officer resigned from the Board of Directors of KEYW effective July 1, 2011, at which time we began accounting for our investment in KEYW's common stock as a trading marketable equity security to be reported at fair value, with unrealized gains and losses recognized through earnings.

At June 30, 2011 and December 31, 2010, we owned warrants to purchase 50,000 additional shares of KEYW common stock at an exercise price of \$9.25 per share. We account for these warrants as derivatives reported at fair value using the Black-Scholes option-pricing model. The estimated fair value of these warrants was \$327,000, or \$6.55 per warrant, at June 30, 2011 and \$466,000, or \$9.32 per warrant, at December 31, 2010.



Table of Contents**Mortgage and Other Investing Receivables**

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

	June 30, 2011	December 31, 2010
Mortgage loans receivable	\$ 25,473	\$ 14,227
Notes receivable from City of Huntsville	10,176	4,643
	\$ 35,649	\$ 18,870

Our mortgage loans receivable reflected above consists of three loans secured by properties in the Baltimore/Washington Corridor and Greater Baltimore. Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture. We do not have an allowance for credit losses in connection with these receivables at June 30, 2011 or December 31, 2010. The fair value of our mortgage and other investing receivables totaled \$35.9 million at June 30, 2011 and \$18.8 million at December 31, 2010.

**Operating Notes Receivable**

We had operating notes receivables due from tenants with terms exceeding one year totaling \$595,000 at June 30, 2011 and \$655,000 at December 31, 2010. We carried allowances for estimated losses for most of these balances.

**7. Debt**

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

	Maximum Availability at June 30, 2011	Carrying Value at		Stated Interest Rates at June 30, 2011	Scheduled Maturity Dates at June 30, 2011
		June 30, 2011	December 31, 2010		
<b>Mortgage and Other Secured Loans:</b>					
Fixed rate mortgage loans (1)	N/A	\$ 1,063,369	\$ 1,173,358	5.20% - 7.87% (2)	2012 - 2034 (3)
Revolving Construction Facility	\$ 225,000	175,001	142,339	LIBOR + 1.60% to 2.00% (4)	May 2012
Variable rate secured loans	N/A	309,923	310,555	LIBOR + 2.25% to 3.00% (5)	2012 - 2015 (6)
Other construction loan facility	23,400	16,753	16,753	LIBOR + 2.75% (7)	2012
Total mortgage and other secured loans		1,565,046	1,643,005		
Revolving Credit Facility	800,000	342,000	295,000	LIBOR + 0.75% to 1.25% (8)	September 30, 2011 (9)
Unsecured notes payable	N/A	4,995	1,947	0% (10)	2015 - 2026

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Exchangeable Senior Notes:

4.25% Exchangeable Senior Notes	N/A	225,539	223,846	4.25%	April 2030 (11)
3.5% Exchangeable Senior Notes	N/A	161,836	159,883	3.50%	September 2026 (12)
<b>Total debt</b>		<b>\$ 2,299,416</b>	<b>\$ 2,323,681</b>		

- 
- (1) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net unamortized premiums totaling \$2.8 million at June 30, 2011 and \$3.2 million at December 31, 2010.
  - (2) The weighted average interest rate on these loans was 6.01% at June 30, 2011.
  - (3) A loan with a balance of \$4.5 million at June 30, 2011 that matures in 2034 may be repaid in March 2014, subject to certain conditions.
  - (4) The weighted average interest rate on this loan was 1.95% at June 30, 2011.
  - (5) Certain of the loans in this category at June 30, 2011 were subject to floor interest rates ranging from 4.25% to 5.50%.
  - (6) Includes \$221.4 million maturing in 2012 that may be extended for a one-year period at our option, subject to certain conditions.
  - (7) The interest rate on this loan was 2.95% at June 30, 2011.
  - (8) The weighted average interest rate on the Revolving Credit Facility was 1.14% at June 30, 2011.
  - (9) This loan may be extended for a one-year period at our option, subject to certain conditions.
  - (10) These notes may carry interest rates that were below market rates upon assumption and therefore were recorded at their fair value based on applicable effective interest rates. The carrying value of these notes reflects an unamortized discount totaling \$2.0 million at June 30, 2011 and \$1.1 million at December 31, 2010.

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- (11) As described further in our 2010 Annual Report on Form 10-K, these notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash and, at the Operating Partnership's discretion, our common shares at an exchange rate (subject to adjustment) of 20.8145 shares per one thousand dollar principal amount of the notes (exchange rate is as of June 30, 2011 and is equivalent to an exchange price of \$48.04 per common share). The carrying value of these notes included a principal amount of \$240.0 million and an unamortized discount totaling \$14.5 million at June 30, 2011 and \$16.2 million at December 31, 2010. The effective interest rate under the notes, including amortization of the issuance costs, was 6.05%. Because the closing price of our common shares at June 30, 2011 and December 31, 2010 was less than the exchange price per common share applicable to these notes, the if-converted value of the notes did not exceed the principal amount. The table below sets forth interest expense recognized on these notes before deductions for amounts capitalized (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Interest expense at stated interest rate	\$ 2,550	\$ 2,380	\$ 5,100	\$ 2,380
Interest expense associated with amortization of discount	852	803	1,692	803
Total	\$ 3,402	\$ 3,183	\$ 6,792	\$ 3,183

- (12) As described further in our 2010 Annual Report on Form 10-K, these notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash (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 19.3470 shares per one thousand dollar principal amount of the notes (exchange rate is as of June 30, 2011 and is equivalent to an exchange price of \$51.69 per common share). The carrying value of these notes included a principal amount of \$162.5 million and an unamortized discount totaling \$664,000 at June 30, 2011 and \$2.6 million at December 31, 2010. 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 June 30, 2011 and December 31, 2010 was less than the exchange price per common share applicable to these notes, the if-converted value of the notes did not exceed the principal amount. The table below sets forth interest expense recognized on these notes before deductions for amounts capitalized (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Interest expense at stated interest rate	\$ 1,422	\$ 1,422	\$ 2,844	\$ 2,844
Interest expense associated with amortization of discount	984	927	1,953	1,840
Total	\$ 2,406	\$ 2,349	\$ 4,797	\$ 4,684

We capitalized interest costs of \$4.3 million in the three months ended June 30, 2011, \$4.2 million in the three months ended June 30, 2010, \$8.6 million in the six months ended June 30, 2011 and \$8.1 million in the six months ended June 30, 2010.

