CORPORATE OFFICE PROPERTIES TRUST Form 10-Q April 30, 2010 Table of Contents

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

## **FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2010

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**

(Exact name of registrant as specified in its charter)

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Maryland

(State or other jurisdiction of incorporation or organization)

23-2947217 (IRS Employer

Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD

(Address of principal executive offices)

**21046** (Zip Code)

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

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

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

Large accelerated filer x

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

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) o Yes x No

As of April 16, 2010, 58,929,245 of the Company s Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

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#### PART I: FINANCIAL INFORMATION

#### **ITEM 1. Financial Statements**

#### **Corporate Office Properties Trust and Subsidiaries**

#### **Consolidated Balance Sheets**

#### (Dollars in thousands)

	March 31, 2010	December 31, 2009
Assets		
Properties, net:		
Operating properties, net	\$ 2,493,891	\$ 2,510,277
Properties held for sale, net	18,546	18,533
Projects under construction or development	552,525	501,090
Total properties, net	3,064,962	3,029,900
Cash and cash equivalents	10,180	8,262
Restricted cash and marketable securities	18,981	16,549
Accounts receivable, net	13,982	17,459
Deferred rent receivable	74,113	71,805
Intangible assets on real estate acquisitions, net	94,925	100,671
Deferred charges, net	52,797	53,421
Prepaid expenses and other assets	68,412	81,955
Total assets	\$ 3,398,352	\$ 3,380,022
Liabilities and equity		
Liabilities:		
Mortgage and other loans payable, net	\$ 1,950,070	\$ 1,897,694
3.5% Exchangeable Senior Notes, net	157,061	156,147
Accounts payable and accrued expenses	86,650	116,455
Rents received in advance and security deposits	32,575	32,177
Dividends and distributions payable	28,556	28,440
Deferred revenue associated with operating leases	13,827	14,938
Distributions in excess of investment in unconsolidated real estate joint venture	5,238	5,088
Other liabilities	13,836	8,451
Total liabilities	2,287,813	2,259,390
Commitments and contingencies (Note 15)		
Equity:		
Corporate Office Properties Trust s shareholders equity:		
Preferred Shares of beneficial interest with an aggregate liquidation preference of \$216,333		
(\$0.01 par value; 15,000,000 shares authorized and 8,121,667 issued and outstanding at		
March 31, 2010 and December 31, 2009)	81	81
Common Shares of beneficial interest (\$0.01 par value; 75,000,000 shares authorized, shares		
issued and outstanding of 58,927,117 at March 31, 2010 and 58,342,673 at December 31,		
2009)	589	583
Additional paid-in capital	1,244,046	1,238,704
Cumulative distributions in excess of net income	(227,189)	(209,941)

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Accumulated other comprehensive loss	(3,278	) (1,907)
Total Corporate Office Properties Trust s shareholders equity	1,014,249	1,027,520
Noncontrolling interests in subsidiaries:		
Common units in the Operating Partnership	68,113	73,892
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated real estate joint ventures	19,377	10,420
Noncontrolling interests in subsidiaries	96,290	93,112
Total equity	1,110,539	1,120,632
Total liabilities and equity	\$ 3,398,352	\$ 3,380,022

See accompanying notes to consolidated financial statements.

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#### **Corporate Office Properties Trust and Subsidiaries**

