CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

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

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

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

x Yes o No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of October 31, 2007, 47,363,659 of the Company s Common Shares of Beneficial Interest, $0.01 par value, were issued.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands)

(unaudited)

	September 30, 2007	December 31, 2006
Assets		
Investment in real estate:		
Operating properties, net	$ 2,158,396	$ 1,812,883
Property held for sale, net	14,578	
Projects under construction or development	411,971	298,427
Total commercial real estate properties, net	2,584,945	2,111,310
Cash and cash equivalents	21,895	7,923
Restricted cash	16,874	52,856
Accounts receivable, net	20,680	26,367
Deferred rent receivable	50,891	41,643
Intangible assets on real estate acquisitions, net	116,368	87,325
Deferred charges, net	46,019	43,710
Prepaid and other assets	58,351	48,467
Total assets	$ 2,916,023	$ 2,419,601
Liabilities and shareholders equity		
Liabilities:		
Mortgage and other loans payable	$ 1,599,912	$ 1,298,537
3.5% Exchangeable Senior Notes	200,000	200,000
Accounts payable and accrued expenses	80,022	68,190
Rents received in advance and security deposits	24,916	20,237
Dividends and distributions payable	22,433	19,164
Deferred revenue associated with acquired operating leases	12,475	11,120
Distributions in excess of investment in unconsolidated real estate joint venture	4,124	3,614
Other liabilities	7,766	8,249
Total liabilities	1,951,648	1,629,111
Minority interests:		
Common units in the Operating Partnership	115,837	104,934
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated real estate joint ventures	6,970	2,453
Total minority interests	131,607	116,187
Commitments and contingencies (Note 20)		
Shareholders equity:		
Preferred Shares of beneficial interest ($0.01 par value; shares authorized of 15,000,000, issued and outstanding of 8,121,667 at September 30, 2007 and 7,590,000 at December 31, 2006 (Note 13))	81	76
Common Shares of beneficial interest ($0.01 par value; 75,000,000 shares authorized, shares issued and outstanding of 47,344,984 at September 30, 2007 and 42,897,639 at December 31, 2006)	473	429

Additional paid-in capital		949,392		758,032
Cumulative distributions in excess of net income		(115,963)		(83,541)
Accumulated other comprehensive loss		(1,215)		(693)
Total shareholders equity		832,768		674,303
Total liabilities and shareholders equity	$	2,916,023	$	2,419,601

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
Revenues				
Rental revenue	$ 80,428	$ 65,614	$ 234,807	$ 187,299
Tenant recoveries and other real estate operations revenue	14,136	11,255	39,895	28,788
Construction contract revenues	10,047	13,219	29,358	39,919
Other service operations revenues	910	1,572	3,369	5,321
Total revenues	105,521	91,660	307,429	261,327
Expenses				
Property operating expenses	31,642	24,983	92,222	67,460
Depreciation and other amortization associated with real estate operations	26,587	21,510	80,487	58,138
Construction contract expenses	9,507	12,465	28,126	38,134
Other service operations expenses	806	1,495	3,337	4,991
General and administrative expenses	5,423	4,226	15,122	11,894
Total operating expenses	73,965	64,679	219,294	180,617
Operating income	31,556	26,981	88,135	80,710
Interest expense	(21,000)	(17,678)	(61,261)	(51,635)
Amortization of deferred financing costs	(901)	(736)	(2,706)	(1,898)
Gain on sale of non-real estate investment			1,033	
Income from continuing operations before equity in (loss) income of unconsolidated entities, income taxes and minority interests	9,655	8,567	25,201	27,177
Equity in (loss) income of unconsolidated entities	(46)	15	(197)	(40)
Income tax expense	(197)	(202)	(480)	(623)
Income from continuing operations before minority interests	9,412	8,380	24,524	26,514
Minority interests in income from continuing operations				
Common units in the Operating Partnership	(808)	(746)	(1,936)	(2,630)
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	12	38	90	96
Income from continuing operations	8,451	7,507	22,183	23,485
Income from discontinued operations, net of minority interests	1,942	12,483	1,473	15,423
Income before gain on sales of real estate	10,393	19,990	23,656	38,908
Gain on sales of real estate, net	1,038	597	1,199	732
Net income	11,431	20,587	24,855	39,640
Preferred share dividends	(4,025)	(4,307)	(12,043)	(11,614)
Issuance costs associated with redeemed preferred shares		(1,829)		(1,829)
Net income available to common shareholders	$ 7,406	$ 14,451	$ 12,812	$ 26,197
Basic earnings per common share				
Income from continuing operations	$ 0.12	$ 0.05	$ 0.24	$ 0.26
Discontinued operations	0.04	0.29	0.04	0.38
Net income available to common shareholders	$ 0.16	$ 0.34	$ 0.28	$ 0.64
Diluted earnings per common share				
Income from continuing operations	$ 0.11	$ 0.04	$ 0.24	$ 0.25