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

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed-rate debt	\$ 1,455,739	\$ 1,464,754	\$ 1,559,034	\$ 1,579,022

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Variable-rate debt	843,677	849,935	764,647	769,247
	\$ 2,299,416	\$ 2,314,689	\$ 2,323,681	\$ 2,348,269

Table of Contents**8. Interest Rate Derivatives**

The following table sets forth the key terms and fair values of our interest rate swap derivatives (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					June 30, 2011	December 31, 2010
\$ 120,000	1.7600%	One-Month LIBOR	1/2/2009	5/1/2012	\$ (1,465)	\$ (2,062)
100,000	1.9750%	One-Month LIBOR	1/1/2010	5/1/2012	(1,402)	(2,002)
100,000(1)	3.8415%	Three-Month LIBOR	9/30/2011	9/30/2021	(3,974)	N/A
75,000(1)	3.8450%	Three-Month LIBOR	9/30/2011	9/30/2021	(3,003)	N/A
50,000	0.5025%	One-Month LIBOR	1/3/2011	1/3/2012	(64)	(64)
50,000	0.5025%	One-Month LIBOR	1/3/2011	1/3/2012	(64)	(64)
50,000	0.4400%	One-Month LIBOR	1/4/2011	1/3/2012	(48)	(34)
40,000(2)	3.8300%	One-Month LIBOR	11/2/2010	11/2/2015	80	644
					\$ (9,940)	\$ (3,582)

(1) These instruments have a cash settlement date of March 30, 2012.

(2) The notional amount of this instrument is scheduled to amortize to \$36.2 million.

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 (in thousands):

Derivatives Designated as Hedging Instruments	June 30, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Prepaid expenses and other assets	\$ 80	Prepaid expenses and other assets	\$ 644
Interest rate swaps	Interest rate derivatives	(10,020)	Interest rate derivatives	(4,226)

The table below presents the effect of our interest rate derivatives on our consolidated statements of operations and comprehensive income (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Amount of loss recognized in AOCL (effective portion)	\$ (8,458)	\$ (1,929)	\$ (8,594)	\$ (4,314)
Amount of loss reclassified from AOCL into interest expense (effective portion)	(1,163)	(886)	(2,267)	(1,797)

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Over the next 12 months, we estimate that approximately \$8.1 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 June 30, 2011, the fair value of interest rate derivatives in a liability position related to these agreements was \$10.0 million, excluding the effects of accrued interest. As of June 30, 2011, 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 \$10.5 million.

Table of Contents**9. Shareholders Equity****Common Shares**

We completed a public offering of 4.6 million common shares in May 2011 at a price of \$33.00 per share for net proceeds of \$145.7 million after underwriter discounts but before offering expenses.

During the six months ended June 30, 2011, holders of 21,045 common units in our Operating Partnership converted their units into common shares on the basis of one common share for each common unit.

We declared dividends per common share of \$0.4125 in the three months ended June 30, 2011, \$0.3925 in the three months ended June 30, 2010, \$0.825 in the six months ended June 30, 2011 and \$0.785 in the six months ended June 30, 2010.

See Note 11 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 (in thousands):

	<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Beginning balance	\$ (4,163)	\$ (1,907)
Amount of loss recognized in AOCL (effective portion)	(8,594)	(4,314)
Amount of loss reclassified from AOCL to income (effective portion)	2,267	1,797
Adjustment to AOCL attributable to noncontrolling interests	866	161
Ending balance	\$ (9,624)	\$ (4,263)

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

<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>

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Net (loss) income	\$	(26,007)	\$	9,151	\$	(44,573)	\$	19,826
Amount of loss recognized in AOCL		(8,458)		(1,929)		(8,594)		(4,314)
Amount of loss reclassified from AOCL to income		1,163		886		2,267		1,797
Total comprehensive (loss) income		(33,302)		8,108		(50,900)		17,309
Net loss (income) attributable to noncontrolling interests		1,783		(685)		2,559		(1,422)
Other comprehensive loss attributable to noncontrolling interests		450		77		388		198
Total comprehensive (loss) income attributable to COPT	\$	(31,069)	\$	7,500	\$	(47,953)	\$	16,085



Table of Contents**10. Information by Business Segment**

As of June 30, 2011, 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). We also had 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, impairment losses, 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
<b>Three Months Ended June 30, 2011</b>												
Revenues from real estate operations	\$ 52,860	\$ 17,846	\$ 18,445	\$ 5,912	\$ 5,325	\$ 7,089	\$ 4,252	\$ 1,675	\$ 3,564	\$ 1,276	\$ 2,562	\$ 120,806
Property operating expenses	18,325	7,269	7,374	2,077	2,234	3,208	1,657	375	970	831	1,134	45,454
NOI from real estate operations	\$ 34,535	\$ 10,577	\$ 11,071	\$ 3,835	\$ 3,091	\$ 3,881	\$ 2,595	\$ 1,300	\$ 2,594	\$ 445	\$ 1,428	\$ 75,352
Additions to properties, net	\$ 18,588	\$ 5,858	\$ 17,177	\$ 998	\$ 2,388	\$ 2,399	\$ 632	\$ 3,800	\$ 3,894	\$ 15,311	\$ 4,951	\$ 75,996
<b>Three Months Ended June 30, 2010</b>												
Revenues from real estate operations	\$ 50,623	\$ 16,827	\$ 18,172	\$ 6,154	\$ 5,452	\$ 4,228	\$	\$ 1,510	\$ 3,530	\$	\$ 3,495	\$ 109,991
Property operating expenses	16,853	7,311	6,706	2,239	2,199	2,100		800	1,041		895	40,144
NOI from real estate operations	\$ 33,770	\$ 9,516	\$ 11,466	\$ 3,915	\$ 3,253	\$ 2,128	\$	\$ 710	\$ 2,489	\$	\$ 2,600	\$ 69,847
Additions to properties, net	\$ 32,257	\$ 7,919	\$ 32,684	\$ 700	\$ 540	\$ 5,559	\$	\$ 6,273	\$ 132	\$	\$ 1,311	\$ 87,375
<b>Six Months Ended June 30, 2011</b>												
Revenues from real estate operations	\$ 106,112	\$ 35,458	\$ 36,719	\$ 11,832	\$ 10,934	\$ 14,752	\$ 8,842	\$ 3,614	\$ 7,098	\$ 2,486	\$ 5,400	\$ 243,247
	39,715	15,809	15,045	4,513	4,952	7,077	3,284	821	1,986	1,537	1,620	96,359