#### **Consolidated Statements of Operations**

#### (Dollars in thousands, except per share data)

		For the Thr Ended M 2010	2009		
Revenues		2010		2009	
Rental revenue	\$	91.010	\$	88,845	
Tenant recoveries and other real estate operations revenue	Ŷ	21,218	Ŷ	17,263	
Construction contract and other service revenues		37,365		74,889	
Total revenues		149,593		180,997	
Expenses		,,.,.			
Property operating expenses		48,135		38,964	
Depreciation and amortization associated with real estate operations		27,596		26,277	
Construction contract and other service expenses		36,399		73,323	
General and administrative expenses		5,900		5,543	
Business development expenses		155		646	
Total operating expenses		118,185		144,753	
Operating income		31,408		36,244	
Interest expense		(22,638)		(19,363)	
Interest and other income		1,302		1,078	
Income from continuing operations before equity in loss of unconsolidated entities and					
income taxes		10,072		17,959	
Equity in loss of unconsolidated entities		(205)		(115)	
Income tax expense		(41)		(70)	
Income from continuing operations		9,826		17,774	
Discontinued operations		832		392	
Income before gain on sales of real estate		10,658		18,166	
Gain on sales of real estate, net of income taxes		17			
Net income		10,675		18,166	
Less net income attributable to noncontrolling interests:					
Common units in the Operating Partnership		(527)		(1,804)	
Preferred units in the Operating Partnership		(165)		(165)	
Other		(45)		(50)	
Net income attributable to Corporate Office Properties Trust		9,938		16,147	
Preferred share dividends		(4,025)		(4,025)	
Net income attributable to Corporate Office Properties Trust common shareholders	\$	5,913	\$	12,122	
Net income attributable to Corporate Office Properties Trust:					
Income from continuing operations	\$	9,174	\$	15,804	
Discontinued operations, net		764		343	
Net income attributable to Corporate Office Properties Trust	\$	9,938	\$	16,147	
Basic earnings per common share (1)					
Income from continuing operations	\$	0.08	\$	0.22	
Discontinued operations		0.02		0.01	
Net income attributable to COPT common shareholders	\$	0.10	\$	0.23	
Diluted earnings per common share (1)					
Income from continuing operations	\$	0.08	\$	0.22	
Discontinued operations		0.02		0.01	

Net income attributable to COPT common shareholders

\$ 0.10

\$

0.23

(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.

