

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

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**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 September 30, 2007

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

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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 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  Accelerated filer  Non-accelerated filer

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

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

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TABLE OF CONTENTS

**FORM 10-Q**

	<b>PAGE</b>
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
<u>Item 1:</u>	
<u>Financial Statements:</u>	
<u>Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2:</u>	25
<u>Item 3:</u>	44
<u>Item 4:</u>	45
<b><u>PART II: OTHER INFORMATION</u></b>	
<u>Item 1:</u>	45
<u>Item 1A:</u>	45
<u>Item 2:</u>	46
<u>Item 3:</u>	46
<u>Item 4:</u>	46
<u>Item 5:</u>	46
<u>Item 6:</u>	46
<b><u>SIGNATURES</u></b>	47

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
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
<b>Total assets</b>	<b>\$ 2,916,023</b>	<b>\$ 2,419,601</b>
<b>Liabilities and shareholders equity</b>		
<b>Liabilities:</b>		
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
<b>Minority interests:</b>		
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
<b>Commitments and contingencies (Note 20)</b>		
<b>Shareholders equity:</b>		
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

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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
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,916,023</b>	<b>\$ 2,419,601</b>

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,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Revenues</b>				
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
<b>Total revenues</b>	<b>105,521</b>	<b>91,660</b>	<b>307,429</b>	<b>261,327</b>
<b>Expenses</b>				
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
<b>Total operating expenses</b>	<b>73,965</b>	<b>64,679</b>	<b>219,294</b>	<b>180,617</b>
<b>Operating income</b>	<b>31,556</b>	<b>26,981</b>	<b>88,135</b>	<b>80,710</b>
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
<b>Net income</b>	<b>11,431</b>	<b>20,587</b>	<b>24,855</b>	<b>39,640</b>
Preferred share dividends	(4,025)	(4,307)	(12,043)	(11,614)
Issuance costs associated with redeemed preferred shares		(1,829)		(1,829)
<b>Net income available to common shareholders</b>	<b>\$ 7,406</b>	<b>\$ 14,451</b>	<b>\$ 12,812</b>	<b>\$ 26,197</b>
<b>Basic earnings per common share</b>				
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
<b>Diluted earnings per common share</b>				
Income from continuing operations	\$ 0.11	\$ 0.04	\$ 0.24	\$ 0.25

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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.

## Corporate Office Properties Trust and Subsidiaries

## Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2007	2006
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
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)
<b>Cash flows from financing activities</b>		
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

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

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 ) 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.

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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
<b>Numerator:</b>				
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
<b>Denominator (all weighted averages):</b>				
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:

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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		For the Nine Months	
	Ended September 30, 2007	2006	Ended September 30, 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:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
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

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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:

	<b>September 30, 2007</b>	
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:

	<b>September 30, 2007</b>		<b>December 31, 2006</b>	
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:**

		<b>Weighted Average Amortization Period (in Years)</b>
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
	<b>\$ 53,214</b>	<b>6</b>

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.**



**2007 Construction and Development Activities**



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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).**



**2007 Dispositions**

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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.:

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

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:

	<b>For the Three Months Ended September 30,</b>				<b>For the Nine Months Ended September 30,</b>			
	<b>2007</b>		<b>2006</b>		<b>2007</b>		<b>2006</b>	
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:

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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:

<b>Ownership</b>				<b>Total</b>	<b>Collateralized</b>
	<b>Date</b>	<b>% at</b>	<b>Nature of Activity</b>	<b>Assets at</b>	<b>Assets at</b>
	<b>Acquired</b>	<b>9/30/2007</b>		<b>9/30/2007</b>	<b>9/30/2007</b>
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:

	<b>Gross Carrying</b>	<b>September 30, 2007</b>	<b>Net Carrying</b>	<b>Gross Carrying</b>	<b>December 31, 2006</b>	<b>Net Carrying</b>
	<b>Amount</b>	<b>Accumulated</b>	<b>Amount</b>	<b>Amount</b>	<b>Accumulated</b>	<b>Amount</b>
		<b>Amortization</b>			<b>Amortization</b>	
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

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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:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Deferred leasing costs	\$ 59,827	\$ 52,263
Deferred financing costs	30,290	28,275
Goodwill	1,853	1,853
Deferred other	155	155
	<b>92,125</b>	<b>82,546</b>
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	December 31, 2006	Stated Interest Rates at September 30, 2007	Scheduled Maturity Dates at September 30, 2007
<b>Mortgage and other loans payable:</b>					
<u>Revolving Credit Facility</u>					
Wachovia Bank, N.A.				LIBOR + 1.15% to	
Revolving Credit Facility (1)	\$ 500,000(1)	\$ 327,000	\$ 185,000	1.55% (1)	March 2008 (1)
<u>Mortgage Loans</u>					
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
<b>Total mortgage loans</b>		<b>1,270,526</b>	<b>1,111,198</b>		
<u>Note payable</u>					
Unsecured seller notes	N/A	2,386	2,339	0 - 5.95%	2008-2016
<b>Total mortgage and other loans payable</b>		<b>1,599,912</b>	<b>1,298,537</b>		
3.5% Exchangeable Senior Notes	N/A	200,000	200,000	3.50%	September 2026 (6)
<b>Total debt</b>		<b>\$ 1,799,912</b>	<b>\$ 1,498,537</b>		

(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.

## 9. Accounts Receivable

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- (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	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,		For the Nine Months Ended September 30,	
	2007	2006	2007	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:

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	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
<b>Series G Preferred Shares:</b>				
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
<b>Series H Preferred Shares:</b>				
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
<b>Series J Preferred Shares:</b>				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.4766	\$ 1,616
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.4766	\$ 1,616
Second Quarter 2007	June 29, 2007	July 17, 2007	\$ 0.4766	\$ 1,616
Third Quarter 2007	September 28, 2007	October 16, 2007	\$ 0.4766	\$ 1,616
<b>Series K Preferred Shares:</b>				
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.7466	\$ 397
Second Quarter 2007	June 29, 2007	July 17, 2007	\$ 0.7000	\$ 372
Third Quarter 2007	September 28, 2007	October 16, 2007	\$ 0.7000	\$ 372
<b>Common Shares:</b>				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.3100	\$ 13,292
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.3100	\$ 14,529
Second Quarter 2007	June 29, 2007	July 17, 2007	\$ 0.3100	\$ 14,613
Third Quarter 2007	September 28, 2007	October 16, 2007	\$ 0.3400	\$ 16,092
<b>Series I Preferred Units:</b>				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.4688	\$ 165
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.4688	\$ 165
Second Quarter 2007	June 29, 2007	July 17, 2007	\$ 0.4688	\$ 165
Third Quarter 2007	September 28, 2007	October 16, 2007	\$ 0.4688	\$ 165
<b>Common Units:</b>				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.3100	\$ 2,622
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.3100	\$ 2,554
Second Quarter 2007	June 29, 2007	July 17, 2007	\$ 0.3100	\$ 2,574
Third Quarter 2007	September 28, 2007	October 16, 2007	\$ 0.3400	\$ 2,777

## 15. Supplemental Information to Statements of Cash Flows

	For the Nine Months Ended September 30,	
	2007	2006
Supplemental schedule of non-cash investing and financing activities:		
Debt assumed in connection with acquisition of properties	\$ 38,848	\$ 37,484
Issuance of common shares in connection with acquisition of properties	\$ 156,691	\$
Issuance of preferred shares in connection with acquisition of properties	\$ 26,583	\$
Proceeds from sales of properties invested in restricted cash account	\$ 701	\$ 33,730
Restricted cash used in connection with acquisitions of properties	\$ 20,827	\$
Issuance of common units in the Operating Partnership in connection with acquisitions of interests in properties	\$ 12,125	\$ 7,497
Note receivable assumed upon sale of real estate property	\$ 3,582	\$
Increase in accrued capital improvements, leasing, and acquisition costs	\$ 14,501	\$ 7,217
Reclassification of operating assets to investment assets in connection with consolidation of real estate joint ventures	\$ 16,725	\$
Consolidation of real estate joint venture:		
Real estate assets	\$ 3,864	\$
Prepaid and other assets	1,021	
Minority interest	(4,885)	
Net adjustment	\$	\$
Property acquired through lease arrangements included in rents received in advance and security deposits	\$	\$ 1,282
Amortization of discounts and premiums on mortgage loans to commercial real estate properties	\$ 296	\$ 131
Decrease in fair value of derivatives applied to AOCL and minority interests	\$ (644)	\$ (473)
Adjustments to minority interests resulting from changes in ownership of the Operating Partnership by COPT	\$ 29,693	\$ 13,962
Dividends/distribution payable	\$ 22,433	\$ 19,810
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 25,358	\$ 7,891

## 16. Information by Business Segment

As of September 30, 2007, we had nine primary office property segments: Baltimore/Washington Corridor; Northern Virginia; Suburban Baltimore; Colorado Springs, Colorado; Suburban Maryland; Greater Philadelphia; St. Mary's and King George Counties; San Antonio, Texas; and Northern/Central New Jersey.