Discontinued operations		0.04		0.29		0.03		0.36
Net income available to common shareholders	$	0.15	$	0.33	$	0.27	$	0.61

See accompanying notes to consolidated financial statements.

4

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2007	2006
Cash flows from operating activities		
Net income	$ 24,855	$ 39,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	2,829	6,471
Depreciation and other amortization	80,660	59,993
Amortization of deferred financing costs	2,706	2,032
Amortization of deferred market rental revenue	(1,569)	(1,326)
Equity in loss of unconsolidated entities	197	40
Gain on sales of real estate	(4,199)	(17,990)
Gain on sale of non-real estate investment	(1,033)	
Share-based compensation	4,969	2,485
Changes in operating assets and liabilities:		
Increase in deferred rent receivable	(9,248)	(7,446)
Decrease (increase) in accounts receivable	5,687	(11,172)
Increase in restricted cash and prepaid and other assets	(10,217)	(136)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,847)	9,390
Increase in rents received in advance and security deposits	4,679	4,786
Other	(887)	(181)
Net cash provided by operating activities	95,582	86,586
Cash flows from investing activities		
Purchases of and additions to commercial real estate properties	(301,065)	(227,592)
Proceeds from sales of properties	8,763	46,708
Proceeds from sale of non-real estate investment	2,526	
Proceeds from sale of unconsolidated real estate joint venture		1,524
Investments in and advances to unconsolidated entities		127
Acquisition of partner interests in consolidated joint ventures	(1,262)	(3,016)
Distributions from unconsolidated entities	319	367
Leasing costs paid	(8,984)	(6,106)
Decrease in restricted cash associated with investing activities	14,631	5,559
Purchases of furniture, fixtures and equipment	(1,318)	(7,549)
Other	(848)	(182)
Net cash used in investing activities	(287,238)	(190,160)
Cash flows from financing activities		
Proceeds from mortgage and other loans payable	506,571	368,259
Proceeds from 3.5% Exchangeable Senior Notes		200,000
Repayments of mortgage and other loans payable	(243,942)	(548,090)
Deferred financing costs paid	(1,847)	(5,402)
Distributions paid to partners in consolidated joint ventures		(787)
Net proceeds from issuance of common shares	7,013	88,622
Net proceeds from issuance of preferred shares		81,863
Redemption of preferred shares		(28,750)
Dividends paid	(54,163)	(45,138)
Distributions paid	(8,245)	(7,614)
Other	241	637
Net cash provided by financing activities	205,628	103,600

Net increase in cash and cash equivalents		13,972		26
Cash and cash equivalents				
Beginning of period		7,923		10,784
End of period	$	21,895	$	10,810

See accompanying notes to consolidated financial statements.

5

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) is a fully-integrated and self-managed real estate investment trust (REIT) that focuses on the acquisition, development, ownership, management and leasing of primarily Class A suburban office properties in the Greater Washington, D.C. region and other select submarkets. We also have a core customer expansion strategy that is built on meeting, through acquisitions and development, the multi-location requirements of our strategic tenants. As of September 30, 2007, our investments in real estate included the following:

229 wholly owned operating properties totaling 17.7 million square feet;

19 wholly owned properties under construction or development that we estimate will total approximately 2.0 million square feet upon completion and one wholly owned office property totaling approximately 75,000 square feet that was under redevelopment;

wholly owned land parcels totaling 1,496 acres that we believe are potentially developable into approximately 12.3 million square feet; and

partial ownership interests in a number of other real estate projects in operation or under development or redevelopment.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership), for which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies (LLCs). A summary of our Operating Partnership s forms of ownership and the percentage of those securities owned by COPT as of September 30, 2007 follows:

Common Units	85%	
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%	(issued on January 9, 2007)

Two of our trustees also controlled, either directly or through ownership by other entities or family members, 13% of the Operating Partnership s common units.