#### **Corporate Office Properties Trust and Subsidiaries**

#### **Consolidated Statements of Equity**

#### (Dollars in thousands)

common shares outstanding)     S     81     S     583     S     1,238,704     S     (209,941)     (1,907)     93,112     S     1,120,632       Conversion of common units to common shares (09,497 shares)     3     4,512     (4,515)     (4,515)       Costs associated with common shares issued to the public     1     2,055     (18)     2,056       Share-based compensation     2     2,069     2,011     2,056       Share-based componensition     2     2,069     2,011     2,056       Share-based compensation     2     2,069     2,011     2,056       Share-based compensation     2     2,069     2,011     2,011       Restricted common share redemptions     (3,610)     (3,610)     (3,610)     (3,610)       Adjustments to noncontrolling interests     restricted contraitives     (3,610)     (1,371)     (103)     (1,474)       Net income     9,938     737     10,675     (2,7186)     (2,7186)     (2,7186)       Distributions to noncontrolling interests in other consolidated real estate joint     (2,7186)     (3,62) <td< th=""><th></th><th>Preferre</th><th></th><th>Common Shares</th><th>Additional Paid-in Capital</th><th>D</th><th>Cumulative Distributions in Excess of Net Income</th><th>( Comp</th><th>umulated Other orehensiveNo Loss</th><th>oncontrolling Interests</th><th>Total</th></td<>		Preferre		Common Shares	Additional Paid-in Capital	D	Cumulative Distributions in Excess of Net Income	( Comp	umulated Other orehensiveNo Loss	oncontrolling Interests	Total
Cenversion of common units to common shares side (4,515)   (4,515)     shares (309,497 shares)   3   4,512   (4,515)     Costs associated with common shares   1   2,055   (8,70)   (8,70)     Exercise of share options (128,461 shares)   1   2,055   (3,610)   (2,611)     Restricted common share redemptions   (2   2,609   (3,610)   (3,610)     Adjustments to noncontrolling interests   (3,610)   (3,610)   (3,610)   (3,610)     Adjustments to noncontrolling interests   (1,671)   (103)   (1,474)     Adjustments to noncontrolling interests   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (2,7,186)   (2,032)   (2,032)     Contributions to wners of common and   (2,1,186)   (2,1,186)   (3,62)     Preferred units in the Operating Partnership   (2,6)   (3,62)   (3,62)     Distributions to noncortrolling interests in other consolidated real estate joint ventures   (2,6)   (3,62)   (3,62)     Balance at March 31, 2010 (5,8)27,117   (2,6)   (3,62)   (3,62)   (3,62)   (3,62)   (3,62	Balance at December 31, 2009 (58,342,673										
shares (309,497 shares)   3   4,512   (4,515)     Costs associated with common shares   18   (18)   (18)     Exercise of share options (128,461 shares)   1   2,055   2,056     Share-based compensation   2   2,609   2,051     Restricted common share redemptions   (3,610)   (3,610)   (3,610)     Operating Partnership by COPT   (180)   180   (3,610)     Operating Partnership by COPT   (180)   180   (1,711)   (103)   (1,474)     Adjustments related to derivatives   (1,371)   (103)   (1,474)   (1,371)   (103)   (1,474)     Net income   9,938   (1,371)   (103)   (1,474)     Net income   9,938   (1,371)   (103)   (1,474)     Dividends   (27,186)   (27,186)   (27,186)     Dividends from noncontrolling interests in other consolidated real estate joint ventures   (26)   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,610)   (4,52)     Balance at December 31, 2006 (51,790,442   23   53785   (5,318)	E,	\$	31 5	\$ 583 \$	5 1,238,704	\$	(209,941	)\$	(1,907)\$	93,112 \$	1,120,632
Costs associated with common shares   (18)   (18)     issued to the public   (18)   2.055   3.000     Exercise of share options (128,461 shares)   1   2.055   3.000   3.010     Restricted common share redemptions   (3.610)   (3.610)   3.010   3.010     Adjustments to noncontrolling interests   (180)   (180)   3.010   3.010   3.010     Adjustments related to derivatives   (180)   180   180   3.010 <td></td>											
issued to the public   (18)   (18)     Exercise of share options (128,461 shares)   1   2,055   2,056     Share-based compensation   2   2,609   2,611     Restricted common share redemptions   (3,610)   (3,610)   (3,610)     Operating Partnership to COPT   (180)   180   (3,610)     Adjustments to noncontrolling interests   (1,80)   180   (1,474)     Adjustments related to derivatives   (27,186)   (27,186)   (2,71,86)     Distributions to owners of common and preferred units in the Operating Partnership   (2,032)   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,278)   96,290 \$   1,110,539     Balance at March 31, 2010 (58,927,117   (23)   (2,271,89) \$   (3,278) \$   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442   (23)   53,785   (53,808)   (14)   (14)     Conversion of common nums to common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,74) \$   1,10,539     Balance at December 31, 2008 (51,790,442   (23)   53,785				3	4,512					(4,515)	