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Property operating expenses													
NOI from real estate operations	\$ 66,397	\$ 19,649	\$ 21,674	\$ 7,319	\$ 5,982	\$ 7,675	\$ 5,558	\$ 2,793	\$ 5,112	\$ 949	\$ 3,780	\$ 146,888	
Additions to properties, net	\$ 43,343	\$ 17,684	\$ 19,314	\$ 1,419	\$ 3,563	\$ 4,689	\$ 695	\$ 6,033	\$ 7,144	\$ 39,381	\$ 8,082	\$ 151,347	
Segment assets at June 30, 2011	\$ 1,389,667	\$ 566,900	\$ 556,037	\$ 261,813	\$ 171,418	\$ 159,350	\$ 115,949	\$ 127,685	\$ 102,402	\$ 168,986	\$ 248,023	\$ 3,868,230	
Six Months Ended June 30, 2010													
Revenues from real estate operations	\$ 102,681	\$ 34,692	\$ 36,831	\$ 12,486	\$ 11,281	\$ 8,166	\$	\$ 2,712	\$ 7,119	\$	\$ 7,019	\$ 222,987	
Property operating expenses	39,008	16,321	14,019	4,548	4,900	3,729		1,563	2,148		2,204	88,440	
NOI from real estate operations	\$ 63,673	\$ 18,371	\$ 22,812	\$ 7,938	\$ 6,381	\$ 4,437	\$	\$ 1,149	\$ 4,971	\$	\$ 4,815	\$ 134,547	
Additions to properties, net	\$ 48,216	\$ 15,159	\$ 37,594	\$ 1,513	\$ 2,081	\$ 10,498	\$	\$ 16,331	\$ 543	\$	\$ 13,787	\$ 145,722	
Segment assets at June 30, 2010	\$ 1,358,956	\$ 570,889	\$ 485,307	\$ 267,356	\$ 172,321	\$ 144,275	\$	\$ 120,432	\$ 93,333	\$	\$ 254,414	\$ 3,467,283	

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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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Segment revenues from real estate operations	\$ 120,806	\$ 109,991	\$ 243,247	\$ 222,987
Construction contract and other service revenues	28,097	26,065	49,125	63,430
Less: Revenues from discontinued operations (Note 13)	(2,263)	(3,262)	(4,546)	(6,627)
Total revenues	\$ 146,640	\$ 132,794	\$ 287,826	\$ 279,790

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Segment property operating expenses	\$ 45,454	\$ 40,144	\$ 96,359	\$ 88,440
Less: Property operating expenses from discontinued operations (Note 13)	(733)	(884)	(1,928)	(2,234)
Total property operating expenses	\$ 44,721	\$ 39,260	\$ 94,431	\$ 86,206

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Construction contract and other service revenues	\$ 28,097	\$ 26,065	\$ 49,125	\$ 63,430
Construction contract and other service expenses	(26,909)	(25,402)	(47,527)	(61,801)
NOI from service operations	\$ 1,188	\$ 663	\$ 1,598	\$ 1,629

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
NOI from real estate operations	\$ 75,352	\$ 69,847	\$ 146,888	\$ 134,547
NOI from service operations	1,188	663	1,598	1,629
Interest and other income	2,756	245	3,924	1,547
Equity in loss of unconsolidated entities	(94)	(72)	(64)	(277)
Income tax benefit (expense)	5,042	(7)	5,586	(48)
Other adjustments:				
Depreciation and other amortization associated with real estate operations	(31,440)	(28,720)	(62,830)	(55,531)
Impairment losses	(38,290)		(66,032)	
General and administrative expenses	(6,320)	(5,926)	(13,097)	(11,826)
Business development expenses	(588)	(465)	(1,076)	(620)
Interest expense on continuing operations	(26,607)	(25,576)	(53,246)	(48,068)
NOI from discontinued operations	(1,530)	(2,378)	(2,618)	(4,393)
Loss on early extinguishment of debt	(25)		(25)	
(Loss) income from continuing operations	\$ (20,556)	\$ 7,611	\$ (40,992)	\$ 16,960

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, depreciation and amortization and impairment losses 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 loss of unconsolidated entities, income taxes and noncontrolling interests because these items represent general corporate items not attributable to segments.

## 11. Share-Based Compensation

### Performance Share Units ( PSUs )

On March 3, 2011, our Board of Trustees granted 56,883 PSUs to executives. The PSUs have a performance period beginning on the grant date and concluding on the earlier of March 2, 2014 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	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:

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- 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 \$49.15 per PSU using a Monte Carlo model, which included assumptions of, among other things, the following: baseline common share value of \$35.17; expected volatility for our common shares of 61.1%; and risk-free interest rate of 1.32%. We are recognizing the grant date fair value in connection with these PSU awards over a three-year period that commenced on March 3, 2011.

The PSUs granted to our executives on March 4, 2010, as described in our 2010 Annual Report on Form 10-K, were also outstanding at June 30, 2011.

**Restricted Shares**

During the six months ended June 30, 2011, certain employees as well as nonemployee members of our Board of Trustees were granted a total of 280,134 restricted shares with a weighted average grant date fair value of \$35.30 per share. Restricted shares granted to employees vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employees remain employed by us. The grants of restricted shares to nonemployee Trustees vest on the first anniversary of the grant date provided that the Trustee remains in his or her position. During the six months ended June 30, 2011, forfeiture restrictions lapsed on 304,281 previously issued common shares; these shares had a weighted average grant date fair value of \$32.56 per share, and the aggregate intrinsic value of the shares on the vesting dates was \$10.8 million.

**Options**

During the six months ended June 30, 2011, 180,464 options to purchase common shares ( options ) were exercised. The weighted average exercise price of these options was \$12.74 per share, and the aggregate intrinsic value of the options exercised was \$3.9 million.

Table of Contents**12. Income Taxes**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Deferred				
Federal	\$ (4,119)	\$ 11	\$ (4,566)	\$ 13
State	(910)	2	(1,010)	3
	(5,029)	13	(5,576)	16
Current				
Federal	(10)	(5)	(8)	35
State	(3)	(1)	(2)	8
	(13)	(6)	(10)	43
Total income tax (benefit) expense	\$ (5,042)	\$ 7	\$ (5,586)	\$ 59
Reported on line entitled income tax (benefit) expense	\$ (5,042)	\$ 7	\$ (5,586)	\$ 48
Reported on line entitled gain on sale of real estate, net				11
Total income tax (benefit) expense	\$ (5,042)	\$ 7	\$ (5,586)	\$ 59

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, impairment losses and net operating losses that are not deductible until future periods.

Our TRS 's combined Federal and state effective tax rate was 38.6% for the three and six months ended June 30, 2011 and 2010.

**13. 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;
- 431 and 437 Ridge Road properties in Central New Jersey (included in the Other region) that were sold on September 8, 2010;

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- 1344 and 1348 Ashton Road properties and 1350 Dorsey Road property in the Baltimore/Washington Corridor that were sold on May 24, 2011; and
- 17 operating properties in the Greater Baltimore region that were classified as held for sale as of June 30, 2011.