The table below reports segment financial information. Our segment entitled "Other" includes assets and operations not specifically associated with the other defined segments, including corporate assets, investments in unconsolidated entities and elimination entries required in consolidation. We measure the performance of our segments based on total revenues less property operating expenses, a measure we define as net operating income ("NOI"). We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of the core operations that is unaffected by depreciation, amortization, financing and general and administrative expenses; this measure is particularly useful in our opinion in evaluating the performance of geographic segments, same-office property groupings and individual properties.

	Baltimore/ Washington Corridor	Northern Virginia	Suburban Baltimore	Colorado Springs	Suburban Maryland	Greater Philadelphia	St. Mary's & King George Counties	San Antonio	Northern/Central New Jersey	Other	Total
<b>Three Months Ended September 30, 2007</b>											
Revenues	\$ 43,850	\$ 18,555	\$ 13,575	\$ 4,312	\$ 4,410	\$ 2,506	\$ 3,338	\$ 1,831	\$ 1,110	\$ 1,351	\$ 94,838
Property operating expenses	14,676	6,528	5,469	1,973	1,741	34	784	374	676	(10)	32,245
NOI	\$ 29,174	\$ 12,027	\$ 8,106	\$ 2,339	\$ 2,669	\$ 2,472	\$ 2,554	\$ 1,457	\$ 434	\$ 1,361	\$ 62,593
Additions to commercial real estate properties	\$ 47,791	\$ 4,335	\$ 13,952	\$ 11,939	\$ 50	\$ 348	\$ 250	\$ 1,554	\$ 6	\$ 5,843	\$ 86,068
<b>Three Months Ended September 30, 2006</b>											
Revenues	\$ 38,347	\$ 16,747	\$ 7,569	\$ 3,158	\$ 4,114	\$ 2,506	\$ 2,979	\$ 1,787	\$ 2,317	\$ (466)	\$ 79,058
Property operating expenses	12,604	5,568	3,090	1,208	1,598	43	856	310	869	(419)	25,727
NOI	\$ 25,743	\$ 11,179	\$ 4,479	\$ 1,950	\$ 2,516	\$ 2,463	\$ 2,123	\$ 1,477	\$ 1,448	\$ (47)	\$ 53,331
Additions to commercial real estate properties	\$ 20,066	\$ 4,893	\$ 701	\$ 4,109	\$ 2,212	\$ 334	\$ 429	\$ 127	\$ 237	\$ 8,690	\$ 41,798
<b>Nine Months Ended September 30, 2007</b>											
Revenues	\$ 130,409	\$ 53,981	\$ 40,104	\$ 11,511	\$ 12,320	\$ 7,519	\$ 9,465	\$ 5,475	\$ 3,902	\$ 1,717	\$ 276,403
Property operating expenses	42,538	19,339	16,194	4,445	5,056	96	2,294	1,119	1,760	722	93,563
NOI	\$ 87,871	\$ 34,642	\$ 23,910	\$ 7,066	\$ 7,264	\$ 7,423	\$ 7,171	\$ 4,356	\$ 2,142	\$ 995	\$ 182,840
Additions to commercial real estate properties	\$ 146,846	\$ 21,206	\$ 276,826	\$ 36,306	\$ 1,958	\$ 880	\$ 533	\$ 1,560	\$ 271	\$ 48,624	\$ 535,010
Segment assets at September 30, 2007	\$ 1,208,852	\$ 483,473	\$ 461,461	\$ 168,719	\$ 132,851	\$ 96,463	\$ 95,828	\$ 58,023	\$ 40,450	\$ 169,903	\$ 2,916,023
<b>Nine Months Ended September 30, 2006</b>											
Revenues	\$ 107,537	\$ 48,116	\$ 22,156	\$ 6,410	\$ 11,452	\$ 7,519	\$ 9,004	\$ 5,395	\$ 7,597	\$ (871)	\$ 224,315
Property operating expenses	33,107	16,862	8,862	2,315	4,180	124	2,251	962	2,677	(1,148)	70,192
NOI	\$ 74,430	\$ 31,254	\$ 13,294	\$ 4,095	\$ 7,272	\$ 7,395	\$ 6,753	\$ 4,433	\$ 4,920	\$ 277	\$ 154,123
Additions to commercial real estate properties	\$ 170,894	\$ 11,781	\$ 2,063	\$ 61,712	\$ 3,446	\$ 949	\$ 1,399	\$ 8,735	\$ 1,358	\$ 8,032	\$ 270,369

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Segment assets at																						
September 30, 2006	\$	1,070,627	\$	466,938	\$	160,766	\$	130,845	\$	118,619	\$	98,260	\$	98,267	\$	54,673	\$	45,208	\$	111,719	\$	2,355,922

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Segment revenues	\$ 94,838	\$ 79,058	\$ 276,403	\$ 224,315
Construction contract revenues	10,047	13,219	29,358	39,919
Other service operations revenues	910	1,572	3,369	5,321
Less: Revenues from discontinued real estate operations (Note 19)	(274)	(2,189)	(1,701)	(8,228)
Total revenues	\$ 105,521	\$ 91,660	\$ 307,429	\$ 261,327

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

	For the Three Months Ended September 30, ,		For the Nine Months Ended September 30	
	2007	2006	2007	2006
Segment property operating expenses	\$ 32,245	\$ 25,727	\$ 93,563	\$ 70,192
Less: Property operating expenses from discontinued real estate operations (Note 19)	(603)	(744)	(1,341)	(2,732)
Total property operating expenses	\$ 31,642	\$ 24,983	\$ 92,222	\$ 67,460

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
NOI for reportable segments	\$ 62,593	\$ 53,331	\$ 182,840	\$ 154,123
Construction contract revenues	10,047	13,219	29,358	39,919
Other service operations revenues	910	1,572	3,369	5,321
Equity in (loss) income of unconsolidated entities	(46)	15	(197)	(40)
Income tax expense	(197)	(202)	(480)	(623)
Other adjustments:				
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)
Interest expense on continuing operations	(21,000)	(17,678)	(61,261)	(51,635)
Gain on sale of non-real estate investment			1,033	
Amortization of deferred financing costs	(901)	(736)	(2,706)	(1,898)
Minority interests in continuing operations	(961)	(873)	(2,341)	(3,029)
Add (less) net operating loss (income) from discontinued operations	329	(1,445)	(360)	(5,496)
Income from continuing operations	\$ 8,451	\$ 7,507	\$ 22,183	\$ 23,485



The accounting policies of the segments are the same as those previously disclosed for Corporate Office Properties Trust and subsidiaries, where applicable. We did not allocate interest expense, amortization of deferred financing costs and depreciation and other amortization to segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate construction contract revenues, other service operations revenues, construction contract expenses, other service operations expenses, equity in (loss) income of unconsolidated entities, general and administrative expense, gain on sale of non-real estate investment, income taxes and minority interests because these items represent general corporate items not attributable to segments.

## 17. Share-Based Compensation

During the nine months ended September 30, 2007, we granted 262,066 options to purchase common shares ( options ) to employees and 40,000 options to Trustees. The weighted average exercise price of these option grants total \$47.91 per share. The employee option grants vest in equal increments annually over a three-year period beginning on the first anniversary of the grant date provided that the employees remain employed by us. Trustee options vest on the first anniversary of their grant provided that the Trustees remain in their positions. All of the option grants expire ten years after the grant date. We computed share-based compensation expense for these options under the fair value method using the Black-Scholes option-pricing model; the weighted average assumptions we used in that model are set forth below:

Weighted average fair value per share option granted during the period	\$	9.58
Risk-free interest rate		4.64%(1)
Expected life (in years)		6.15
Expected volatility		21.46%(2)
Expected annual dividend yield		3.24%(3)

(1) Ranged from 4.53% to 4.91%.

(2) Ranged from 21.28% to 21.75%.

(3) Ranged from 3.12% to 3.35%.

During the nine months ended September 30, 2007, 595,957 options to purchase common shares were exercised. The weighted average exercise price of these options was \$11.94 per share, and the total intrinsic value of options exercised was \$23,257.

During the nine months ended September 30, 2007, certain employees were granted restricted shares totaling 137,359 with a weighted average grant date fair value of \$49.80 per share. These shares are subject to forfeiture restrictions that lapse in equal increments annually over a three-year period (for most of the grants) or a five-year period beginning on the first anniversary of the grant date provided that the employees remain employed by us. During the nine months ended September 30, 2007, forfeiture restrictions lapsed on 137,227 common shares previously issued to employees. These shares had a weighted average grant date fair value of \$22.54 per share, and the total fair value of the shares on the vesting date was \$6,959.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Increase in general and administrative expenses	\$ 1,202	\$ 710	\$ 3,277	\$ 1,773
Increase in construction contract and other service operations expenses	483	233	1,346	575
Share-based compensation expense	1,685	943	4,623	2,348
Income taxes	(19)	(24)	(120)	(66)
Minority interests	(259)	(161)	(708)	(404)
Net share-based compensation expense	\$ 1,407	\$ 758	\$ 3,795	\$ 1,878

## 18. Income Taxes

COMI's provision for income tax expense consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Deferred				
Federal	\$ 161	\$ 165	\$ 395	\$ 510
State	36	37	88	113
Total	\$ 197	\$ 202	\$ 483	\$ 623

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

COMI's combined Federal and state effective tax rate was 39% for the three and nine months ended September 30, 2007 and 2006.