Exercise of share options (128,461 shares)   1   2,055   2,009   2,017     Share-based compensation   2   2,009   2,011     Restricted common share redemptions   (3,610)   3,610)     Adjustments to noncontrolling interests   (3,610)   3,610)     Adjustments to noncontrolling interests   (180)   103     Coperating Partnership by COPT   (180)   10,371     Adjustments to noncontrolling interests   (1,371)   10,03     esignated as cash flow hedges   (1,371)   10,03   (1,474)     Net income   9,938   737   10,675     Distributions to owners of common and preferred units in the Operating Partnership   (27,186)   (27,186)   (27,186)     Contributions for noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,361)   (3,622)     Balance at March 31, 2010 (58,927,117   (26)   (3,278)   9,6290   1,110,539     Balance at December 31, 2086 (5,1790,442   23   53,785   (53,808)   (204,804)   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411   1,082,411					(10)						(10)
Share-based common share redemptions   2   2,609   2,611     Restricted common share redemptions   (3,610)   (3,610)   (3,610)     Q6,970 shares)   (3,610)   (3,610)   (3,610)     Adjustments to noncontrolling interests   (3,610)   180   (3,610)     Adjustments related to derivatives   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (27,186)   (2,032)   (2,032)     Contributions to owners of common and preferred units in the Operating Partnership perferred units in the Operating Partnership retrests in other consolidated real estate joint ventures   (26)   (3,278)   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,278)   96,290 \$   1,110,539     Balance at March 31, 2010 (S8,927,117   (23)   (227,189) \$   (3,278) \$   96,290 \$   1,110,539     Balance at March 31, 2010 (S8,927,117   (14)   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Conversion of common units to common shares   23   53,785   (53,808)   (204)     Costassociated with common shares   1											. ,
Restricted common share redemptions   (3,610)   (3,610)     (96,970 shares)   (3,610)   (3,610)     Adjustments to noncontrolling interests   (1,871)   180     Operating Partnership by COPT   (180)   180     Adjustments related to derivatives   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (27,186)   (27,186)   (27,186)     Distributions to owners of common and   (27,186)   (27,186)   (27,186)     preferred units in the Operating Partnership of common and referests in other consolidated real estate joint   (20,32)   (2,032)   (2,032)     Ventures   (26)   (27,186)   (23,032)   (3,620)   (3,620)     Balance at March 31, 2010 (58,927,117)   (26)   (22,189)   (3,278)   9,6290   1,110,539     Balance at March 31, 2010 (58,927,117)   S   (162,572)   (4,749)   136,411   1,082,423     Conversion of common units to common   23   53,785   (27,189)   (3,641)   1,082,423     Conversion of common units to common   23   5,785   (2,7189)   136,411   1,082,423											
(96,970 shares)   (3,610)   (3,610)     Adjustments to noncontrolling interests   (3,610)     resulting from changes in ownership of   (180)   180     Operating Partnership by COPT   (180)   180     Adjustments related to derivatives   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (27,186)   (27,186)   (27,186)     Distributions to owners of common and preferred units in the Operating Partnership   (22,186)   (22,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,278)   9,247   9,247     Visitributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (3,278)   96,290 \$   1,110,539     Balance at March 31, 2010 (58,927,117   (26)   (3,278)   96,290 \$   1,110,539     Balance at December 31, 2010 (58,927,117   (14)   (4,749)   136,411 \$   1,082,423     Conversion of common units to common shares   23   53,785   (53,808)   (14)     Costs associated with common shares   1   125   126   14				2	2,609						2,611
Adjustments to noncontrolling interests   (180)   180     Adjustments to noncontrolling interests   (180)   180     Adjustments related to derivatives   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (27,186)   (27,186)   (27,186)     Distributions to owners of common and preferred units in the Operating Partnership   (22,186)   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   common shares outstanding)   \$   81 \$   588 \$   1,244,046 \$   (227,189) \$   (3,278) \$   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442											
resulting from changes in ownership of   (180)   180     Operating Partnership by COPT   (180)   180     designated as cash flow hedges   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Dividends   (27,186)   (27,186)   (2,032)     Distributions to owners of common and preferred units in the Operating Partnership   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint   9,247   9,247     Ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (3378)   96,290   1,110,539     Balance at December 31, 2008 (51,790,442   (14)   (142,572)   (4,749)   136,411   1,082,423     Conversion of common units to common shares (0,10,000 shares)   23   53,785   (53,808)   110,539     Costs associated with common shares   1   125   126   126     Shares (0,13,000 share redemptions   2   2,743   2,745   2,745					(3,610	)					(3,610)