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue from real estate operations	\$ 2,263	\$ 3,262	\$ 4,546	\$ 6,627
Expenses from real estate operations:				
Property operating expenses	733	884	1,928	2,234
Depreciation and amortization	609	828	2,239	1,620
Impairment loss	6,315		6,315	
Expenses from real estate operations	7,657	1,712	10,482	3,854
Operating income from real estate operations	(5,394)	1,550	(5,936)	2,773
Interest expense	(223)	(345)	(512)	(556)
Gain on sales of real estate	150		150	297
Discontinued operations	\$ (5,467)	\$ 1,205	\$ (6,298)	\$ 2,514

**14. 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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
(Loss) income from continuing operations	\$ (20,556)	\$ 7,611	\$ (40,992)	\$ 16,960
Gain on sales of real estate, net	16	335	2,717	352
Preferred share dividends	(4,026)	(4,026)	(8,051)	(8,051)
Loss (income) from continuing operations attributable to noncontrolling interests	1,438	(595)	2,161	(1,225)
Income from continuing operations attributable to restricted shares	(237)	(250)	(519)	(540)
Numerator for basic EPS from continuing operations attributable to COPT common shareholders	(23,365)	3,075	(44,684)	7,496
Dilutive effect of common units in the Operating Partnership on diluted EPS from continuing operations	(1,542)		(2,968)	
Numerator for diluted EPS from continuing operations attributable to COPT common shareholders	\$ (24,907)	\$ 3,075	\$ (47,652)	\$ 7,496
<b>Numerator for basic EPS from continuing operations attributable to COPT common shareholders</b>				
	\$ (23,365)	\$ 3,075	\$ (44,684)	\$ 7,496
Discontinued operations	(5,467)	1,205	(6,298)	2,514
Discontinued operations attributable to noncontrolling interests	345	(90)	398	(197)
Numerator for basic EPS on net (loss) income attributable to COPT common shareholders	(28,487)	4,190	(50,584)	9,813
Dilutive effect of common units in the Operating Partnership	(1,887)		(3,366)	
Numerator for diluted EPS on net (loss) income attributable to COPT common shareholders	\$ (30,374)	\$ 4,190	\$ (53,950)	\$ 9,813
<b>Denominator (all weighted averages):</b>				
Denominator for basic EPS (common shares)	68,446	58,489	67,399	58,169
Dilutive effect of share-based compensation awards		421		405
Dilutive effect of common units	4,382		4,389	
Denominator for diluted EPS	72,828	58,910	71,788	58,574
<b>Basic EPS:</b>				
(Loss) income from continuing operations attributable to COPT common shareholders	\$ (0.34)	\$ 0.05	\$ (0.66)	\$ 0.13
Discontinued operations attributable to COPT common shareholders	(0.08)	0.02	(0.09)	0.04
Net (loss) income attributable to COPT common shareholders	\$ (0.42)	\$ 0.07	\$ (0.75)	\$ 0.17
<b>Diluted EPS:</b>				
(Loss) income from continuing operations attributable to COPT common shareholders	\$ (0.34)	\$ 0.05	\$ (0.66)	\$ 0.13

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Discontinued operations attributable to COPT common shareholders	(0.08)		0.02		(0.09)		0.04
Net (loss) income attributable to COPT common shareholders	\$ (0.42)	\$	0.07	\$	(0.75)	\$	0.17

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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):

	Weighted Average Shares Excluded from Denominator			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Conversion of common units		4,558		4,786
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 June 30, 2011 and 2010 of 624,000 and 664,000, respectively, and for the six months ended June 30, 2011 and 2010 of 637,000 and 662,000, respectively; and
- weighted average options for the three months ended June 30, 2011 and 2010 of 625,000 and 561,000, respectively, and for the six months ended June 30, 2011 and 2010 of 623,000 and 570,000, respectively.

As discussed in Note 7, 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.

## 15. Commitments and Contingencies

### Litigation

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.

### Environmental

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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 \$65 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

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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 June 30, 2011.

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 \$4.2 million liability through June 30, 2011 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 that we no longer own. 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 capped at \$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

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- 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 and defense information technology sectors and data centers serving such sectors. We acquire, develop, manage and lease office and data center properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in strong markets that we believe possess growth opportunities.

During the six months ended June 30, 2011, we:

- had a decrease in net income attributable to common shareholders of \$60.4 million as compared to the six months ended June 30, 2010, due in large part to impairment losses of \$44.6 million on properties identified for disposition primarily under our Strategic Reallocation Plan (defined below) and \$27.7 million on our property in Cascade, Maryland that was formerly the Army base known as Fort Ritchie;
- had a decrease of \$3.0 million, or 2%, from the six months ended June 30, 2010 in our net operating income ( NOI ) from continuing real estate operations (defined below) attributable to our Same Office Properties (also defined below);
- finished the period with occupancy of our portfolio of wholly owned office properties at 87.3%;
- placed into service an aggregate of 149,000 square feet in two newly constructed office properties;
- issued 4.6 million common shares at a public offering price of \$33.00 per share for net proceeds of \$145.7 million after underwriting discounts but before offering expenses; and
- completed a review of our portfolio and identified a number of properties that are no longer closely aligned with our strategy, and our Board of Trustees approved a plan by management to dispose of some of these properties during the next three years (the Strategic Reallocation Plan ).

In this section, we discuss our financial condition and results of operations as of and for the three and six months ended June 30, 2011. 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 six months ended June 30, 2011 compared to the same periods in 2010;
- our cash flows;
- how we expect to generate cash for short and long-term capital needs; and



- our commitments and contingencies at June 30, 2011.

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, believe, anticipate, expect, estimate, plan or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability;

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- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- our ability to borrow on favorable terms;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development 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 views of market economic conditions or failure to obtain development rights, either of which 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, including risks associated with the impact of a government shutdown such as a reduction in rental revenues or non-renewal of leases;
- the dilutive effects of issuing additional common shares; and
- environmental requirements.

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

### **Occupancy and Leasing**

The tables below set forth occupancy information pertaining to our portfolio of wholly owned operating office properties.

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Occupancy rates at period end</b>		
Total	87.3%	88.2%
Baltimore/Washington Corridor	90.0%	89.5%
Northern Virginia	87.6%	91.9%
Greater Baltimore	83.9%	85.0%
San Antonio	100.0%	100.0%
Colorado Springs	76.0%	76.2%
Washington, DC - Capitol Riverfront	95.4%	98.5%
St. Mary's and King George Counties	87.0%	86.8%
Suburban Maryland	71.0%	71.4%
Greater Philadelphia	85.8%	100.0%
Other	100.0%	100.0%
Average contractual annual rental rate per square foot at period end (1)	\$ 25.91	\$ 25.56

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(1) Includes estimated expense reimbursements.

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	Rentable Square Feet	Occupied Square Feet
	(in thousands)	
December 31, 2010	19,990	17,628
Square feet vacated upon lease expiration (1)		(525)
Square feet retenanted after lease expiration (2)		300
Square feet constructed	149	141
Other changes	105	119
June 30, 2011	20,244	17,663

(1) Includes lease terminations and space reductions occurring in connection with lease renewals.

(2) Excludes retenanting of vacant square feet acquired or developed.