## 19. Discontinued Operations

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

the two Lakeview at the Greens properties that were sold on February 6, 2006;

the 68 Culver Road property that was sold on March 8, 2006;

the 710 Route 46 property that was sold on July 26, 2006;

the 230 Schilling Circle property that was sold on August 9, 2006;

the 7 Centre Drive property that was sold on August 30, 2006;

the Brown s Wharf property that was sold on September 28, 2006;

the 429 Ridge Road property that we were under contract to sell as of September 30, 2007 and was classified as held for sale;

the 2 and 8 Centre Drive properties that were sold on September 7, 2007; and

the 7321 Parkway property that was sold on September 7, 2007.

Certain reclassifications have been made in prior periods to reflect discontinued operations consistent with the current period presentation. The table below sets forth the components of income from discontinued operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue from real estate operations	\$ 274	\$ 2,189	\$ 1,701	\$ 8,228
Expenses from real estate operations:				
Property operating expenses	603	744	1,341	2,732
Depreciation and amortization	18	396	173	1,855
Interest expense	145	506	1,222	1,900
Other	1	128	1	135
Expenses from real estate operations	767	1,774	2,737	6,622
(Loss) income from discontinued operations before gain on sales of real estate and minority interests	(493)	415	(1,036)	1,606
Gain on sales of real estate	2,789	14,699	2,778	17,102
Minority interests in discontinued operations	(354)	(2,631)	(269)	(3,285)
Income from discontinued operations, net of minority interests	\$ 1,942	\$ 12,483	\$ 1,473	\$ 15,423

## 20. Commitments and Contingencies

In the normal course of business, we are involved in legal actions arising from our ownership and administration of properties. Management does not anticipate that any liabilities that may result will have a materially adverse effect on our financial position, operations or liquidity. We are subject to various Federal, state and local environmental regulations related to our property ownership and operation. We have performed environmental assessments of our properties, the results of which have not revealed any environmental liability that we believe would have a materially adverse effect on our financial position, operations or liquidity.

### Acquisitions

As of September 30, 2007, we were under contract to acquire the remaining 91 acres of land not yet acquired as part of the acquisition of the former Fort Ritchie United States Army base located in Cascade, Washington County, Maryland; we expect to make the following additional future cash payments to the seller for (1) the acquisition of the remaining 91 acres and (2) portions of the contract price on which payment was deferred by the contract: \$1,310 in 2007, \$1,000 in 2008 and \$155 in 2009. We could incur an additional cash obligation to the seller after that of up to \$4,000; this \$4,000 cash obligation is subject to reduction by an amount ranging between \$750 and \$4,000, with the amount of such reduction to be determined based on defined levels of (1) job creation resulting from the future development of the property and (2) future real estate taxes generated by the property. Following completion of this acquisition, we will be obligated to incur \$7,500 in development and construction costs for the property.

### Joint Ventures

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

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We are party to a contribution agreement that formed a joint venture relationship with a limited partnership to develop up to 1.8 million square feet of office space on 63 acres of land located in Hanover, Maryland. Under the contribution agreement, we agreed to fund up to \$2,200 in pre-construction costs associated with the property. As we and the joint venture partner agree to proceed with the construction of buildings in the future, our joint venture partner would contribute land into newly-formed entities and we

would make additional cash capital contributions into such entities to fund development and construction activities for which financing is not obtained. As discussed in Note 6, we obtained an interest in one such joint venture in July 2007 in which we have a 50% interest.

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.

In one of the consolidated joint ventures that we owned as of September 30, 2007, we would be obligated to acquire the other member's 50% interest in the joint venture if defined events were to occur. The amount we would need to pay for that membership interest is computed based on the amount that the owner of the interest would receive under the joint venture agreement in the event that office property owned by the joint venture was sold for a capitalized fair value (as defined in the agreements) on a defined date. We estimate the aggregate amount we would need to pay for the other member's membership interest in this joint venture to be \$718; however, since the determination of this amount is dependent on the operations of the office property, which is not both completed and sufficiently occupied, this estimate is preliminary and could be materially different from the actual obligation.

#### Office Space Operating Leases

We are obligated as lessee under five operating leases for office space. Future minimum rental payments due under the terms of these leases as of September 30, 2007 follow:

Three months ended December 31, 2007	\$	74
2008		261
2009		176
2010		135
2011		57
	\$	703

#### Other Operating Leases

We are obligated under various leases for vehicles and office equipment. Future minimum rental payments due under the terms of these leases as of September 30, 2007 follow:

Three months ended December 31, 2007	\$	129
2008		485
2009		331
2010		150
2011		21
	\$	1,116

#### Environmental Indemnity Agreement

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We agreed to provide certain environmental indemnifications in connection with a lease of three properties in our New Jersey region. 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 \$5,000 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, if such acquisition occurs. This indemnification is capped at \$12,500; and

to pay 50% of additional costs related to construction and environmental regulatory activities incurred by the tenant as a result of the indemnified environmental condition of the properties. This indemnification is capped at \$300 annually and \$1,500 in the aggregate.

We have insurance coverage in place that we believe will indemnify us, at least in part, for losses incurred as a result of this agreement.

## 21. Pro Forma Financial Information

We accounted for our acquisitions using the purchase method of accounting. We included the results of operations on our acquisitions in our Consolidated Statements of Operations from their respective purchase dates through September 30, 2007.

We prepared our pro forma condensed consolidated financial information presented below as if the Nottingham Acquisition had occurred at the beginning of the respective periods. The pro forma financial information is not necessarily indicative of the results that actually would have occurred if this acquisition had occurred at the beginning of the respective periods, nor does it purport to indicate our results of operations for future periods.

	For the Nine Months Ended September 30,	
	2007	2006
Pro forma total revenues	\$ 308,248	\$ 286,478
Pro forma net income	\$ 25,120	\$ 34,801
Pro forma net income available to common shareholders	\$ 13,044	\$ 20,242
Pro forma earnings per common share on net income available to common shareholders		
Basic	\$ 0.28	\$ 0.46
Diluted	\$ 0.27	\$ 0.44

## 22. Subsequent Events

On October 1, 2007, we amended and restated the credit agreement on our Revolving Credit Facility, increasing the amount of the lenders aggregate commitment under the facility from \$500,000 to \$600,000 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. The facility matures on September 30, 2011, and may be extended by one year. This is described further in Note 11.

On October 23, 2007, we entered into an interest rate swap agreement that fixes the one-month LIBOR base rate at 4.33% on an aggregate notional amount of \$50,000. This swap agreement became effective on October 23, 2007 and carries a two-year term. We designated this swap

as a cash flow hedge.

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

**Overview**

We are a REIT that focuses on the acquisition, development, ownership, management and leasing of primarily Class A suburban office properties in select, demographically strong submarkets where we can achieve critical mass, operating synergies and key competitive advantages, including attracting high quality tenants and securing acquisition and development opportunities. 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.

During the nine months ended September 30, 2007, we:

experienced increased revenues, operating expenses and operating income as compared to the same period in the prior year due primarily to the addition of properties through acquisition and construction activities since January 1, 2006;

finished the period with occupancy of our wholly owned portfolio of properties at 92.8%;

completed, on January 9 and 10, 2007, 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 \$366.9 million. We financed the acquisition by issuing \$26.6 million in Series K Cumulative Redeemable Convertible Preferred Shares of beneficial interest (the Series K Preferred Shares ) to the seller at a value of, and liquidation preference equal to, \$50 per share, issuing \$156.7 million in common shares of beneficial interest ( common shares ) to the seller at a value of \$49.57 per share, using \$20.1 million from an escrow funded by proceeds from one of our property sales and using debt borrowings for the remainder;

had three newly-constructed properties totaling 339,910 square feet (two located in the Baltimore/Washington Corridor and one in our Other region) become fully operational. We also had 48,377 square feet placed into service in one partially operational property in the Baltimore/Washington Corridor; and

borrowed \$150.0 million under a mortgage loan with a 10-year term at a fixed rate of 5.65%, using the proceeds to repay other debt.

On October 1, 2007, we amended and restated the credit agreement on our Revolving Credit Facility, increasing the amount of the lenders aggregate commitment under the facility from \$500.0 million to \$600.0 million with a right for us to further increase the lenders aggregate commitment during the term to a maximum of \$800.0 million, subject to certain conditions. The facility matures on September 30, 2011, and may be extended by us for a period of one year, subject to certain conditions.

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In this section, we discuss our financial condition and results of operations as of and for the three and nine months ended September 30, 2007. This section includes discussions on, among other things:

our results of operations and why various components of our Consolidated Statements of Operations changed for the three and nine months ended September 30, 2007 compared to the same periods in 2006;

how we raised cash for acquisitions and other capital expenditures during the nine months ended September 30, 2007;

our cash flows for the nine months ended September 30, 2007 and 2006;

how we expect to generate cash for short and long-term capital needs;

our commitments and contingencies at September 30, 2007; and

the computation of our Funds from Operations for the three and nine months ended September 30, 2007 and 2006.