Operating Partnership by COPT   (180)   180     Adjustments related to derivatives   (1,371)   (103)   (1,474)     Net income   9,938   737   10.675     Dividends   (27,186)   (27,186)   (27,186)     Distributions to owners of common and preferred units in the Operating Partnership   (20,32)   (2.032)     Contributions from noncontrolling interests in other consolidated real estate joint   (26,032)   (2.032)     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (20,32)     Balance at March 31, 2010 (58,927,117   (26)   (36)   (362)     Balance at December 31, 2008 (51,790,442   (23)   53,785   (3,278)   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442   23   53,785   (53,808)   (14)     Conversion of common units to common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)   (14)     Exercise of share options (12,300 common Share sequencembersion   2   2,743   2,745   2,7	5										
Adjustments related to derivatives   (1,371)   (103)   (1,474)     designated as cash flow hedges   (1,371)   (103)   (1,474)     Net income   9,938   737   10,675     Distributions to owners of common and preferred units in the Operating Partnership   (27,186)   (27,186)     Contributions from noncontrolling interests in other consolidated real estate joint   (20,032)   (2,032)     Ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (3,278)   96,290   1,110,539     Balance at December 31, 2008 (51,790,442   (23)   53,785   (4,749)   136,411   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (4,749)   136,411   1,082,423     Costs associated with common shares   1   125   126     Share-based compensation   2   2,743   2,743   2,745     Restricted common share redemptions   1   125   126     Share-based compensation   2   2,743   2,745					(100)					100	
designated as cash flow hedges   (1,371)   (103)   (1,474)     Net income   9,938   737   10.675     Dividends   (27,186)   (27,186)   (27,186)     Distributions to owners of common and preferred units in the Operating Partnership   (2032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint   (2,032)   (2,032)     Ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (327,189)   (3,278)   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442   (23)   53,785   (53,808)   (14)     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)   (14)     Exercise of share options (12,300 common shares)   1   125   126   2,745     Share-based compensation   2   2,743   2,745   2,745     Gotta associated with common share redemptions   1   125   126     Share-based compensation   2   2,743 <t< td=""><td></td><td></td><td></td><td></td><td>(180)</td><td>)</td><td></td><td></td><td></td><td>180</td><td></td></t<>					(180)	)				180	
Net income     9,938     737     10,675       Dividends     (27,186)     (27,186)       Distributions to owners of common and preferred units in the Operating Partnership     (2,032)     (2,032)       Contributions from noncontrolling interests in other consolidated real estate joint ventures     9,247     9,247       Distributions to noncontrolling interests in other consolidated real estate joint ventures     (26)     (336)     (362)       Balance at March 31, 2010 (58,927,117     (26)     (3378)     96,290     1,110,539       Balance at March 31, 2008 (51,790,442     (23)     53,785     (53,808)     (53,808)       Conversion of common units to common shares (2,310,000 shares)     23     53,785     (53,808)     (14)       Costs associated with common shares     1     125     126     126       Share-based compensation     2     2,743     2,745     2,745       Restricted common share redemptions     (1,696)     (1,696)     (1,696)       Adjustments to noncontrolling interests     (16,966)     (1,696)     (1,696)										(100)	
Dividends   (27,186)   (27,186)     Distributions to owners of common and preferred units in the Operating Partnership   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint   (2,032)   (2,032)     Ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117)   (26)   (327,189)   (3,278)   96,290   1,110,539     Balance at December 31, 2008 (51,790,442   (227,189)   (162,572)   (4,749)   136,411   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)   (14)     Exercise of share options (12,300 common shares)   1   125   126     Share-based compensation   2   2,743   2,745     Restricted common share redemptions   (1,696)   (1,696)   (1,696)     Adjustments to noncontrolling interests resulting from changes in ownership of   (19,101)   19,101	0						0.000		(1,3/1)		