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

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

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

2. Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements have been prepared in accordance with the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States for complete Consolidated Financial Statements are not included herein. These interim financial statements should be read together with the financial statements and notes thereto included in our 2006 Annual Report on Form 10-K. The interim financial statements on the previous pages reflect all adjustments that we believe are necessary for the fair statement of our financial position and results of operations for the interim periods presented. These adjustments are of a normal recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for a full year.

3. Earnings Per Share (EPS)

We present both basic and diluted EPS. We compute basic EPS by dividing net income available to common shareholders by the weighted average number of common shares of beneficial interest (common shares) outstanding during the period. Our computation of diluted EPS is similar except that:

the denominator is increased to include: (1) the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into our common shares were converted; and (2) the effect of dilutive potential common shares outstanding during the period attributable to share-based compensation using the treasury stock method; and

the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion of securities into common shares that were added to the denominator.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Income from continuing operations	$ 8,451	$ 7,507	$ 22,183	$ 23,485
Add: Gain on sales of real estate, net	1,038	597	1,199	732
Less: Preferred share dividends	(4,025)	(4,307)	(12,043)	(11,614)
Less: Issuance costs associated with redeemed preferred shares		(1,829)		(1,829)
Numerator for basic and diluted EPS from continuing operations	5,464	1,968	11,339	10,774
Income from discontinued operations, net	1,942	12,483	1,473	15,423
Numerator for basic and diluted EPS on net income available to common shareholders	$ 7,406	$ 14,451	$ 12,812	$ 26,197
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	46,781	42,197	46,386	41,134
Dilutive effect of share-based compensation awards	1,005	1,649	1,180	1,785
Denominator for diluted EPS	47,786	43,846	47,566	42,919
Basic EPS:				

Income from continuing operations	$ 0.12	$ 0.05	$ 0.24	$ 0.26
Income from discontinued operations	0.04	0.29	0.04	0.38
Net income available to common shareholders	$ 0.16	$ 0.34	$ 0.28	$ 0.64
Diluted EPS:				
Income from continuing operations	$ 0.11	$ 0.04	$ 0.24	$ 0.25
Income from discontinued operations	0.04	0.29	0.03	0.36
Net income available to common shareholders	$ 0.15	$ 0.33	$ 0.27	$ 0.61

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

	Weighted Average Shares in Denominator			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Conversion of weighted average common units	8,297	8,562	8,339	8,516
Conversion of weighted average convertible preferred shares	434		421	
Conversion of weighted average convertible preferred units	176	176	176	176

The 3.5% Exchangeable Senior Notes did not affect our diluted EPS reported above since the weighted average closing price of our common shares during the period over which the notes were outstanding was less than $54.30 per share.

4. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Our adoption of FIN 48 did not have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Statement does not require any new fair value measurements but does apply under other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the Statement relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier application encouraged. We do not expect that the adoption of this Statement will have a material effect on our financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 on our consolidated financial position and results of operations.

5. Commercial Real Estate Properties

Operating properties consisted of the following:

	September 30, 2007	December 31, 2006
Land	$ 412,129	$ 343,098
Buildings and improvements	2,013,900	1,689,359
	2,426,029	2,032,457
Less: accumulated depreciation	(267,633)	(219,574)
	$ 2,158,396	$ 1,812,883

As of September 30, 2007, 429 Ridge Road, an office property located in Dayton, New Jersey that we were under contract to sell for $17,000, was classified as held for sale (Dayton, New Jersey is located in the Northern/Central New Jersey Region). We expect to complete the sale of this property by January 2008. The components associated with 429 Ridge Road as of September 30, 2007 included the following:

		September 30, 2007
Land	$	2,932
Buildings and improvements		14,593
		17,525
Less: accumulated depreciation		(2,947)
	$	14,578

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

		September 30, 2007		December 31, 2006
Land	$	218,890	$	153,436
Construction in progress		193,081		144,991
	$	411,971	$	298,427

2007 Acquisitions

On January 9 and 10, 2007, we completed a series of transactions that resulted in the acquisition of 56 operating properties totaling approximately 2.4 million square feet and land parcels totaling 187 acres. We refer to these transactions collectively as the Nottingham Acquisition. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland (located in the Suburban Baltimore region) and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor. We believe that the land parcels can support at least 2.0 million developable square feet. We completed the Nottingham Acquisition for an aggregate cost of $366,852. The table below sets forth the allocation of the acquisition costs of the Nottingham Acquisition:

Land, operating properties	$	70,754
Land, construction or development		37,309
Building and improvements		210,264
Intangible assets on real estate acquisitions		53,214
Total assets		371,541
Deferred revenue associated with acquired operating leases		(4,689)
Total acquisition cost	$	366,852

Intangible assets recorded in connection with the Nottingham Acquisition included the following:

			Weighted Average Amortization Period (in Years)
Tenant relationship value	$	25,778	8
Lease-up value		19,425	4
Lease cost portion of deemed cost avoidance		4,206	5
Lease to market value		3,805	4
	$	53,214	6

We also completed the following acquisitions during the nine months ended September 30, 2007:

the remaining 50% undivided interest in a 132-acre parcel of land located in Colorado Springs, Colorado that we believe can support approximately 1.75 million developable square feet of office space for $13,586 on April 6, 2007; and

a 56-acre parcel of land located in Aberdeen, Maryland that we believe can support up to 800,000 developable square feet for $10,442 on September 14, 2007 (Aberdeen, Maryland is located in our Suburban Baltimore region). The property is located adjacent to Aberdeen Proving Ground.

In addition, we acquired a 23-acre parcel of land located in Hanover, Maryland on July 2, 2007, with a deemed value upon our acquisition of $9,829 (including improvements thereon contributed by us), through Arundel Preserve #5, LLC, a consolidated joint venture in which we own a 50% interest (Hanover, Maryland is located in our Baltimore/Washington Corridor region). The joint venture is constructing an office property on the land parcel totaling approximately 152,000 square feet, and we believe the land parcel can support up to 303,000 additional developable square feet.

5. Commercial Real Estate Properties

2007 Construction and Development Activities

During the nine months ended September 30, 2007, we had three properties totaling 339,910 square feet (two located in the Baltimore/Washington Corridor and one in our Other region) become fully operational (68,196 of these square feet were placed into service in 2006) and placed into service 48,377 square feet in a partially operational property located in the Baltimore/Washington Corridor.

As of September 30, 2007, we had construction underway on five new buildings in the Baltimore/Washington Corridor (including the partially operational property discussed above and one property owned through Arundel Preserve #5, LLC), two in Colorado Springs, Colorado and one in our Other region. We also had development activities underway on five new buildings located in the Baltimore/Washington Corridor, three in Colorado Springs, Colorado, two in Suburban Maryland and one each in Suburban Baltimore and King George County, Virginia. In addition, we had redevelopment underway on one wholly owned existing building located in Colorado Springs, Colorado and three buildings owned by a joint venture (two are located in Northern Virginia and the other in the Baltimore/Washington Corridor).

5. Commercial Real Estate Properties

2007 Dispositions

We sold the following operating properties during the nine months ended September 30, 2007:

Project Name	Location	Date of Sale	Number of Buildings	Total Rentable Square Feet	Sale Price	Gain on Sale
2 and 8 Centre Drive	Monroe, New Jersey	9/7/2007	2	32,331	$ 6,000	$ 1,931
7321 Parkway Drive	Anne Arundel County, Maryland	9/7/2007	1	39,822	5,000	868
			3	72,153	$ 11,000	$ 2,799

We also sold a 3.5-acre parcel of land located in White Marsh, Maryland for $1,588. We recognized a gain of $1,134 on this sale.

6. Real Estate Joint Ventures

During the nine months ended September 30, 2007, we had an investment in one unconsolidated real estate joint venture accounted for using the equity method of accounting. Information pertaining to this joint venture investment is set forth below.

	Investment Balance at September 30, 2007	Investment Balance at December 31, 2006	Date Acquired	Ownership	Nature of Activity	Total Assets at 9/30/2007	Maximum Exposure to Loss (1)
Harrisburg Corporate Gateway Partners, L.P.	$ (4,124)(2)	$ (3,614)(2)	9/29/2005	20%	Operates 16 buildings(3)	$ 73,377	$

(1) Derived from the sum of our investment balance and maximum additional unilateral capital contributions or loans required from us. Not reported above are additional amounts that we and our partner are required to fund when needed by this joint venture; these funding requirements are proportional to our respective ownership percentages. Also not reported above are additional unilateral contributions or loans from us, the amounts of which are uncertain, which we would be required to make if certain contingent events occur.

(2) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $5,206 at September 30, 2007 and $5,072 at December 31, 2006 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation. A difference will continue to exist to the extent the nature of our continuing involvement in the joint venture remains the same.

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

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

		September 30, 2007		December 31, 2006
Commercial real estate property	$	71,413	$	72,688
Other assets		1,964		3,207
Total assets	$	73,377	$	75,895
Liabilities	$	67,938	$	67,350
Owners equity		5,439		8,545
Total liabilities and owners equity	$	73,377	$	75,895

The following table sets forth combined condensed statements of operations for the two unconsolidated real estate joint ventures we owned from January 1, 2006 through September 30, 2007, which included Harrisburg Corporate Gateway Partners, L.P. and Route 46 Partners, a joint venture that was dissolved on July 26, 2006:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
		2007		2006		2007		2006
Revenues	$	2,455	$	2,738	$	7,325	$	9,196
Property operating expenses		(850)		(1,000)		(2,686)		(3,187)
Interest expense		(991)		(1,050)		(3,109)		(3,401)
Depreciation and amortization expense		(842)		(1,677)		(2,564)		(3,582)
Gain on sale				4,033				4,033
Net (loss) income	$	(228)	$	3,044	$	(1,034)	$	3,059

Activity related to consolidated joint ventures during the nine months ended September 30, 2007 included the following:

5. Commercial Real Estate Properties

as of December 31, 2006, we owned a 50% interest in Commons Office 6-B, LLC, an entity developing a land parcel in Hanover, Maryland. We acquired the remaining 50% interest in this entity for $1,262 on May 24, 2007;

on June 26, 2007, we completed the formation of Enterprise Campus Developer, LLC, an entity in which we own a 90% interest. This entity was created to develop and construct one or more office buildings on land parcels located in College Park, Maryland as part of a separate joint venture to be formed with another party. At September 30, 2007, development and construction activities were underway in anticipation of the entity s membership into this future joint venture; and

as discussed in Note 5, on July 2, 2007, we acquired a 50% interest in Arundel Preserve #5, LLC. The joint venture owns a land parcel located in Hanover, Maryland on which it is constructing an office property totaling approximately 152,000 square feet. We believe the land parcel can support up to 303,000 additional developable square feet.

The table below sets forth information pertaining to our investments in consolidated joint ventures at September 30, 2007:

	Date Acquired	Ownership % at 9/30/2007	Nature of Activity	Total Assets at 9/30/2007	Collateralized Assets at 9/30/2007
COPT Opportunity Invest I, LLC	12/20/2005	92.5%	Redeveloping three properties (1)	$ 51,087	$
Arundel Preserve #5, LLC	7/2/2007	50.0%	Developing land parcel (2)	23,362	
Enterprise Campus Developer, LLC	6/26/2007	90.0%	Developing land parcels (3)	14,912	
MOR Forbes 2 LLC	12/24/2002	50.0%	Operates one building (4)	4,405	
COPT-FD Indian Head, LLC	10/23/2006	75.0%	Developing land parcel (5)	3,047	
				$ 96,813	$

(1) This joint venture owns two properties in the Northern Virginia region and one in the Baltimore/Washington Corridor region.

(2) This joint venture is developing a land parcel located in Hanover, Maryland (located in the Baltimore/Washington Corridor).

(3) This joint venture is developing land parcels located in College Park, Maryland (located in the Suburban Maryland region).

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

(5) This joint venture s property is located in Charles County, Maryland (located in our other business segment).

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

7. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	September 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Lease-up value	$ 125,338	$ 53,985	$ 71,353	$ 105,719	$ 38,279	$ 67,440
Tenant relationship value	35,189	5,850	29,339	9,371	1,178	8,193
Lease cost portion of deemed cost avoidance	17,133	8,018	9,115	12,880	5,819	7,061
Lease to market value	14,428	9,028	5,400	10,623	7,178	3,445
Market concentration premium	1,333	172	1,161	1,333	147	1,186
	$ 193,421	$ 77,053	$ 116,368	$ 139,926	$ 52,601	$ 87,325

Amortization of the intangible asset categories set forth above totaled $24,451 in the nine months ended September 30, 2007 and $15,943 in the nine months ended September 30, 2006. The approximate weighted average amortization periods of the categories set forth above follow: lease-up value: nine years; tenant relationship value: eight years; lease cost portion of deemed cost avoidance: six years; lease to market value: four years; and market concentration premium: 35 years. The approximate weighted average amortization period for all of the categories combined is nine years. Estimated amortization expense associated with the intangible asset categories set forth above is $6.0 million for the three months ended December 31, 2007, $21.4 million for 2008, $18.8 million for 2009, $14.6 million for 2010, $11.7 million for 2011 and $9.5 million for 2012.

8. Deferred Charges

Deferred charges consisted of the following:

	September 30, 2007	December 31, 2006
Deferred leasing costs	$ 59,827	$ 52,263
Deferred financing costs	30,290	28,275
Goodwill	1,853	1,853
Deferred other	155	155
	92,125	82,546
Accumulated amortization	(46,106)	(38,836)
Deferred charges, net	$ 46,019	$ 43,710

9. Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of $565 at September 30, 2007 and $252 at December 31, 2006.

10. Prepaid and Other Assets

Prepaid and other assets consisted of the following:

		September 30, 2007		December 31, 2006
Construction contract costs incurred in excess of billings	$	21,588	$	18,324
Prepaid expenses		16,641		9,059
Furniture, fixtures and equipment		10,366		10,495
Other assets		9,756		10,589
Prepaid and other assets	$	58,351	$	48,467

11. Debt

Our debt consisted of the following:

		Maximum Principal Amount Under Debt at September 30, 2007		Carrying Value at September 30, 2007		Carrying Value at December 31, 2006	Stated Interest Rates at September 30, 2007	Scheduled Maturity Dates at September 30, 2007
Mortgage and other loans payable:								
Revolving Credit Facility								
Wachovia Bank, N.A. Revolving Credit Facility (1)	$	500,000(1)	$	327,000	$	185,000	LIBOR + 1.15% to 1.55% (1)	March 2008 (1)
Mortgage Loans								
Fixed rate mortgage loans (2)		N/A		1,132,208		1,020,619	5.20% - 8.63% (3)	2007 - 2034 (4)
Variable rate construction loan facilities		111,500		103,818		56,079	LIBOR + 1.40 to 1.50%	2008 (5)
Other variable rate mortgage loans		N/A		34,500		34,500	LIBOR + 1.20 to 1.50%	2008
Total mortgage loans				1,270,526		1,111,198		
Note payable								
Unsecured seller notes		N/A		2,386		2,339	0 - 5.95%	2008-2016
Total mortgage and other loans payable				1,599,912		1,298,537		
3.5% Exchangeable Senior Notes		N/A		200,000		200,000	3.50%	September 2026 (6)
Total debt			$	1,799,912	$	1,498,537		

(1) On October 1, 2007, we entered into an amended and restated credit agreement on our Revolving Credit Facility, the terms of which are described below.

(2) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore are recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net premiums totaling $649 at September 30, 2007 and $210 at December 31, 2006.

(3) The weighted average interest rate on these loans was 5.92% at September 30, 2007.

(4) A loan with a balance of $4,838 at September 30, 2007 that matures in 2034 may be repaid in March 2014, subject to certain conditions.

(5) At September 30, 2007, $84,318 in loans scheduled to mature in 2008 may be extended by us for a one-year period, subject to certain conditions.

(6) Refer to our 2006 Annual Report on Form 10-K for descriptions of provisions for early redemption and repurchase of these notes.

On October 1, 2007, we amended and restated the credit agreement on our Revolving Credit Facility with a group of lenders for which KeyBanc Capital Markets and Wachovia Capital Markets, LLC acted as co-lead arrangers, KeyBank National Association acted as administrative agent and Wachovia Bank, National Association acted as syndication agent. The amended and restated credit agreement increased the amount of the lenders aggregate commitment under the facility from $500,000 to $600,000, which includes a $50,000 letter of credit subfacility and a $50,000 swingline facility (same-day draw requests), with a right for us to further increase the lenders aggregate commitment during the term to a maximum of $800,000, subject to certain conditions. Amounts available under the facility are computed based on 65% of our unencumbered asset value, as defined in the agreement. The facility matures on September 30, 2011, and may be extended by one year at our option, subject to certain conditions. The variable interest rate on the facility is based on one of the following, to be selected by us: (1) the LIBOR rate for the interest period designated by us (customarily the 30-day rate) plus 0.75% to 1.25%, as determined by our leverage levels at different points in time; or (2) the greater of (a) the prime rate of the lender then acting as the administrative agent or (b) the Federal Funds Rate, as defined in the credit agreement, plus 0.50%. Interest is payable at the end of each interest period, and principal outstanding under the facility is payable on the maturity date. The facility also carries a quarterly fee that is based on the unused amount of the facility multiplied by a per annum rate of 0.125% to 0.20%.