While we expect the challenging lease environment to continue at least through 2011, we believe that the overall fundamentals for office leasing for us were either at, or near, bottom by March 31, 2011. We also believe that our customer and market strategies are competitive advantages in the current leasing environment since we expect the United States Government and defense information technology sectors to fuel economic growth in many of our regions. For example, military and civilian personnel are in the process of being relocated to government installations at Fort George G. Meade (in the Baltimore/Washington Corridor), Aberdeen Proving Ground (in the Greater Baltimore region), San Antonio, Redstone Arsenal (in Huntsville, Alabama) and Fort Belvoir (in Springfield, Virginia) in connection with mandates by the Base Realignment and Closure Commission of the United States Congress (BRAC). In addition, the newly-formed United States Cyber Command is located at Fort George G. Meade. We expect the demand created by these government installations will not only help stabilize the leasing markets in these regions but also expect it will provide future growth for us due to the installations proximity to many of our properties. While there has been increased speculation regarding future reductions in United States defense spending, we do not believe that such spending decreases, were they to occur, would significantly affect defense information technology, which is the primary nature of the activities for tenants in our sector concentration described above. On the contrary, we believe that United States spending for defense information technology could increase due to the increasing significance of these activities to national security.

Much of the leasing that we expected to execute in the first half of 2011 was delayed in large part due to the delay until April 15 of an approved Federal budget. The resulting operation of the government under the continuing resolution effectively froze new government and program contractor leasing. We believe that we will accomplish some of this delayed leasing in the second half of 2011. We are also closely monitoring developments relating to the United States Government's debt ceiling and fiscal 2012 budget. Delays in the approval of a fiscal 2012 budget could delay expected leasing activity that we expect to complete in the second half of 2011 and/or early 2012.

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	
		June 30, 2011	December 31, 2010
Greater Harrisburg, Pennsylvania (1)	20%	71.3%	74.3%
Suburban Maryland (2)	50%	84.4%	88.3%
Baltimore/Washington Corridor (3)	50%	6.0%	6.0%

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

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(2) Includes three properties totaling 298,000 square feet.

(3) Includes one property with 144,000 square feet.

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Our shell-complete wholesale data center property, which is expected to have an initial stabilization critical load of 18 megawatts, had three megawatts in operations at June 30, 2011 and December 31, 2010 that was leased to tenants with further expansion rights of up to a combined five megawatts.

**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, impairment losses, 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. 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, excluding operating properties identified for disposition under our Strategic Reallocation Plan. We define these as changes from Same Office Properties ;
- operating properties acquired during the current and prior year reporting periods;
- constructed properties placed into service that were not 100% operational throughout the current and prior year reporting periods; and
- operating properties held for future disposition that are included in continuing operations.

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 (loss) 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 (loss) 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.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
NOI from continuing real estate operations	\$ 73,822	\$ 67,469	\$ 144,270	\$ 130,154
NOI from service operations	1,188	663	1,598	1,629
Depreciation and amortization associated with continuing real estate operations	(31,440)	(28,720)	(62,830)	(55,531)
Impairment losses from continuing real estate operations	(38,290)		(66,032)	
General and administrative expense	(6,320)	(5,926)	(13,097)	(11,826)
Business development expenses	(588)	(465)	(1,076)	(620)
Operating (loss) income	\$ (1,628)	\$ 33,021	\$ 2,833	\$ 63,806

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Comparison of the Three Months Ended June 30, 2011 to the Three Months Ended June 30, 2010

	2011	For the Three Months Ended June 30, 2010 (Dollars in thousands)		Variance
<b>Revenues</b>				
Revenues from real estate operations	\$ 118,543	\$ 106,729	\$ 11,814	
Construction contract and other service revenues	28,097	26,065	2,032	
Total revenues	146,640	132,794	13,846	
<b>Expenses</b>				
Property operating expenses	44,721	39,260	5,461	
Depreciation and amortization associated with real estate operations	31,440	28,720	2,720	
Construction contract and other service expenses	26,909	25,402	1,507	
Impairment losses	38,290		38,290	
General and administrative expense	6,320	5,926	394	
Business development expenses	588	465	123	
Total operating expenses	148,268	99,773	48,495	
Operating (loss) income	(1,628)	33,021	(34,649)	
Interest expense	(26,607)	(25,576)	(1,031)	
Interest and other income	2,756	245	2,511	
Loss on early extinguishment of debt	(25)		(25)	
Equity in loss of unconsolidated entities	(94)	(72)	(22)	
Income tax benefit (expense)	5,042	(7)	5,049	
(Loss) income from continuing operations	(20,556)	7,611	(28,167)	
Discontinued operations	(5,467)	1,205	(6,672)	
Gain on sales of real estate, net of income taxes	16	335	(319)	
Net (loss) income	(26,007)	9,151	(35,158)	
Net loss (income) attributable to noncontrolling interests	1,783	(685)	2,468	
Preferred share dividends	(4,026)	(4,026)		
Net (loss) income attributable to COPT common shareholders	\$ (28,250)	\$ 4,440	\$ (32,690)	



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*NOI from Continuing Real Estate Operations*

	For the Three Months Ended June 30,			
	2011	2010		Variance
	(Dollars in thousands)			
<b>Revenues</b>				
Same Office Properties	\$ 98,564	\$ 98,668	\$	(104)
Acquired properties	6,723	41	\$	6,682
Constructed properties placed in service	7,759	1,138	\$	6,621
Operating properties held for future disposition	5,101	5,983	\$	(882)
Other	396	899	\$	(503)
	118,543	106,729	\$	11,814
<b>Property operating expenses</b>				
Same Office Properties	35,603	34,405	\$	1,198
Acquired properties	3,133	6	\$	3,127
Constructed properties placed in service	1,720	487	\$	1,233
Operating properties held for future disposition	2,312	2,411	\$	(99)
Other	1,953	1,951	\$	2
	44,721	39,260	\$	5,461
<b>NOI from continuing real estate operations</b>				
Same Office Properties	62,961	64,263	\$	(1,302)
Acquired properties	3,590	35	\$	3,555
Constructed properties placed in service	6,039	651	\$	5,388
Operating properties held for future disposition	2,789	3,572	\$	(783)
Other	(1,557)	(1,052)	\$	(505)
	\$ 73,822	\$ 67,469	\$	6,353

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

*Impairment losses*

In connection primarily with the Strategic Reallocation Plan approved in April 2011, we determined that the carrying amounts of certain properties identified for disposition (the Impaired Properties ) will not likely be recovered from the cash flows from the operations and sales of such properties over the shorter holding periods. Accordingly, during the three months ended June 30, 2011, we recognized aggregate non-cash impairment losses of \$44.6 million (including \$6.3 million classified as discontinued operations and excluding \$4.6 million in related income tax benefit) for the amounts by which the carrying values of the Impaired Properties exceeded their respective estimated fair values.

*Interest expense*

The increase in interest expense included the effect of a \$236.2 million increase in our average outstanding debt resulting from our financing of acquisition and construction activities. Also included was a decrease in our weighted average interest rates of debt from 5.3% to 4.9%.