Distributions to owners of common and preferred units in the Operating Partnership   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint ventures   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (3278) \$   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442   (27,189) \$   (3,278) \$   96,290 \$   1,110,539     Conversion of common units to common shares (2,310,000 shares)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Costs associated with common shares   23   53,785   (53,808)   (14)     Exercise of share options (12,300 common shares)   1   125   126     Share-based compensation   2   2,743   2,745     Restricted common share redemptions   (1,696)   (1,696)     (69,455 shares)   (1,696)   (1,696)   (1,696)     Adjustments to noncontrolling interests resulting from changes in ownership of   (19,101)   19,101							,			737	
preferred units in the Operating Partnership   (2,032)   (2,032)     Contributions from noncontrolling interests in other consolidated real estate joint   (2,032)   (2,032)     Ventures   9,247   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (327,189)   (3,278)   9,247   9,247     Common shares outstanding)   \$   81   589   1,244,046   (227,189)   (3,278)   9,240   \$     Balance at December 31, 2008 (51,790,442     136,411   \$   1,082,423     Conversion of common units to common shares outstanding)   81   \$   518   \$   1,112,734   \$   (162,572)   \$   4,749)   136,411   \$   1,082,423     Conversion of common units to common shares   23   53,785   (53,808)   (14)   \$   1,082,423     Costs associated with common shares   23   53,785   (53,808)   2,2745   2,745     Share-based compensation   2   2,743   2,745   2,745							(27,186	)			(27,186)
Contributions from noncontrolling interests in other consolidated real estate joint ventures9,2479,247Distributions to noncontrolling interests in other consolidated real estate joint ventures9,2479,247Distributions to noncontrolling interests in other consolidated real estate joint ventures(26)(336)(362)Balance at March 31, 2010 (58,927,117 common shares outstanding)\$81 \$589 \$1,244,046 \$(227,189) \$(3,278) \$96,290 \$1,110,539Balance at December 31, 2008 (51,790,442 common shares outstanding)\$81 \$518 \$1,112,734 \$(162,572) \$(4,749) \$136,411 \$1,082,423Conversion of common units to common shares (2,310,000 shares)2353,785(53,808)(14)Cests associated with common shares issued to the public(14)(14)(14)Exercise of share options (12,300 common shares)1125126Share-based compensation22,7432,745Restricted common share redemptions (69,455 shares)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101											(2,022)
in other consolidated real estate joint   9,247   9,247     Ventures   9,247   9,247     Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (327)   96,290 \$   1,110,539     Common shares outstanding)   \$   81 \$   589 \$   1,244,046 \$   (227,189) \$   (3,278) \$   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442        1,110,539     Conversion of common units to common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)     (14)     Exercise of share options (12,300 common shares   1   125   126   126     Share-based compensation   2   2,743   2,745   2,745     Restricted common share redemptions   (1,696)   (1,696)   (1,696)   (1,696)   (1,696)   (1,696)   1,616   1,616   1,616										(2,032)	(2,032)
ventures $9,247$ $9,247$ $9,247$ Distributions to noncontrolling interests in other consolidated real estate joint ventures(26)(336)(362)Balance at March 31, 2010 (58,927,117(26)(227,189)\$(3,278)\$ $96,290$ \$1,110,539Balance at March 31, 2008 (51,790,442 $81$ \$ $589$ \$1,244,046 \$(227,189)\$(3,278)\$ $96,290$ \$1,110,539Balance at December 31, 2008 (51,790,442 $$	6										
Distributions to noncontrolling interests in other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117   (26)   (327,189) \$   (3,278) \$   96,290 \$   1,110,539     Balance at March 31, 2008 (51,790,442   (51,790,442   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Conversion of common units to common shares   23   53,785   (53,808)   5     Costs associated with common shares   1   125   126     Share of share options (12,300 common shares)   1   125   126     Share-based compensation   2   2,743   2,745     Restricted common share redemptions   (1,696)   (1,696)   (1,696)     (69,455 shares)   (1,696)   (1,696)   (1,696)   (1,696)     Adjustments to noncontrolling interests resulting from changes in ownership of   (19,101)   19,101   19,101	5										
other consolidated real estate joint ventures   (26)   (336)   (362)     Balance at March 31, 2010 (58,927,117)   (327)										9,247	9,247
Balance at March 31, 2010 (58,927,117     common shares outstanding)   \$   81 \$   589 \$   1,244,046 \$   (227,189) \$   (3,278) \$   96,290 \$   1,110,539     Balance at December 31, 2008 (51,790,442            common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)      (14)   (16)   (16)	e										