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

our ability to borrow on favorable terms;

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

adverse changes in the real estate markets, including, among other things, increased competition with other companies;

risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development and operating costs may be greater than anticipated;

risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;

our ability to satisfy and operate effectively under federal income tax rules relating to real estate investment trusts and partnerships;

governmental actions and initiatives; and

environmental requirements.

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

## Corporate Office Properties Trust and Subsidiaries

## Operating Data Variance Analysis

(Dollars for this table are in thousands, except per share data)

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2007	2006	Variance	% Change	2007	2006	Variance	% Change
<b>Revenues</b>								
Rental revenue	\$ 80,428	\$ 65,614	\$ 14,814	22.6%	\$ 234,807	\$ 187,299	\$ 47,508	25.4%
Tenant recoveries and other real estate operations revenue	14,136	11,255	2,881	25.6%	39,895	28,788	11,107	38.6%
Construction contract revenues	10,047	13,219	(3,172)	(24.0)%	29,358	39,919	(10,561)	(26.5)%
Other service operations revenues	910	1,572	(662)	(42.1)%	3,369	5,321	(1,952)	(36.7)%
Total revenues	105,521	91,660	13,861	15.1%	307,429	261,327	46,102	17.6%
<b>Expenses</b>								
Property operating expenses	31,642	24,983	6,659	26.7%	92,222	67,460	24,762	36.7%
Depreciation and other amortization associated with real estate operations	26,587	21,510	5,077	23.6%	80,487	58,138	22,349	38.4%
Construction contract expenses	9,507	12,465	(2,958)	(23.7)%	28,126	38,134	(10,008)	(26.2)%
Other service operations expenses	806	1,495	(689)	(46.1)%	3,337	4,991	(1,654)	(33.1)%
General and administrative expenses	5,423	4,226	1,197	28.3%	15,122	11,894	3,228	27.1%
Total operating expenses	73,965	64,679	9,286	14.4%	219,294	180,617	38,677	21.4%
Operating income	31,556	26,981	4,575	17.0%	88,135	80,710	7,425	9.2%
Interest expense and amortization of deferred financing costs	(21,901)	(18,414)	(3,487)	18.9%	(63,967)	(53,533)	(10,434)	19.5%
Gain on sale of non-real estate investment				N/A	1,033		1,033	N/A
Equity in (loss) income of unconsolidated entities	(46)	15	(61)	(406.7)%	(197)	(40)	(157)	392.5%
Income tax expense	(197)	(202)	5	(2.5)%	(480)	(623)	143	(23.0)%
Income from continuing operations before minority interests	9,412	8,380	1,032	12.3%	24,524	26,514	(1,990)	(7.5)%
Minority interests in income from continuing operations	(961)	(873)	(88)	10.1%	(2,341)	(3,029)	688	(22.7)%
Income from continuing operations	8,451	7,507	944	12.6%	22,183	23,485	(1,302)	(5.5)%
Income from discontinued operations, net	1,942	12,483	(10,541)	(84.4)%	1,473	15,423	(13,950)	(90.4)%
Gain on sales of real estate, net	1,038	597	441	73.9%	1,199	732	467	63.8%
Net income	11,431	20,587	(9,156)	(44.5)%	24,855	39,640	(14,785)	(37.3)%
Preferred share dividends	(4,025)	(4,307)	282	(6.5)%	(12,043)	(11,614)	(429)	3.7%
Issuance costs associated with redeemed preferred shares		(1,829)	1,829	(100.0)%		(1,829)	1,829	(100.0)%
Net income available to common shareholders	\$ 7,406	\$ 14,451	\$ (7,045)	(48.8)%	\$ 12,812	\$ 26,197	\$ (13,385)	(51.1)%
<b>Basic earnings per common share</b>								
Income from continuing operations	\$ 0.12	\$ 0.05	\$ 0.07	140.0%	\$ 0.24	\$ 0.26	\$ (0.02)	(7.7)%
Net income available to common shareholders	\$ 0.16	\$ 0.34	\$ (0.18)	(52.9)%	\$ 0.28	\$ 0.64	\$ (0.36)	(56.3)%
<b>Diluted earnings per common share</b>								
Income from continuing operations	\$ 0.11	\$ 0.04	\$ 0.07	175.0%	\$ 0.24	\$ 0.25	\$ (0.01)	(4.0)%
Net income available to common shareholders	\$ 0.15	\$ 0.33	\$ (0.18)	(54.5)%	\$ 0.27	\$ 0.61	\$ (0.34)	(55.7)%



## Results of Operations

While reviewing this section, you should refer to the Operating Data Variance Analysis table set forth on the preceding page, as it reflects the computation of the variances described in this section.

### Geographic Concentration of Property Operations

The table below sets forth the changes in the regional allocation of our annualized rental revenue from December 31, 2006 to September 30, 2007. These changes occurred primarily as a result of the Nottingham Acquisition, but also due to the effect of development and leasing activity:

Region	Percentage of Annualized Rental Revenue of Wholly Owned Properties as of	
	September 30, 2007	December 31, 2006
Baltimore/Washington Corridor	46.3%	51.2%
Northern Virginia	19.8%	20.5%
Suburban Baltimore	14.4%	7.5%
Suburban Maryland	4.3%	4.1%
Colorado Springs, Colorado	4.0%	4.2%
St. Mary's and King George Counties	3.6%	4.2%
Greater Philadelphia	3.1%	3.7%
San Antonio, Texas	2.0%	2.4%
Other	1.5%	N/A
Northern/Central New Jersey	1.0%	2.2%
	100.0%	100.0%

Annualized rental revenue is a measure that we use to evaluate the source of our rental revenue as of a point in time. It is computed by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases as of a point in time. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

Since most of the operating properties included in the Nottingham Acquisition were located in the Suburban Baltimore region, the percentage of annualized revenue derived from wholly owned properties in that region increased to approximately twice what it was prior to the acquisition.

### Concentration of Leases With Certain Tenants

We experienced changes in our tenant base during the nine months ended September 30, 2007 due primarily to the Nottingham Acquisition, but also due to development and leasing activity. The following table lists the 20 largest tenants in our portfolio of wholly owned properties based on percentage of annualized rental revenue:



Tenant	Percentage of Annualized Rental Revenue of Wholly Owned Properties for 20 Largest Tenants as of	
	September 30, 2007	December 31, 2006
United States Government	15.4%	16.3%
Northrop Grumman Corporation (1)	6.6%	4.2%
Booz Allen Hamilton, Inc.	5.6%	6.9%
Computer Sciences Corporation (1)	3.3%	3.8%
Unisys Corporation (2)	2.5%	3.0%
L-3 Communications Holdings, Inc. (1)	2.5%	3.0%
General Dynamics Corporation	2.1%	2.4%
Wachovia Corporation (1)	1.9%	2.1%
The Aerospace Corporation	1.9%	2.1%
Comcast Corporation	1.8%	N/A
AT&T Corporation (1)	1.7%	3.0%
The Boeing Company (1)	1.2%	1.4%
Ciena Corporation	1.1%	1.2%
Science Applications International Corporation	0.9%	1.1%
Magellan Health Services, Inc.	0.9%	1.0%
BAE Systems PLC (1)	0.8%	1.0%
Johns Hopkins University (1)	0.8%	N/A
Merck & Co., Inc. (2)	0.8%	0.8%
Wyle Laboratories, Inc.	0.7%	0.8%
AARP	0.7%	N/A
Lockheed Martin Corporation	N/A	1.0%
Harris Corporation	N/A	0.8%
EDO Corporation	N/A	0.8%
Subtotal of 20 largest tenants	53.2%	56.7%
All remaining tenants	46.8%	43.3%
Total	100.0%	100.0%

(1) Includes affiliated organizations and agencies and predecessor companies.

(2) Unisys Corporation subleases space to Merck and Co., Inc.; revenue from this subleased space is classified as Merck & Co., Inc. revenue.

#### Industry Concentration of Tenants

The percentage of total annualized rental revenue in our wholly owned properties derived from the United States defense industry decreased during the nine months ended September 30, 2007 due primarily to the Nottingham Acquisition, since the properties included in that transaction had an insignificant number of tenants in that industry, but also due to the effect of development and leasing activity. The table below sets forth the percentage of annualized rental revenue in our portfolio of wholly owned properties derived from that industry:

	<b>Percentage of Annualized Rental Revenue of Wholly Owned Properties from Defense Industry Tenants as of</b>	
	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Total Portfolio	47.5%	54.4%
Baltimore/Washington Corridor	63.7%	66.7%
Northern Virginia	49.8%	54.5%
Suburban Baltimore	6.7%	9.8%
Suburban Maryland	11.2%	13.3%
Colorado Springs, Colorado	37.0%	39.4%
St. Mary's and King George Counties	89.7%	89.8%
San Antonio, Texas	100.0%	100.0%

### Occupancy and Leasing

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Occupancy rates		
Total	92.8%	92.8%
Baltimore/Washington Corridor	93.5%	95.1%
Northern Virginia	99.2%	90.9%
Suburban Baltimore	83.9%	81.1%
Suburban Maryland	97.8%	83.2%
Colorado Springs, Colorado	96.0%	92.8%
St. Mary's and King George Counties	92.3%	92.1%
Greater Philadelphia	100.0%	100.0%
San Antonio, Texas	100.0%	100.0%
Other	100.0%	N/A
Northern/Central New Jersey	70.8%	97.2%
Average contractual annual rental rate per square foot at period end (1)	\$ 21.20	\$ 20.90

(1) Includes estimated expense reimbursements.

The total occupancy rate of our wholly owned properties was negatively affected by the operating properties included in the Nottingham Acquisition, which were 85.9% occupied at September 30, 2007. We also had a decrease in occupancy in our New Jersey region that was attributable primarily to a lease termination at our 429 Ridge Road property located in Dayton, New Jersey (we are under contract to sell our 429 Ridge Road property and expect to complete such sale by January 2008). However, we had a net increase in occupancy in our other properties that offsets the decreasing effects of the Nottingham Acquisition and the 429 Ridge Road property. The increases in the occupancy rates of our Northern Virginia and Suburban Maryland regions were largely attributable to lease commencements for space in those regions.

We renewed 71.4% of the square footage scheduled to expire in the nine months ended September 30, 2007 (including the effects of early renewals and early lease terminations).



We believe that there continues to be a fair amount of uncertainty surrounding our leasing outlook. Certain key economic indicators, including employment growth, seem to favor continued strength in our regions' real estate markets. However, the recent and scheduled addition of new square footage in our regions along with continued strong competition from existing properties in these regions present challenges to the Company's ability to meet our leasing objectives. We believe that reporting by the Base Realignment and Closure Commission of the United States Congress (BRAC) favors continued expansion in the regions in which our properties are located. However, while we view this reporting as favorable for the Company's future leasing outlook, there is uncertainty over the level and timing of such expansion.

Despite this uncertainty regarding our leasing outlook, we believe that we are somewhat protected in the short run from a slow down in leasing activity since the weighted average lease term for our wholly owned properties at September 30, 2007 was five years. In addition, only 14.5% of our annualized rental revenues at September 30, 2007 were from leases scheduled to expire by the end of 2008. Looking longer term, 64.6% of our annualized rental revenues on leases in place as of September 30, 2007 were from leases scheduled to expire by the end of 2012, with no more than 15% scheduled to expire in any one calendar year through 2012.

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

Geographic Region	Ownership Interest	Occupancy Rates at	
		September 30, 2007	December 31, 2006
Suburban Maryland	50.0%	76.2%	47.9%
Northern Virginia	92.5%	100.0%(1)	100.0%(1)
Greater Harrisburg	20.0%	90.5%	91.2%

(1) Excludes the effect of 59,000 unoccupied square feet undergoing redevelopment at period end.

#### Revenues from real estate operations and property operating expenses

We view our changes in revenues from real estate operations and property operating expenses as being comprised of the following main components:

Changes attributable to the operations of properties owned and 100% operational throughout the two periods being compared. We define these as changes from Same-Office Properties. For example, when comparing the nine months ended September 30, 2006 and 2007, Same-Office Properties would be properties owned and 100% operational from January 1, 2006 through September 30, 2007.

Changes attributable to operating properties acquired during the two periods being compared and newly-constructed properties that were placed into service and not 100% operational throughout the two periods being compared. We define these as changes from Property Additions.

The tables below set forth the components of our changes in revenues from real estate operations and property operating expenses (dollars in thousands). The tables and the discussion that follows in this section pertain to properties included in continuing operations:



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Changes From the Three Months Ended September 30, 2006 to 2007

	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	Percentage Change	Other Dollar Change (2)	Total Dollar Change
Revenues from real estate operations					
Rental revenue	\$ 13,662	\$ 304	0.5%	\$ 848	\$ 14,814
Tenant recoveries and other real estate operations revenue	1,819	891	8.3%	171	2,881
Total	\$ 15,481	\$ 1,195	1.6%	\$ 1,019	\$ 17,695
Property operating expenses	\$ 4,981	\$ 1,456	5.9%	\$ 222	\$ 6,659
Straight-line rental revenue adjustments included in rental revenue	\$ 991	\$ (582)	N/A	\$ 24	\$ 433
Amortization of deferred market rental revenue	\$ (44)	\$ 382	N/A	\$	\$ 338
Number of operating properties included in component category	70	160	N/A		230

(1) Includes 58 acquired properties, ten newly-constructed properties and two redevelopment properties placed into service.

(2) Includes, among other things, the effects of amounts eliminated in consolidation. Certain amounts eliminated in consolidation are attributable to the Property Additions and Same-Office Properties.

Changes From the Nine Months Ended September 30, 2006 to 2007

	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	Percentage Change	Other Dollar Change (2)	Total Dollar Change
Revenues from real estate operations					
Rental revenue	\$ 43,036	\$ 3,994	2.2%	\$ 478	\$ 47,508
Tenant recoveries and other real estate operations revenue	6,667	3,662	13.9%	778	11,107
Total	\$ 49,703	\$ 7,656	3.7%	\$ 1,256	\$ 58,615
Property operating expenses	\$ 16,895	\$ 6,349	9.8%	\$ 1,518	\$ 24,762
Straight-line rental revenue adjustments included in rental revenue	\$ 3,409	\$ (1,488)	N/A	\$ 29	\$ 1,950
Amortization of deferred market rental revenue	\$ 162	\$ 287	N/A	\$	\$ 449
Number of operating properties included in component category	76	154	N/A		230

(1) Includes 64 acquired properties, ten newly-constructed properties and two redevelopment properties placed into service.

(2) Includes, among other things, the effects of amounts eliminated in consolidation. Certain amounts eliminated in consolidation are attributable to the Property Additions and Same-Office Properties.

As the tables above indicate, our total increase in revenues from real estate operations and property operating expenses was attributable primarily to the Property Additions.

With regard to changes in the Same-Office Properties' revenues from real estate operations for the three month periods:

the increase in rental revenue from real estate operations for the Same-Office Properties included the following:

an increase of \$1.3 million, or 2.0%, in rental revenue from the Same-Office Properties attributable primarily to changes in rental rates and occupancy between the two periods. Of this increase, \$764,000 was attributable to one property located in Northern Virginia; and

a decrease of \$971,000, or 75.1%, in net revenue from the early termination of leases. To explain further the term net revenue from the early termination of leases, when tenants terminate their lease obligations prior to the end of the agreed lease terms, they typically pay fees to break these obligations. We recognize such fees as revenue and write off against such revenue any (1) deferred rents receivable and (2) deferred revenue and deferred assets that are amortizable into rental revenue associated with the leases; the resulting net amount is the net revenue from the early termination of the leases.

tenant recoveries and other revenue from the Same-Office Properties increased due primarily to an increase in property operating expenses, as described below.

With regard to changes in the Same-Office Properties' revenues from real estate operations for the nine month periods:

the increase in rental revenue from real estate operations for the Same-Office Properties included the following:

an increase of \$4.6 million, or 2.6%, in rental revenue from the Same-Office Properties attributable primarily to changes in rental rates and occupancy between the two periods. Of this increase, \$2.8 million was attributable to two properties; and

a decrease of \$606,000, or 23.5%, in net revenue from the early termination of leases.

tenant recoveries and other revenue from the Same-Office Properties increased due primarily to an increase in property operating expenses, as described below.

The increase in operating expenses for the Same-Office Properties for the three month periods included the following:

an increase of \$638,000, or 13.6%, in real estate taxes, of which \$529,000 was attributable to properties in our Colorado Springs, Colorado portfolio that had increased property value assessments completed retroactive to the beginning of 2007;

an increase of \$356,000, or 5.4%, in utilities due primarily to (1) rate increases that we believe are the result of (a) increased oil prices and (b) energy deregulation in Maryland and (2) our assumption of responsibility for payment of utilities at certain properties due to changes in occupancy and lease structure;

an increase of \$336,000, or 26.2%, in heating and air conditioning repairs and maintenance due to an increase in general repair activity and the commencement of new service arrangements at certain properties; and

an increase of \$247,000, or 10.0%, in repairs and maintenance labor due primarily to: (1) an increase in labor hours due mostly to the addition of new employees to address staffing needs and increased labor requirements at certain properties with increased occupancy; and (2) higher labor rates resulting from an increase in the underlying costs for labor.

The increase in operating expenses for the Same-Office Properties for the nine month periods included the following:

an increase of \$2.4 million, or 16.3%, in utilities due primarily to the reasons discussed above for the variance in the three month periods;

an increase of \$1.2 million, or 166.3%, in snow removal due to increased snow and ice in our regions in 2007;

an increase of \$781,000, or 10.9%, in repairs and maintenance labor due primarily to the reasons discussed above for the variance in the three month periods;

an increase of \$716,000, or 22.2%, in heating and air conditioning repairs and maintenance due primarily to the reasons discussed above for the variance in the three month periods; and

an increase of \$623,000, or 4.9%, in real estate taxes reflecting primarily an increase in the assessed value of many of our properties. Included in this amount was a \$183,000 increase attributable to properties in our Colorado Springs, Colorado portfolio.

#### Construction contract and other service revenues and expenses

The table below sets forth changes in our construction contract and other service revenues and expenses (dollars in thousands):

	Changes Between the Three Month Periods Ended September 30, 2007 and 2006			Changes Between the Nine Month Periods Ended September 30, 2007 and 2006		
	Construction Contract Dollar Change	Other Service Operations Dollar Change	Total Dollar Change	Construction Contract Dollar Change	Other Service Operations Dollar Change	Total Dollar Change
Service operations						
Revenues	\$ (3,172)	\$ (662)	\$ (3,834)	\$ (10,561)	\$ (1,952)	\$ (12,513)
Expenses	(2,958)	(689)	(3,647)	(10,008)	(1,654)	(11,662)
Income from service operations	\$ (214)	\$ 27	\$ (187)	\$ (553)	\$ (298)	\$ (851)

The gross revenues and costs associated with these services generally bear little relationship to the level of activity from these operations since a substantial portion of the costs are subcontracted costs that are reimbursed to us by the customer at no mark up. As a result, the operating margins from these operations are small relative to the revenue. We use the net of service operations revenues and expenses to evaluate performance. We believe that the changes in net amounts reflected above were not significant.

#### Depreciation and amortization

Our increase in depreciation and other amortization expense for the three month and nine month periods was attributable primarily to the Property Additions (an increase of \$6.6 million for the three month periods and \$24.5 million for the nine month periods); most of the increase in the property additions was attributable to the Nottingham Acquisition (an increase of \$5.6 million for the three month periods and \$18.1 million for the nine month periods). Compared to other acquisitions that we have completed in recent years, a considerably larger portion of the value of the operating properties included in the Nottingham Acquisition was allocated to assets with lives that are based on the lives of the underlying leases; due to that fact and the fact that a large number of the leases in these properties have lives of four years or less, much of the depreciation and amortization associated with these properties will be front-loaded to the four years following the completion of the acquisition. This will result in increased depreciation and amortization expense over the initial four years following the acquisition.

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The net increase in depreciation and other amortization expense also included a decrease of \$1.9 million for the three month periods and \$2.9 million for the nine month periods attributable to one property that had significant depreciation and amortization expense associated with a lease that terminated in the third quarter of 2006.

### General and administrative expenses

The increase in general and administrative expenses for the three month periods included the following:

a \$1.5 million, or 41.7%, increase in compensation expense due in large part to: (1) the increased number of employees in response to the continued growth of the Company; (2) increased salaries and bonuses for existing employees; and (3) a \$492,000 increase in expense associated with share-based compensation due to the effects of awards issued in 2006 and 2007 and an increase in the award values being amortized into expense; and

a \$521,000, or 36.7%, decrease attributable to increased allocation of corporate overhead primarily to our service companies. Although our overall general and administrative expenses increased as discussed above, this \$521,000 decrease in general and administrative expenses was caused by the combined effect of (1) the increase in allocable general and administrative expenses and (2) a larger percentage of general and administrative expenses being allocated to the service companies due in large part to the increased number of employees in the service companies.

The increase in general and administrative expenses for the nine month periods included the following:

a \$3.9 million, or 37.9%, increase in compensation expense due to the reasons discussed above for the variance in the three month periods; this increase included an increase of \$1.5 million associated with share-based compensation;

a \$626,000 increase in costs written off associated with abandoned investment opportunities; and

a \$1.7 million, or 41.2%, decrease attributable to increased allocation of corporate overhead primarily to our service companies, the reason for which is discussed above.

#### Interest expense and amortization of deferred financing costs

For the three month periods, the increase in interest expense and amortization of deferred financing costs included in continuing operations was due primarily to a 26.4% increase in our average outstanding debt balance, resulting mostly from our acquisition and construction activities, offset in part by a decrease in our weighted average interest rates from 6.5% to 5.9%.

For the nine month periods, the increase in interest expense and amortization of deferred financing costs included in continuing operations was due primarily to a 27.2% increase in our average outstanding debt balance, resulting mostly from our acquisition and construction activities, offset in part by the effects of: (1) a \$2.6 million, or 23.3%, increase in interest capitalized to construction and development projects due to increased construction and development activity; and (2) a decrease in our weighted average interest rates from 6.3% to 5.9%.

Gain on sale of non-real estate investment

The 2007 periods include a \$1.0 million gain recognized on the disposition of most of our investment in TractManager, Inc., an investment that we account for using the cost method of accounting. TractManager, Inc. is an entity that developed an Internet-based contract imaging system for sale to real estate owners and healthcare providers.

Minority interests

Interests in our Operating Partnership are in the form of preferred and common units. The line entitled minority interests in income from continuing operations includes primarily income from continuing operations allocated to preferred and common units not owned by us; for the amount of this line attributable to preferred units versus common units, you should refer to our Consolidated Statements of Operations. Income is allocated to minority interest preferred unitholders in an amount equal to the priority return from the Operating Partnership to which they are entitled. Income is allocated to minority interest common unitholders based on the income earned by the Operating Partnership after allocation to preferred unitholders multiplied by the percentage of the common units in the Operating Partnership owned by those common unitholders.

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As of September 30, 2007, we owned 96% of the outstanding preferred units and 85% of the outstanding common units. The percentage of the Operating Partnership owned by minority interests decreased in the aggregate due primarily to the effect of the following transactions:

the issuance of additional units to us as we issued new preferred shares and common shares due to the fact that we receive preferred units and common units in the Operating Partnership each time we issue preferred shares and common shares;

the exchange of common units for our common shares by certain minority interest holders of common units;  
and

our redemption of the Series E and Series F Preferred Shares in 2006; offset in part by

our issuance of common units to third parties totaling 262,165 in 2007 and 181,097 in 2006.

The decrease in income allocated to minority interest holders of common units included in income from continuing operations for the nine month periods was attributable primarily to the following:

a decrease in the Operating Partnership's income from continuing operations before minority interests due in large part to the changes described above; and

a decrease attributable to our increasing ownership of common units (from 82% at December 31, 2005 to 85% at September 30, 2007).

### Income from discontinued operations, net of minority interests

Our income from discontinued operations decreased for the three and nine month periods due primarily to decreased gain from sales of real estate included in discontinued operations. See Note 19 to the Consolidated Financial Statements for a summary of income from discontinued operations.

### Gain on sales of real estate, net of minority interests

Our gain on sales of real estate increased in the three and nine month periods due primarily to a \$1.1 million gain recognized before allocation to minority interests on the sale of a 3.5-acre parcel of land located in White Marsh, Maryland in the current periods.

Issuance costs associated with redeemed preferred shares

In the nine months ended September 30, 2006, we recognized a \$1.8 million decrease to net income available to common shareholders pertaining to the original issuance costs incurred on the Series E Preferred Shares redeemed during the period.

Diluted earnings per common share

Diluted earnings per common share on net income available to common shareholders decreased due to the following:

decreases in net income available to common shareholders, attributable primarily to the reasons set forth above; and

a larger number of common shares outstanding due to share issuances since January 1, 2006.

**Liquidity and Capital Resources**

Cash and cash equivalents

Our cash and cash equivalents balance totaled \$21.9 million as of September 30, 2007, a 176% increase from the balance at December 31, 2006. The cash and cash equivalents balances that we carry as of a point in time can vary significantly due in part to the inherent variability of the cash needs of our acquisition and development activities. We maintain sufficient cash and cash equivalents to meet our operating cash requirements and short term investing and financing cash requirements. When we

determine that the amount of cash and cash equivalents on hand is more than we need to meet such requirements, we may pay down our Revolving Credit Facility or forgo borrowing under construction loan credit facilities to fund construction activities.

#### Operating Activities

We generated most of our cash from the operations of our properties. Most of the amount by which our revenues from real estate operations exceeded property operating expenses was cash flow; we applied most of this cash flow towards interest expense, scheduled principal amortization of debt, dividends to our shareholders, distributions to minority interest holders of preferred and common units in the Operating Partnership, capital improvements and leasing costs for our operating properties and general and administrative expenses.

Our cash flow from operations increased \$9.0 million, or 10.4%, when comparing the nine months ended September 30, 2007 and 2006; this increase is attributable primarily to the additional cash flow from operations generated by our newly-acquired and newly-constructed properties. We expect to continue to use cash flow provided by operations to meet our short-term capital needs, including all property operating expenses, general and administrative expenses, interest expense, scheduled principal amortization on debt, dividends to our shareholders, distributions to our minority interest holders of preferred and common units in the Operating Partnership and capital improvements and leasing costs. We do not anticipate borrowing to meet these requirements.

#### Investing and Financing Activities During the Nine Months Ended September 30, 2007

As discussed above, we completed the Nottingham Acquisition on January 9 and 10, 2007. The acquired properties included 56 operating properties totaling approximately 2.4 million square feet and land parcels totaling 187 acres that we believe can support at least 2.0 million developable square feet. We completed the Nottingham Acquisition for an aggregate cost of \$366.9 million, which was financed using the following:

the issuance of 3,161,000 common shares to the seller at a value of \$156.7 million, or \$49.57 per share;

the issuance of 531,667 Series K Preferred Shares to the seller at a value of \$26.6 million, or \$50.00 per share;

\$89.1 million in borrowings under a variable-rate loan bearing interest at LIBOR plus 1.15 to 1.55% depending on our leverage levels;

borrowings assumed under fixed-rate mortgage loans with an aggregate fair value of \$38.6 million;

\$33.7 million in borrowings under our Revolving Credit Facility;

\$20.1 million in cash from a previous property sale that was released from escrow;

a \$2.0 million deposit previously paid; and

cash reserves for the balance.

We issued 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.

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 \$13.6 million. We financed most of this acquisition by issuing 262,165 common units in the Operating Partnership valued at \$12.1 million; and

a 56-acre parcel of land located in Aberdeen, Maryland that we believe can support up to 800,000 developable square feet for \$10.4 million (Aberdeen, Maryland is located in our Suburban Baltimore region). The property is located adjacent to Aberdeen Proving Ground. We financed most of this acquisition using cash reserves.

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

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 (Hanover, Maryland is located in the Baltimore/Washington Corridor). We acquired the remaining 50% interest in this entity for \$1.3 million on May 24, 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 (College Park, Maryland is located in our Suburban Maryland region). At September 30, 2007, development and construction activities were underway in anticipation of the entity's membership into this future joint venture; and

we completed the formation of Arundel Preserve #5, LLC, an entity in which we own a 50% interest. This entity was created to develop and construct one or more office buildings on a land parcel located in Hanover, Maryland.

We had three newly-constructed properties totaling 339,910 square feet (two located in the Baltimore/Washington Corridor and one in our Other region) become fully operational in the nine months ended September 30, 2007 (68,196 of these square feet were placed into service in 2006). These properties were 91.6% leased or committed as of September 30, 2007. Costs incurred on these properties through September 30, 2007 totaled \$84.3 million, \$30.2 million of which was incurred in the nine months ended September 30, 2007. We financed the 2007 costs using primarily borrowings from construction loan facilities on two of the properties; borrowings under these facilities during the nine months ended September 30, 2007 totaled \$48.9 million.

At September 30, 2007, we had construction activities underway on eight office properties totaling 856,000 square feet that were 43.1% leased, including 48,377 square feet already placed in service in a partially operational property. One of these properties is owned through a consolidated joint venture in which we have a 50% interest. Costs incurred on these properties through September 30, 2007 totaled approximately \$122.7 million, of which approximately \$62.1 million was incurred in the nine months ended September 30, 2007. We have construction loan facilities in place totaling \$48.0 million to finance the construction of two of these properties; borrowings under these facilities totaled \$40.6 million at September 30, 2007, \$7.1 million of which was borrowed in the nine months ended September 30, 2007. The remaining costs incurred in the nine months ended September 30, 2007 were funded using primarily borrowings from our Revolving Credit Facility and cash reserves.

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The table below sets forth the major components of our additions to the line entitled "Total Commercial Real Estate Properties" on our Consolidated Balance Sheet for the nine months ended September 30, 2007 (in thousands):

Acquisitions	\$	351,950
Construction and development		148,960
Tenant improvements on operating properties		17,916(1)
Capital improvements on operating properties		16,184
	\$	535,010

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

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During the nine months ended September 30, 2007, we sold three operational properties totaling 72,153 square feet for a total of \$11.0 million, resulting in recognized gain of \$2.8 million. We also sold a 3.5-acre parcel of land located in White Marsh, Maryland for \$1.6 million, resulting in recognized gain of \$1.1 million. The net proceeds from these sales after transaction costs totaled \$8.7 million. We applied these proceeds to our cash operating reserves.

On May 17, 2007, we borrowed \$150.0 million under a mortgage loan with a 10-year term at a fixed rate of 5.65%. We used \$120.5 million of the proceeds from this loan to pay down debt scheduled to mature in September 2007 and the balance to pay down borrowings under our Revolving Credit Facility.

Certain of our mortgage loans require that we comply with a number of restrictive financial covenants, including leverage ratio, minimum net worth, minimum fixed charge coverage, minimum debt service and maximum secured indebtedness. As of September 30, 2007, we were in compliance with these financial covenants.

### Analysis of Cash Flow Associated with Investing and Financing Activities

Our net cash flow used in investing activities increased \$97.1 million, or 51.1%, when comparing the nine months ended September 30, 2007 and 2006. This increase was due primarily to the following:

a \$73.5 million, or 32.3%, increase in purchases of and additions to commercial real estate due primarily to the completion of the Nottingham Acquisition; and

a \$37.9 million decrease in proceeds from sales of properties.

Our cash flow provided by financing activities increased \$102.0 million, or 98.5%, due primarily to the following:

a \$304.1 million, or 55.5%, decrease in repayments of mortgage and other loans payable due primarily to the use of proceeds under equity offerings in 2006 (2.0 million common shares issued in April 2006 and 3.4 million preferred shares issued in July 2006) and the proceeds from \$200.0 million of exchangeable senior notes issued in September 2006, offset in part by

a \$163.5 million, or 95.9%, decrease in proceeds from the common and preferred share issuances noted above.

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 2006 Annual Report on Form 10-K.

Investing and Financing Activities Subsequent to September 30, 2007

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 \$500.0 million to \$600.0 million, which includes a \$50.0 million letter of credit subfacility and a \$50.0 million 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 \$800.0 million, 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 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%.

On October 23, 2007, we entered into an interest rate swap agreement that fixes the one-month LIBOR base rate at 4.33% on an aggregate notional amount of \$50.0 million. This swap agreement became effective on October 23, 2007 and carries a two-year term.

#### Other Future Cash Requirements for Investing and Financing Activities

As of September 30, 2007, we were under contract to purchase the remaining 91 acres of land not yet acquired as part of the acquisition of the former Fort Ritchie United States Army base located in Cascade, Washington County, Maryland; we expect to make the following additional future cash payments to the seller for (1) the acquisition of the remaining 91 acres and (2) portions of the contract price on which payment was deferred by the contract: \$1.3 million in 2007, \$1.0 million in 2008 and \$155,000 in 2009. We could incur an additional cash obligation to the seller after that of up to \$4.0 million; this \$4.0 million cash obligation is subject to reduction by an amount ranging between \$750,000 and \$4.0 million, with the amount of such reduction to be determined based on defined levels of (1) job creation resulting from the future development of the property and (2) future real estate taxes generated by the property. Following completion of this acquisition, we will be obligated to incur \$7.5 million in development and construction costs for the property. We expect to fund these acquisition and development costs using borrowings under our Revolving Credit Facility.

As previously discussed, as of September 30, 2007, we had construction activities underway on eight office properties totaling 856,000 square feet that were 43.1% pre-leased (including one property owned through a joint venture in which we have a 50% interest). We estimate remaining costs to be incurred will total approximately \$59.3 million upon completion of these properties; we expect to incur these costs through 2009. We have \$7.4 million remaining to be borrowed under construction loan facilities totaling \$48.0 million for two of these properties. We expect to fund the remaining portion of these costs using borrowings from new construction loan facilities and our Revolving Credit Facility.

As of September 30, 2007, we had development activities underway on 12 new office properties estimated to total 1.3 million square feet. We estimate that costs for these properties will total approximately \$261.7 million. As of September 30, 2007, costs incurred on these properties totaled \$39.0 million and the balance is expected to be incurred from 2007 through 2009. We expect to fund most of these costs using borrowings from new construction loan facilities.

As of September 30, 2007, we had redevelopment activities underway on four properties totaling 740,000 square feet (three of these properties are owned through a consolidated joint venture in which we own a 92.5% interest). We estimate that the remaining costs of the redevelopment activities will total approximately \$39.0 million. We expect to fund most of these costs using borrowings under new construction loan facilities.

In September 2007, the City of Colorado Springs announced that it had selected us to be the master developer for the 272 acre site known as the Colorado Springs Mixed-Use Business Park, located at the entrance of the Colorado Springs Airport and adjacent to Peterson Air Force Base. We are currently in the process of negotiating the long-term ground lease and development agreement with the City of Colorado Springs regarding the details of this arrangement; we expect that the terms of these agreements will be finalized by early in 2008. We expect that this business park can support potential development of approximately 3.5 million square feet, including office, retail, industrial and flex space. We anticipate that this project could cost approximately \$800.0 million, which we expect to be funded over the next ten to twenty years. As each parcel commences development, we expect to execute long term land leases. For each parcel, we expect to oversee the development, construction, leasing and management and have a leasehold interest in the buildings.



During the remainder of 2007 and beyond, we could complete other acquisitions of properties and commence construction and development activities in addition to the ones previously described. We expect to finance these activities as we have in the past, using mostly a combination of borrowings from new debt, borrowings under our Revolving Credit Facility, proceeds from sales of existing properties and additional equity issuances of common and/or preferred shares or units.

As of October 31, 2007, the maximum principal amount on our Revolving Credit Facility was \$600.0 million, with a right to further increase the maximum principal amount in the future to \$800.0 million, subject to certain conditions. As of October 31, 2007, the borrowing capacity under the Revolving Credit Facility was \$600.0 million, of which \$251.0 million was available.

### **Funds From Operations**

**Funds from operations ( FFO ) is defined as net income computed using GAAP, excluding gains (or losses) from sales of real estate, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. 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.**

**Accounting for real estate assets using historical cost accounting under GAAP assumes that the value of real estate assets diminishes predictably over time. NAREIT stated in its April 2002 White Paper on Funds from Operations that since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, the concept of FFO was created by NAREIT for the REIT industry to address this problem. We agree with the concept of FFO and believe that FFO is useful to management and investors as a supplemental measure of operating performance because, by excluding gains and losses related to sales of previously depreciated operating real estate 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.**

**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. The FFO we present may not be comparable to the FFO presented by other REITs since they may interpret the current NAREIT definition of FFO differently or they may not use the current NAREIT definition of FFO.**

Basic funds from operations ( Basic FFO ) is FFO adjusted to (1) subtract preferred share dividends and (2) add back GAAP net income allocated to common units in the Operating Partnership not owned by us. 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

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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 funds from operations ( 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. However, the computation of Diluted FFO does not assume conversion of securities other than common units in the Operating Partnership that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period. We believe that Diluted FFO is useful to investors because it is the numerator used to compute Diluted FFO per share, discussed below. In addition, since most equity REITs provide Diluted FFO information to the investment community, we believe Diluted FFO is a useful supplemental measure for comparing us to other equity REITs. 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. The Diluted FFO that we present may not be comparable to the Diluted FFO presented by other REITs.

Diluted funds from operations per share ( 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. However, the computation of Diluted FFO per share does not assume conversion of securities other than common units in the Operating Partnership that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period. 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 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.

Our Basic FFO, Diluted FFO and Diluted FFO per share for the three and nine months ended September 30, 2007 and 2006 and reconciliations of (1) net income to FFO, (2) the numerator for diluted EPS to diluted FFO and (3) the denominator for diluted EPS to the denominator for diluted FFO per share are set forth in the following table (dollars and shares in thousands, except per share data):

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	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
Add: Real estate-related depreciation and amortization	26,266	21,305	79,653	58,863
Add: Depreciation and amortization on unconsolidated real estate entities	166	362	503	565
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(48)	(36)	(137)	(122)
Less: Gain on sales of real estate, excluding development portion (1)	(2,789)	(15,262)	(2,778)	(17,715)
Less: Issuance costs associated with redeemable preferred shares		(1,829)		(1,829)
Funds from operations ( FFO )	35,026	25,127	102,096	79,402
Add: Minority interests-common units in the Operating Partnership	1,351	3,509	2,424	6,072
Less: Preferred share dividends	(4,025)	(4,307)	(12,043)	(11,614)
Funds from Operations - basic and diluted ( Basic and Diluted FFO )	\$ 32,352	\$ 24,329	\$ 92,477	\$ 73,860
Weighted average common shares	46,781	42,197	46,386	41,134
Conversion of weighted average common units	8,297	8,562	8,339	8,516
Weighted average common shares/units - Basic FFO	55,078	50,759	54,725	49,650
Dilutive effect of share-based compensation awards	1,005	1,649	1,180	1,785
Weighted average common shares/units - Diluted FFO	56,083	52,408	55,905	51,435
Diluted FFO per common share	\$ 0.58	\$ 0.46	\$ 1.65	\$ 1.44
Numerator for diluted EPS	\$ 7,406	\$ 14,451	\$ 12,812	\$ 26,197
Add: Minority interests-common units in the Operating Partnership	1,351	3,509	2,424	6,072
Add: Real estate-related depreciation and amortization	26,266	21,305	79,653	58,863
Add: Depreciation and amortization on unconsolidated real estate entities	166	362	503	565
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(48)	(36)	(137)	(122)
Less: Gain on sales of real estate, excluding development portion (1)	(2,789)	(15,262)	(2,778)	(17,715)
Diluted FFO	\$ 32,352	\$ 24,329	\$ 92,477	\$ 73,860
Denominator for diluted EPS	47,786	43,846	47,566	42,919
Weighted average common units	8,297	8,562	8,339	8,516
Denominator for Diluted FFO per share	56,083	52,408	55,905	51,435

(1) Gains from the sale of real estate that are attributable to sales of non-operating properties are included in FFO. Gains from newly-developed or re-developed properties less accumulated depreciation, if any, required under GAAP are also 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 compliance with the NAREIT definition of FFO, although others may interpret the definition differently.

#### 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.

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These arrangements somewhat reduce our exposure to increases in such costs resulting from inflation. In addition, since our average lease life is approximately five years, we generally expect to be able to compensate for increased operating expenses through increased rental rates upon lease renewal or expiration.

Our costs associated with constructing buildings and completing renovation and tenant improvement work increased due to higher cost of materials. We expect to recover a portion of these costs through

higher tenant rents and reimbursements for tenant improvements. The additional costs that we do not recover increase depreciation expense as projects are completed and placed into service.

### 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 our other debt carrying variable interest rate terms. Increases in interest rates can also result in increased interest expense when our debt carrying fixed interest rate terms mature and need to be refinanced. Our debt strategy favors long-term, fixed-rate, secured debt over variable-rate debt to minimize the risk of short-term increases in interest rates. As of September 30, 2007, 87.5% of our fixed-rate debt was scheduled to mature after 2008. As of September 30, 2007, 20.3% of our total debt had variable interest rates, including the effect of interest rate swaps. As of September 30, 2007, the percentage of variable-rate debt, including the effect of interest rate swaps, relative to total assets was 12.5%.

The following table sets forth our long-term debt obligations by scheduled maturity and weighted average interest rates at September 30, 2007 (dollars in thousands):

	For the Periods Ended December 31,							Total
	2007 (2)	2008 (3)	2009	2010	2011	Thereafter		
Long term debt:								
Fixed rate (1)	\$ 9,203	\$ 157,626	\$ 62,643	\$ 74,033	\$ 109,814	\$ 920,626	\$ 1,333,945	
Average interest rate	5.17%	5.46%	5.31%	5.24%	5.18%	4.50%	4.87%	
Variable rate	\$	\$ 465,318	\$	\$	\$	\$	\$ 465,318	
Average interest rate	6.83%	6.85%					6.84%	

- (1) Represents scheduled principal maturities only and therefore excludes a net premium of \$649,000.
- (2) Our loan maturities in 2007 include a \$3.8 million loan that we expect to either refinance or repay using borrowings under our Revolving Credit Facility; the balance of the 2007 maturities represent primarily scheduled principal amortization payments that we expect to pay using cash flow from operations.
- (3) Our loan maturities in 2008 include \$84.3 million that may be extended until 2009, subject to certain conditions. Our loan maturities in 2008 also include \$327.0 million for our Revolving Credit Facility; as described above, on October 1, 2007, we amended and restated the credit agreement on our Revolving Credit Facility the terms of which, among other things, changed the maturity date to September 30, 2011, with an option for us to extend by one additional year, subject to certain conditions.

The fair market value of our debt was \$1.77 billion at September 30, 2007. If interest rates on our fixed-rate debt had been 1% lower, the fair value of this debt would have increased by \$53.6 million at September 30, 2007.

The following table sets forth information pertaining to our derivative contracts in place as of September 30, 2007, and their respective fair values (dollars in thousands):

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

Based on our variable-rate debt balances, our interest expense would have increased by \$2.2 million in the nine months ended September 30, 2007 if short-term interest rates were 1% higher.

**Item 4. Controls and Procedures**

- (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 30, 2007 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**

Jim Lemon and Robin Biser, as plaintiffs, initiated a suit on May 12, 2005, in The United States District Court for the District of Columbia (Case No. 1:05CV00949), against The Secretary of the United States Army, PenMar Development Corporation ( PMDC ) and the Company, as defendants, in connection with the then pending acquisition by the Company of the former army base known as Fort Ritchie located in Cascade, Maryland. The case was dismissed by the United States District Court on September 28, 2006, due to the plaintiffs' lack of standing. The plaintiffs have filed an appeal in the case in the United States Court of Appeals for the District of Columbia Circuit and that appeal is pending. The plaintiffs were unsuccessful in their request for an emergency injunction pending appeal. The Company acquired from PMDC fee simple title to 500 acres of the 591 acres comprising Fort Ritchie on October 5, 2006.

We are not currently involved in any other material litigation nor, to our knowledge, is any material litigation currently threatened against the Company (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

### **Item 1A. Risk Factors**

Not applicable



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

(a) During the three months ended September 30, 2007, 151,400 of the Operating Partnership's common units were exchanged for 151,400 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. Submission of Matters to a Vote of Security Holders**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

(a) Exhibits:

EXHIBIT NO.	DESCRIPTION
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.)

46

**SIGNATURES**

Pursuant to the requirements of the Securities 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: November 9, 2007

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

Date: November 9, 2007

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