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*Interest and other income*

The increase in interest and other income was due primarily to \$2.1 million in gain recognized on our sale of 500,000 shares of common stock in The KEYW Holding Corporation ( KEYW ).

We used the equity method of accounting for our investment in KEYW common stock through June 30, 2011. Our Chief Executive Officer resigned from the Board of Directors of KEYW effective July 1, 2011, at which time we began accounting for our investment in KEYW 's common stock as a trading marketable equity security to be reported at fair value, with unrealized gains and losses recognized through earnings. The carrying value of our investment in these common shares was \$19.1 million at June 30, 2011 and the shares had a fair value of \$31.8 million at June 30, 2011 based on the closing price of KEYW 's common stock on the NASDAQ Stock Market on that date.

*Income tax benefit (expense)*

The increase in income tax benefit was due primarily to a \$4.6 million benefit on an impairment loss recognized by our taxable REIT subsidiary in connection with the Strategic Reallocation Plan.

*Discontinued operations*

The decrease in discontinued operations was due primarily to \$6.3 million in impairment losses recognized in connection with the Strategic Reallocation Plan described above.

Table of ContentsComparison of the Six Months Ended June 30, 2011 to the Six Months Ended June 30, 2010

	2011	For the Six Months Ended June 30, 2010 (Dollars in thousands)		Variance
<b>Revenues</b>				
Revenues from real estate operations	\$ 238,701	\$ 216,360	\$ 22,341	
Construction contract and other service revenues	49,125	63,430	(14,305)	
Total revenues	287,826	279,790	8,036	
<b>Expenses</b>				
Property operating expenses	94,431	86,206	8,225	
Depreciation and amortization associated with real estate operations	62,830	55,531	7,299	
Construction contract and other service expenses	47,527	61,801	(14,274)	
Impairment losses	66,032		66,032	
General and administrative expense	13,097	11,826	1,271	
Business development expenses	1,076	620	456	
Total operating expenses	284,993	215,984	69,009	
Operating income	2,833	63,806	(60,973)	
Interest expense	(53,246)	(48,068)	(5,178)	
Interest and other income	3,924	1,547	2,377	
Loss on early extinguishment of debt	(25)		(25)	
Equity in loss of unconsolidated entities	(64)	(277)	213	
Income tax benefit (expense)	5,586	(48)	5,634	
(Loss) income from continuing operations	(40,992)	16,960	(57,952)	
Discontinued operations	(6,298)	2,514	(8,812)	
Gain on sales of real estate, net of income taxes	2,717	352	2,365	
Net (loss) income	(44,573)	19,826	(64,399)	
Net loss (income) attributable to noncontrolling interests	2,559	(1,422)	3,981	
Preferred share dividends	(8,051)	(8,051)		
Net (loss) income attributable to COPT common shareholders	\$ (50,065)	\$ 10,353	\$ (60,418)	

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*NOI from Continuing Real Estate Operations*

	2011	For the Six Months Ended June 30, 2010 (Dollars in thousands)	Variance
<b>Revenues</b>			
Same Office Properties	\$ 198,450	\$ 200,258	\$ (1,808)
Acquired properties	13,985	41	13,944
Constructed properties placed in service	15,130	1,872	13,258
Operating properties held for future disposition	10,406	12,334	(1,928)
Other	730	1,855	(1,125)
	238,701	216,360	22,341
<b>Property operating expenses</b>			
Same Office Properties	76,429	75,235	1,194
Acquired properties	5,962	6	5,956
Constructed properties placed in service	3,520	737	2,783
Operating properties held for future disposition	5,241	5,724	(483)
Other	3,279	4,504	(1,225)
	94,431	86,206	8,225
<b>NOI from continuing real estate operations</b>			
Same Office Properties	122,021	125,023	(3,002)
Acquired properties	8,023	35	7,988
Constructed properties placed in service	11,610	1,135	10,475
Operating properties held for future disposition	5,165	6,610	(1,445)
Other	(2,549)	(2,649)	100
	\$ 144,270	\$ 130,154	\$ 14,116

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

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

- the decrease in revenues included the following:
  - a \$1.9 million decrease in rental revenue attributable primarily to changes in occupancy and rental rates between the two periods (average occupancy of Same Office Properties was 89.1% in the current period versus 89.9% in the prior period); and
  - a \$734,000 decrease in net revenue from the early termination of leases; offset in part by
  - a \$787,000 increase in tenant recoveries and other revenue; and
- the increase in property operating expenses included the following:

- a \$1.4 million increase in heating and air conditioning repairs and maintenance that was predominantly attributable to an increase in heating and air conditioning systems utilization at a property in San Antonio;
- a \$1.1 million increase in costs for asset and property management labor, much of which was due to an increase in the size of our employee base supporting certain properties;
- a \$933,000 increase in interior and other repairs and maintenance; offset in part by
- a \$3.3 million decrease in snow removal expenses due primarily to record snowfall in Maryland and Northern Virginia in the prior period.

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*Depreciation and Amortization Associated with Real Estate Operations*

Depreciation and amortization expense associated with real estate included in continuing operations increased due primarily to expense attributable to properties added into operations through acquisition and construction activities.

*Impairment losses*

We recognized the impairment losses described below in the current period:

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

*Interest expense*

The increase in interest expense included the effect of a \$262.3 million increase in our average outstanding debt resulting from our financing of acquisition and construction activities.

*Interest and other income, income tax benefit (expense) and discontinued operations*

The changes reflected in these lines items were due primarily to the reasons described above for the three month periods.

*Gain on sales of real estate*

The increase in gain on sales of real estate was attributable primarily to the sale of a land parcel in Hunt Valley, Maryland.

Funds from Operations

Funds from operations ( FFO ) is defined as net income computed using GAAP, excluding gains on sales of previously depreciated 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 properties and excluding real estate-related depreciation and amortization, FFO can help one compare our operating performance between periods. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs. We believe that net income is the most directly comparable GAAP measure to FFO.



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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 (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, as adjusted for comparability is defined as Diluted FFO adjusted to exclude operating property acquisition costs, gain or loss on early extinguishment of debt and impairment losses, net of associated income tax. We believe that the excluded items are not reflective of normal operations and, as a result, we believe that a measure that excludes these items 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 the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

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

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

The computations for all of the above measures on a diluted basis assume the conversion of common units in 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 six months ended June 30, 2011 and 2010 and provides reconciliations to the GAAP measures associated with such measures (dollars and shares in thousands, except per share data):

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net (loss) income	\$ (26,007)	\$ 9,151	\$ (44,573)	\$ 19,826
Add: Real estate-related depreciation and amortization	32,049	29,548	65,069	57,151
Add: Depreciation and amortization on unconsolidated real estate entities	115	171	234	346
Less: Gain on sales of previously depreciated operating properties, net of income taxes	(150)		(150)	(297)
FFO	6,007	38,870	20,580	77,026
Noncontrolling interests-preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Noncontrolling interests-other consolidated entities	61	(156)	(477)	(201)
Preferred share dividends	(4,026)	(4,026)	(8,051)	(8,051)
Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(225)	(297)	(290)	(579)
Basic and Diluted FFO allocable to restricted shares	(237)	(346)	(519)	(725)
Basic and Diluted FFO	\$ 1,415	\$ 33,880	\$ 10,913	\$ 67,140
Operating property acquisition costs	52	271	75	290
Impairment losses	44,605		72,347	
Income tax benefit from impairment loss	(4,598)		(4,598)	
Loss on early extinguishment of debt	25		25	
Diluted FFO, as adjusted for comparability	\$ 41,499	\$ 34,151	\$ 78,762	\$ 67,430
Weighted average common shares	68,446	58,489	67,399	58,169
Conversion of weighted average common units	4,382	4,558	4,389	4,786
Weighted average common shares/units - Basic FFO	72,828	63,047	71,788	62,955
Dilutive effect of share-based compensation awards	151	421	205	405
Weighted average common shares/units - Diluted FFO	72,979	63,468	71,993	63,360
Diluted FFO per share	\$ 0.02	\$ 0.53	\$ 0.15	\$ 1.06
Diluted FFO per share, as adjusted for comparability	\$ 0.57	\$ 0.54	\$ 1.09	\$ 1.06
Numerator for diluted EPS	\$ (30,374)	\$ 4,190	\$ (53,950)	\$ 9,813
(Loss) income allocable to noncontrolling interests-common units in the Operating Partnership		364		891
Real estate-related depreciation and amortization	32,049	29,548	65,069	57,151
Depreciation and amortization of unconsolidated real estate entities	115	171	234	346
Numerator for diluted EPS allocable to restricted shares	237	250	519	540
Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	(225)	(297)	(290)	(579)
Basic and diluted FFO allocable to restricted shares	(237)	(346)	(519)	(725)
Gain on sales of previously depreciated operating properties, net of income taxes	(150)		(150)	(297)
Basic and Diluted FFO	\$ 1,415	\$ 33,880	\$ 10,913	\$ 67,140
Operating property acquisition costs	52	271	75	290
Impairment losses	44,605		72,347	
Income tax benefit from impairment loss	(4,598)		(4,598)	
Loss on early extinguishment of debt	25		25	
Diluted FFO, as adjusted for comparability	\$ 41,499	\$ 34,151	\$ 78,762	\$ 67,430
Denominator for diluted EPS	72,828	58,910	71,788	58,574
Weighted average common units		4,558		4,786
Anti-dilutive EPS effect of share-based compensation awards	151		205	
Denominator for diluted FFO per share measures	72,979	63,468	71,993	63,360



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Investing and Financing Activities During the Six Months Ended June 30, 2011

During the six months ended June 30, 2011, we placed into service an aggregate of 149,000 square feet in newly constructed space in two office properties. These properties, which total 228,000 square feet, became fully operational in 2011 (79,000 of these square feet were placed into service in 2010). Costs incurred on these properties through June 30, 2011 totaled \$43.4 million.

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 six months ended June 30, 2011 (in thousands):

Construction, development and redevelopment	\$	123,870
Tenant improvements on operating properties		23,061(1)
Capital improvements on operating properties		4,416
	\$	151,347

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

In April 2011, we completed a review of our portfolio and identified a number of properties that are no longer closely aligned with our strategy, and our Board of Trustees approved the Strategic Reallocation Plan. The properties to be disposed of pursuant to the Strategic Reallocation Plan consist primarily of smaller, non-strategic office properties in certain submarkets in the Greater Baltimore, Suburban Maryland and St. Mary's County regions. We expect that net proceeds from the execution of the Strategic Reallocation Plan after the repayment of debt secured by the properties will approximate \$200 million. We expect to invest the proceeds in properties that will serve customers in the United States Government, defense information technology and related data sectors. In May 2011, we completed the sale of three properties under the plan totaling 39,000 square feet for \$3.8 million.

On April 5, 2011, we entered into two forward starting swaps for an aggregate notional amount of \$175.0 million to lock in the LIBOR swap rate in anticipation of our obtaining a ten-year term, fixed rate financing later in 2011. Both agreements are effective on September 30, 2011, expire on September 30, 2021 and have a cash settlement date on March 30, 2012. These swaps are designated as cash flow hedges.

In May 2011, we issued 4.6 million common shares at a public offering price of \$33.00 per share, for net proceeds of \$145.7 million after underwriting discount but before offering expenses. The net proceeds were used to pay down our Revolving Credit Facility and for general corporate purposes.

Cash Flows

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We expect to continue to use cash flow provided by operations as the primary source to meeting our short-term capital needs, including 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. Our net cash flow provided by operating activities increased \$13.9 million when comparing the six months ended June 30, 2011 and 2010 due primarily to an increase in revenues received from real estate operations attributable to newly acquired and newly constructed properties. Our net cash flow used in investing activities decreased \$18.4 million when comparing the six months ended June 30, 2011 and 2010 due primarily to a decrease in acquisitions relative to the prior period. Our cash flow provided by financing activities decreased \$32.3 million when comparing the six months ended June 30, 2011 and 2010 due primarily to a \$175.2 million decrease in net debt repayments, offset in part by a \$142.3 million increase in net proceeds from common share issuances in the current period.

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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 2010 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 unsecured revolving credit facility (the Revolving Credit Facility ) 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 project development and acquisitions.

Our Revolving Credit Facility provides for borrowings of up to \$800 million, \$452.1 million of which was available at June 30, 2011; this facility is available through September 2011 and may be extended by 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. We often use our Revolving Credit Facility initially to finance much of our investing activities. We then pay down the facility using proceeds generated from long-term borrowings and equity issuances. Amounts available under the facility are computed based on 65% of our unencumbered asset value, as defined in the agreement.

In addition, we have a construction loan agreement with an aggregate commitment by the lenders that is restorable (the Revolving Construction Facility ), which provides for borrowings of up to \$225.0 million, \$50.0 million of which was available at June 30, 2011 to fund future construction costs; this facility is available until May 2012.

In 2011, we expect to obtain a new facility that will replace our existing Revolving Credit Facility. We expect to satisfy our 2011 debt maturities and fund the construction of properties under construction at period end or expected to be started during the remainder of 2011 using capacity under our credit facilities and by accessing the secured debt market, unsecured debt market and/or 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 are expected to provide capital resources during the remainder of 2011 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 June 30, 2011, we were in compliance with these financial covenants.

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Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2011 (in thousands):

	For the Periods Ended December 31,						Total
	2011	2012	2013	2014	2015	Thereafter	
<b>Contractual obligations (1)</b>							
<b>Debt (2)</b>							
Balloon payments due upon maturity	\$ 504,500	\$ 449,277	\$ 134,843	\$ 202,697	\$ 394,734	\$ 575,264	\$ 2,261,315
Scheduled principal payments	6,814	13,867	11,206	7,528	5,738	7,255	52,408
Interest on debt (3)	47,894	83,690	69,870	59,105	44,015	29,347	333,921
New construction, development and redevelopment obligations (4)(5)	50,354	41,572					91,926
Third-party construction and development obligations (5)(6)	20,891	6,963					27,854
Capital expenditures for operating properties (5)(7)	19,700	10,273					29,973
Operating leases (8)	356	595	539	445	348	27,081	29,364
Other purchase obligations (9)	1,709	3,412	2,756	1,717	1,222	323	11,139
<b>Total contractual cash obligations</b>	<b>\$ 652,218</b>	<b>\$ 609,649</b>	<b>\$ 219,214</b>	<b>\$ 271,492</b>	<b>\$ 446,057</b>	<b>\$ 639,270</b>	<b>\$ 2,837,900</b>

(1) The contractual obligations set forth in this table generally exclude individual property operations contracts that had a value of less than \$20,000. Also excluded are contracts associated with the operations of our properties that may be terminated with notice of one month or less, which is the arrangement that applies to most of our property operations contracts.

(2) Represents scheduled principal amortization payments and maturities only and therefore excludes a net discount of \$14.3 million. We expect to refinance the balloon payments that are due in 2011 and 2012 using primarily a combination of borrowings under our credit facilities and by accessing the secured debt market, unsecured debt market and/or public equity market. The principal maturities occurring in 2011 includes \$342.0 million that may be extended for one year, subject to certain conditions.

(3) Represents interest costs for debt at June 30, 2011 for the terms of such debt. For variable rate debt, the amounts reflected above used June 30, 2011 interest rates on variable rate debt in computing interest costs for the terms of such debt.

(4) Represents contractual obligations pertaining to new construction, development and redevelopment activities. We expect to finance these costs using primarily a combination of borrowings under our credit facilities and by accessing the secured debt market, unsecured debt market and/or public equity market. Construction, development and redevelopment activities underway at June 30, 2011 included the following:

Activity	Number of Properties	Square Feet (in thousands) or Critical Load	Estimated Remaining Costs (in millions)	Expected Year For Costs to be Incurred Through
Construction of new office properties	10	1,174	\$ 127.2	2013
Development of new office properties	8	1,026	201.5	2014
Redevelopment of existing office properties	2	297	28.0	2012
Completion of wholesale data center	1	18MW	101.2	2013



- (5) Due to the long-term nature of certain construction and development contracts and leases included in these lines, the amounts reported in the table represent our estimate of the timing for the related obligations being payable.
- (6) Represents contractual obligations pertaining to projects for which we are acting as construction manager on behalf of unrelated parties who are our clients. We expect to be reimbursed in full for these costs by our clients.
- (7) Represents contractual obligations pertaining to recurring and nonrecurring capital expenditures for our operating properties. We expect to finance these costs primarily using cash flow from operations.
- (8) We expect to pay these items using cash flow from operations.
- (9) Primarily represents contractual obligations pertaining to managed-energy service contracts in place for certain of our operating properties. We expect to pay these items using cash flow from operations.

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 2010 Annual Report on Form 10-K.

Table of Contents**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.

**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.

The following table sets forth as of June 30, 2011 our debt obligations and weighted average interest rates for fixed rate debt by expected maturity date (dollars in thousands):

	2011 (1)	2012	For the Periods Ending December 31,		2015	Thereafter	Total
			2013	2014			
Long term debt:							
Fixed rate debt (2)	\$ 168,660	\$ 48,647	\$ 144,616	\$ 162,009	\$ 363,595	\$ 582,519	\$ 1,470,046
Weighted average interest rate	3.60%	6.36%	5.62%	6.40%	4.66%	6.02%	5.42%
Variable rate debt	\$ 342,654	\$ 414,497	\$ 1,433	\$ 48,216	\$ 36,877	\$	\$ 843,677

(1) Includes \$342.0 million in maturities that may be extended for a one-year period, subject to certain conditions.

(2) Represents principal maturities only and therefore excludes net discounts of \$14.3 million.

The fair market value of our debt was \$2.3 billion at June 30, 2011. If interest rates had been 1% lower, the fair value of our debt would have increased by \$57.8 million at June 30, 2011.

The following table sets forth information pertaining to interest rate swap contracts in place as of June 30, 2011 and December 31, 2010 and their respective fair values (dollars in thousands):

Notional	Fixed	Floating Rate	Effective	Expiration	Fair Value at June 30,	Fair Value at December 31,
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Amount	Rate	Index	Date	Date	2011	2010
\$ 120,000	1.7600%	One-Month LIBOR	1/2/2009	5/1/2012	\$ (1,465)	\$ (2,062)
100,000	1.9750%	One-Month LIBOR	1/1/2010	5/1/2012	(1,402)	(2,002)
100,000(1)	3.8415%	Three-Month LIBOR	9/30/2011	9/30/2021	(3,974)	N/A
75,000(1)	3.8450%	Three-Month LIBOR	9/30/2011	9/30/2021	(3,003)	N/A
50,000	0.5025%	One-Month LIBOR	1/3/2011	1/3/2012	(64)	(64)
50,000	0.5025%	One-Month LIBOR	1/3/2011	1/3/2012	(64)	(64)
50,000	0.4400%	One-Month LIBOR	1/4/2011	1/3/2012	(48)	(34)
40,000(2)	3.8300%	One-Month LIBOR	11/2/2010	11/2/2015	80	644
					\$ (9,940)	\$ (3,582)

(1) These instruments have a cash settlement date of March 30, 2012.

(2) The notional amount of this instrument is scheduled to amortize to \$36.2 million.

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would have increased by \$1.6 million in the six months ended June 30, 2011 if short-term interest rates had been 1% higher.

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**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 June 30, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2011 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 (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.

**PART II**

**Item 1. Legal Proceedings**

We are not currently involved in any 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 2010 Annual Report on Form 10-K.

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

(a) During the three months ended June 30, 2011, 4,320 of the Operating Partnership's common units were exchanged for 4,320 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**

At our 2011 Annual Meeting of Shareholders held on May 12, 2011, a substantial majority of our outstanding common shares of beneficial interest were voted in favor of conducting future non-binding, advisory votes on executive compensation on an "every year" basis. We have considered this shareholder vote, and intend to conduct future non-binding, advisory votes on executive compensation on an "every year" basis until the next vote by our shareholders on the frequency of such votes, which will be no later than our 2017 Annual Meeting of Shareholders.

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**Item 6. Exhibits**

(a) Exhibits:

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
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).

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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: July 29, 2011

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

Date: July 29, 2011

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