common shares outstanding)   \$ 81 \$ 589 \$ 1,244,046 \$ (227,189) \$ (3,278) \$ 96,290 \$ 1,110,539     Balance at December 31, 2008 (51,790,442   (12,734 \$ (162,572) \$ (4,749) \$ 136,411 \$ 1,082,423     common shares outstanding)   \$ 81 \$ 518 \$ 1,112,734 \$ (162,572) \$ (4,749) \$ 136,411 \$ 1,082,423     Conversion of common units to common   (14)     shares (2,310,000 shares)   23 53,785   (53,808)     Costs associated with common shares   (14)   (14)     Exercise of share options (12,300 common   1 125   126     Share-based compensation   2 2,743   2,745     Restricted common share redemptions   (1,696)   (1,696)     (69,455 shares)   (1,696)   (1,696)     Adjustments to noncontrolling interests   (19,101)   19,101	-				(26)	)				(336)	(362)
Balance at December 31, 2008 $(51,790,442$ common shares outstanding)\$ 81 \$ 518 \$ 1,112,734 \$ $(162,572)$ $(4,749)$ \$ $136,411 $ 1,082,423$ Conversion of common units to common shares $(2,310,000 \text{ shares})$ 23 $53,785$ $(53,808)$ Costs associated with common shares issued to the public $(14)$ $(14)$ Exercise of share options $(12,300 \text{ common})$ shares)1 $125$ $126$ Share-based compensation2 $2,743$ $2,745$ Restricted common share redemptions $(69,455 \text{ shares})$ $(1,696)$ $(1,696)$ Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT $(19,101)$ $19,101$	, , , , ,										
common shares outstanding)   \$   81 \$   518 \$   1,112,734 \$   (162,572) \$   (4,749) \$   136,411 \$   1,082,423     Conversion of common units to common shares (2,310,000 shares)   23   53,785   (53,808)     Costs associated with common shares issued to the public   (14)   (14)   (14)     Exercise of share options (12,300 common shares)   1   125   126     Share-based compensation   2   2,743   2,745     Restricted common share redemptions (69,455 shares)   (1,696)   (1,696)   (1,696)     Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT   (19,101)   19,101	<u>e</u> ,	\$	31 \$	§ 589 \$	5 1,244,046	\$	(227,189	)\$	(3,278) \$	96,290 \$	1,110,539
Conversion of common units to common shares (2,310,000 shares)2353,785(53,808)Costs associated with common shares issued to the public(14)(14)Exercise of share options (12,300 common shares)1125126Share-based compensation22,7432,745Restricted common share redemptions (69,455 shares)(1,696)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	, , , , ,										
shares (2,310,000 shares)2353,785(53,808)Costs associated with common shares(14)(14)issued to the public(14)(14)Exercise of share options (12,300 common1125shares)1125126Share-based compensation22,7432,745Restricted common share redemptions(1,696)(1,696)(1,696)(69,455 shares)(1,696)(1,696)(1,696)Adjustments to noncontrolling interestsresulting from changes in ownership of19,10119,101	2,	\$	31 \$	518 \$	5 1,112,734	\$	(162,572	2)\$	(4,749)\$	136,411 \$	1,082,423
Costs associated with common shares(14)issued to the public(14)Exercise of share options (12,300 commonshares)11125Share-based compensation222,743Restricted common share redemptions(69,455 shares)(1,696)(1,696)(1,696)Adjustments to noncontrolling interestsresulting from changes in ownership ofOperating Partnership by COPT(19,101)19,101	Conversion of common units to common										
issued to the public(14)(14)Exercise of share options (12,300 common1125shares)1125126Share-based compensation22,7432,745Restricted common share redemptions(1,696)(1,696)(69,455 shares)(1,696)(1,696)Adjustments to noncontrolling interests(1,696)resulting from changes in ownership of(19,101)19,101	shares (2,310,000 shares)			23	53,785					(53,808)	
Exercise of share options (12,300 common shares)1125126Share-based compensation22,7432,745Restricted common share redemptions(1,696)(1,696)(69,455 shares)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	Costs associated with common shares										
shares)1125126Share-based compensation22,7432,745Restricted common share redemptions(1,696)(1,696)(1,696)(69,455 shares)(1,696)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	1				(14	)					(14)
Share-based compensation22,7432,745Restricted common share redemptions(1,696)(1,696)(1,696)(69,455 shares)(1,696)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	Exercise of share options (12,300 common										
Restricted common share redemptions (1,696)   (69,455 shares) (1,696)   Adjustments to noncontrolling interests (1,696)   resulting from changes in ownership of (19,101)   Operating Partnership by COPT (19,101)											
(69,455 shares)(1,696)(1,696)Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	Share-based compensation			2	2,743						2,745
Adjustments to noncontrolling interests resulting from changes in ownership of Operating Partnership by COPT(19,101)19,101	Restricted common share redemptions										
resulting from changes in ownership of Operating Partnership by COPT (19,101) 19,101					(1,696	)					(1,696)
Operating Partnership by COPT (19,101) 19,101											
	resulting from changes in ownership of										
1.493 (575) 918	Operating Partnership by COPT				(19,101)	)				19,101	
1,									1,493	(575)	918