We capitalized interest costs of $13,957 in the nine months ended September 30, 2007 and $11,319 in the nine months ended September 30, 2006.

12. Derivatives

The following table sets forth our derivative contracts at September 30, 2007 and their respective fair values:

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at September 30, 2007	Fair Value at December 31, 2006
Interest rate swap	$ 50,000	5.0360%	3/28/2006	3/30/2009	$ (388)	$ (42)
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(282)	(133)
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(282)	(133)
					$ (952)	$ (308)

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

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

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

	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
Decrease in fair value applied to accumulated other comprehensive loss and minority interests	$ (1,065)	$ (1,306)	$ (644)	$ (473)

13. Shareholders Equity

Preferred Shares

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

	September 30, 2007	December 31, 2006
2,200,000 designated as Series G Cumulative Redeemable Preferred Shares of beneficial interest (2,200,000 shares issued with an aggregate liquidation preference of $55,000)	$ 22	$ 22
2,000,000 designated as Series H Cumulative Redeemable Preferred Shares of beneficial interest (2,000,000 shares issued with an aggregate liquidation preference of $50,000)	20	20
3,390,000 designated as Series J Cumulative Redeemable Preferred Shares of beneficial interest (3,390,000 shares issued with an aggregate liquidation preference of $84,750)	34	34
531,667 designated as Series K Cumulative Redeemable Convertible Preferred Shares of beneficial interest (531,667 shares issued with an aggregate liquidation preference of $26,583)	5	
Total preferred shares	$ 81	$ 76

We issued the Series K Cumulative Redeemable Convertible Preferred Shares of beneficial interest (the Series K Preferred Shares) in the Nottingham Acquisition at a value of, and liquidation preference equal to, $50 per share. The Series K Preferred Shares are nonvoting, redeemable for cash at $50 per share at our option on or after January 9, 2017, and are convertible, subject to certain conditions, into common shares on the basis of 0.8163 common shares for each preferred share, in accordance with the terms of the Articles Supplementary describing the Series K Preferred Shares. Holders of the Series K Preferred Shares are entitled to cumulative dividends, payable quarterly (as and if declared by our Board of Trustees). Dividends accrue from the date of issue at the annual rate of $2.80 per share, which is equal to 5.6% of the $50 per share liquidation preference.

Common Shares

In connection with the Nottingham Acquisition in January 2007, we issued 3,161,000 common shares at a value of $49.57 per share.

During the nine months ended September 30, 2007, we converted 553,021 common units in our Operating Partnership into common shares on the basis of one common share for each common unit.

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

Accumulated Other Comprehensive Loss

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

	For the Nine Months Ended September 30,	
	2007	2006
Beginning balance	$ (693)	$ (482)
Unrealized loss on derivatives, net of minority interests	(561)	(397)
Realized loss on derivatives, net of minority interests	39	38
Ending balance	$ (1,215)	$ (841)

The table below sets forth our comprehensive income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 11,431	$ 20,587	$ 24,855	$ 39,640
Unrealized loss on derivatives, net of minority interests	(903)	(1,080)	(561)	(397)
Realized loss on derivatives, net of minority interests	13	13	39	38
Total comprehensive income	$ 10,541	$ 19,520	$ 24,333	$ 39,281

14. Dividends and Distributions

The following table summarizes our dividends and distributions when either the payable dates or record dates occurred during the nine months ended September 30, 2007:

	Record Date	Payable Date	Dividend/ Distribution Per Share/Unit	Total Dividend/ Distribution
Series G Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	$ 0.5000	$ 1,100
First Quarter 2007	March 30, 2007	April 17, 2007	$ 0.5000	$ 1,100
Second Quarter 2007	June 29, 2007	July 17, 2007	$ 0.5000	$ 1,100
Third Quarter 2007	September 28, 2007	October 16, 2007	$ 0.5000	$ 1,100
Series H Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	$ 0.4688	$ 938
First Quarter 2007	March 30, 2007	April 17, 2007	$ 0.4688	$ 938
Second Quarter 2007	June 29, 2007	July 17, 2007	$ 0.4688	$ 938
Third Quarter 2007	September 28, 2007	October 16, 2007	$ 0.4688	$ 938
Series J Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	$ 0.4766	$ 1,616
First Quarter 2007	March 30, 2007	April 17, 2007	$	