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Adjustments related to derivatives							
designated as cash flow hedges							
Decrease in tax benefit from share-based							
compensation			(152)				(152)
Net income				16,147		2,019	18,166
Dividends				(24,289)			(24,289)
Distributions to owners of common and							
preferred units in the Operating Partnership						(2,250)	(2,250)
Contributions from noncontrolling interests							
in other consolidated real estate joint							
ventures						649	649
Balance at March 31, 2009 (54,370,547							
common shares outstanding)	\$ 81 \$	544 \$	1,148,424 \$	(170,714)\$	(3,256) \$	101,547 \$	1,076,626

See accompanying notes to consolidated financial statements.

#### **Consolidated Statements of Cash Flows**

#### (Dollars in thousands)

		For the Three Months Ended March 31,		
		2010	,	2009
Cash flows from operating activities				
Net income	\$	10,675	\$	18,166
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and other amortization		28,253		27,030
Amortization of deferred financing costs		1,126		1,024
Amortization of above or below market leases		(607)		(380)
Amortization of net debt discounts		917		827
Gain on sales of real estate		(325)		
Share-based compensation		2,611		2,745
Other		(329)		(743)
Changes in operating assets and liabilities:				
Increase in deferred rent receivable		(2,555)		(1,215)
Decrease in accounts receivable		3,274		947
Decrease in restricted cash and marketable securities and prepaid and other assets		16,870		4,672
(Decrease) increase in accounts payable, accrued expenses and other liabilities		(24,575)		13,977
Increase in rents received in advance and security deposits		398		1,060
Net cash provided by operating activities		35,733		68,110
		,		,
Cash flows from investing activities				
Purchases of and additions to properties		(49,738)		(43,036)
Proceeds from sales of properties		2,952		(10,000)
Mortgage loan receivable funded		(321)		
Leasing costs paid		(3,038)		(1,833)
Investment in unconsolidated entity		(4,500)		(1,000)
Other		(707)		(847)
Net cash used in investing activities		(55,352)		(45,716)
The cash ased in investing activities		(55,552)		(15,710)
Cash flows from financing activities				
Proceeds from debt		135.892		136,536
Repayments of debt		155,672		150,550
Balloon payments		(80,050)		(122,635)
Scheduled principal amortization		(3,469)		(122,033)
Net proceeds from issuance of common shares		2,038		(2,847)
Dividends paid		(26,948)		(23,331)
Distributions paid		(20,948) (2,154)		(3,111)
Restricted share redemptions		(3,610)		(1,696)
Other		(162)		(1,090)
Net cash provided (used) by financing activities		21,537		(16,467)
Nat increase in each and each aquivalente		1 010		5 007
Net increase in cash and cash equivalents		1,918		5,927
Cash and cash equivalents		8 262		6 775
Beginning of period	¢	8,262	¢	6,775
End of period	\$	10,180	\$	12,702

See accompanying notes to consolidated financial statements.

**Corporate Office Properties Trust and Subsidiaries** 

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

(unaudited)

#### 1. Organization

Corporate Office Properties Trust ( COPT ) and subsidiaries (collectively, the Company, we or us ) is a fully-integrated and self-managed real estate investment trust ( REIT ) that focuses primarily on strategic customer relationships and specialized tenant requirements in the United States Government, defense information technology and data sectors. We acquire, develop, manage and lease properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in demographically strong markets possessing growth opportunities. As of March 31, 2010, our investments in real estate included the following: