CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2006
or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

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

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

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

x Yes No o

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

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

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

o Yes No x

On November 3, 2006, 42,821,762 shares of the Company s Common Shares of Beneficial Interest, $0.01 par value, were issued.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	September 30, 2006	December 31, 2005
Assets		
Investment in real estate:		
Operating properties, net	$ 1,740,326	$ 1,631,038
Projects under construction or development	315,360	255,617
Total commercial real estate properties, net	2,055,686	1,886,655
Investments in and advances to unconsolidated real estate joint ventures		1,451
Investment in real estate, net	2,055,686	1,888,106
Cash and cash equivalents	10,810	10,784
Restricted cash	51,784	21,476
Accounts receivable, net	26,778	15,606
Investment in other unconsolidated entity	1,621	1,621
Deferred rent receivable	39,033	32,579
Intangible assets on real estate acquisitions, net	92,061	90,984
Deferred charges, net	40,091	35,046
Prepaid and other assets	27,684	29,255
Furniture, fixtures and equipment, net	10,374	4,302
Total assets	$ 2,355,922	$ 2,129,759
Liabilities and shareholders equity		
Liabilities:		
Mortgage and other loans payable	$ 1,206,682	$ 1,348,351
3.5% Exchangeable Senior Notes	200,000	
Accounts payable and accrued expenses	55,487	41,693
Rents received in advance and security deposits	20,842	14,774
Dividends and distributions payable	19,810	16,703
Deferred revenue associated with acquired operating leases	12,074	12,707
Distributions in excess of investment in unconsolidated real estate joint venture	3,103	3,081
Fair value of derivatives	473	
Other liabilities	5,526	4,727
Total liabilities	1,523,997	1,442,036
Minority interests:		
Common units in the Operating Partnership	107,212	95,014
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated real estate joint ventures	1,760	1,396
Total minority interests	117,772	105,210
Commitments and contingencies (Note 20)		
Shareholders equity:		
Preferred Shares of beneficial interest ($0.01 par value; shares authorized of 15,000,000, issued and outstanding of 9,015,000 at September 30, 2006 and 6,775,000 at December 31, 2005) (Note 14)	90	67
Common Shares of beneficial interest ($0.01 par value; 75,000,000 shares authorized, shares issued and outstanding of 42,810,978 at September 30, 2006 and 39,927,316 at December 31, 2005)	424	399
Additional paid-in capital	790,526	657,339
Cumulative distributions in excess of net income	(76,046)	(67,697)
Value of unearned restricted common share grants		(7,113)
Accumulated other comprehensive loss	(841)	(482)
Total shareholders equity	714,153	582,513
Total liabilities and shareholders equity	$ 2,355,922	$ 2,129,759

See accompanying notes to consolidated financial statements.

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Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(unaudited)

	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005
Revenues				
Rental revenue	$ 66,550	$ 53,182	$ 190,166	$ 155,808
Tenant recoveries and other real estate operations revenue	11,586	7,826	29,686	21,317
Construction contract revenues	13,219	28,476	39,919	61,649
Other service operations revenues	1,572	1,308	5,321	3,696
Total revenues	92,927	90,792	265,092	242,470
Expenses				
Property operating expenses	25,430	18,272	68,698	52,940
Depreciation and other amortization associated with real estate operations	21,680	17,522	58,631	45,943
Construction contract expenses	12,465	28,073	38,134	60,193
Other service operations expenses	1,495	1,253	4,991	3,499
General and administrative expenses	4,226	3,318	11,895	9,760
Total operating expenses	65,296	68,438	182,349	172,335
Operating income	27,631	22,354	82,743	70,135
Interest expense	(17,974)	(13,894)	(52,493)	(39,960)
Amortization of deferred financing costs	(736)	(639)	(1,899)	(1,500)
Income from continuing operations before equity in income (loss) of unconsolidated entities, income taxes and minority interests	8,921	7,821	28,351	28,675
Equity in income (loss) of unconsolidated entities	15		(40)	
Income tax expense	(202)	(263)	(623)	(933)
Income from continuing operations before minority interests	8,734	7,558	27,688	27,742
Minority interests in income from continuing operations				
Common units in the Operating Partnership	(808)	(752)	(2,839)	(3,216)
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	38	19	96	58
Income from continuing operations	7,799	6,660	24,450	24,089
Income from discontinued operations, net of minority interests	12,191	3,870	14,458	4,413
Income before gain on sales of real estate	19,990	10,530	38,908	28,502
Gain on sales of real estate, net	597	59	732	247
Net income	20,587	10,589	39,640	28,749
Preferred share dividends	(4,307)	(3,653)	(11,614)	(10,961)
Issuance costs associated with redeemed preferred shares	(1,829)		(1,829)	
Net income available to common shareholders	$ 14,451	$ 6,936	$ 26,197	$ 17,788
Basic earnings per common share				
Income from continuing operations	$ 0.05	$ 0.08	$ 0.29	$ 0.36
Discontinued operations	0.29	0.11	0.35	0.12
Net income	$ 0.34	$ 0.19	$ 0.64	$ 0.48
Diluted earnings per common share				
Income from continuing operations	$ 0.05	$ 0.08	$ 0.27	$ 0.35
Discontinued operations	0.28	0.10	0.34	0.11
Net income	$ 0.33	$ 0.18	$ 0.61	$ 0.46

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, 2006	2005
Cash flows from operating activities		
Net income	$ 39,640	$ 28,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	6,471	4,806
Depreciation and other amortization	59,993	47,951
Amortization of deferred financing costs	2,032	1,508
Amortization of deferred market rental revenue	(1,326)	(32)
Equity in loss of unconsolidated entities	40	
Gain on sales of real estate	(17,990)	(4,674)
Changes in operating assets and liabilities:		
Increase in deferred rent receivable	(7,446)	(4,570)
Increase in accounts receivable, restricted cash and prepaid and other assets	(11,308)	(3,504)
Increase in accounts payable, accrued expenses, rents received in advance and security deposits	14,176	4,322
Other	2,304	1,666
Net cash provided by operating activities	86,586	76,222
Cash flows from investing activities		
Purchases of and additions to commercial real estate properties	(227,592)	(279,082)
Proceeds from sales of properties	46,708	29,470
Proceeds from sale of unconsolidated real estate joint venture	1,524	
Proceeds from contributions of assets to unconsolidated real estate joint venture		68,646
Investments in and advances from unconsolidated entities	127	36
Distributions from unconsolidated entities	367	
Leasing costs paid	(6,106)	(6,582)
Decrease (increase) in restricted cash associated with investing activities	5,559	(110)
Purchases of furniture, fixtures and equipment	(7,549)	(1,850)
Other	(182)	(759)
Net cash used in investing activities	(187,144)	(190,231)
Cash flows from financing activities		
Proceeds from mortgage and other loans payable	368,259	423,699
Proceeds from 3.5% Exchangeable Senior Notes	200,000	
Repayments of mortgage and other loans payable	(548,090)	(334,890)
Deferred financing costs paid	(5,402)	(2,752)
Acquisition of partner interests in consolidated joint ventures	(3,016)	(1,208)
Distributions paid to partners in consolidated joint ventures	(787)	
Net proceeds from issuance of common shares	88,622	78,260
Net proceeds from issuance of preferred shares	81,863	
Redemption of preferred shares	(28,750)	
Dividends paid	(45,138)	(38,968)
Distributions paid	(7,614)	(7,060)
Other	637	455
Net cash provided by financing activities	100,584	117,536
Net increase in cash and cash equivalents	26	3,527
Cash and cash equivalents		
Beginning of period	10,784	13,821
End of period	$ 10,810	$ 17,348

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 have implemented 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, 2006, our investments in real estate included the following:

- 168 wholly owned operating properties totaling 14.6 million square feet;
- 17 wholly owned properties under construction or development that we estimate will total approximately 2.1 million square feet upon completion and two wholly owned office properties totaling approximately 115,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 555 acres that we believe are potentially developable into approximately 6.9 million square feet; and
- partial ownership interests in a number of other real estate projects in operations or under development or redevelopment.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the Operating Partnership), of which we are the 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, 2006 follows:

Common Units	83 %
Series F Preferred Units	100 %
Series G Preferred Units	100 %
Series H Preferred Units	100 %
Series I Preferred Units	0 %
Series J Preferred Units	100 %

Two of our trustees controlled, either directly or through ownership by other entities or family members, an additional 14% of the Operating Partnership s common units.

In addition to owning interests in real estate, the Operating Partnership also owns 100% of Corporate Office Management, Inc. (COMI) and, 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
Corporate Cooling & Controls, LLC (CC&C)	Heating and Air Conditioning

Most of the services that CPM provides are for us. CDC, CDS and CC&C 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

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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 Current Report on Form 8-K filed on August 31, 2006. 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 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 convertible preferred dividends and any other changes in income or loss that would result from the assumed conversion into common shares.

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,	
	2006	2005	2006	2005
Numerator:				
Income from continuing operations	$ 7,799	$ 6,660	$ 24,450	$ 24,089
Add: Gain on sales of real estate, net	597	59	732	247
Less: Preferred share dividends	(4,307)	(3,653)	(11,614)	(10,961)
Less: Issuance costs associated with redeemed preferred shares	(1,829)		(1,829)	
Numerator for basic and diluted EPS from continuing operations available to common shareholders	2,260	3,066	11,739	13,375
Add: Income from discontinued operations, net	12,191	3,870	14,458	4,413
Numerator for basic and diluted EPS on net income available to common shareholders	$ 14,451	$ 6,936	$ 26,197	$ 17,788
Denominator (all weighted averages):				
Denominator for basic EPS (common shares)	42,197	36,913	41,134	36,721
Dilutive effect of share-based compensation awards	1,649	1,667	1,785	1,595
Denominator for diluted EPS	43,846	38,580	42,919	38,316
Basic EPS:				
Income from continuing operations	$ 0.05	$ 0.08	$ 0.29	$ 0.36
Income from discontinued operations	0.29	0.11	0.35	0.12
Net income available to common shareholders	$ 0.34	$ 0.19	$ 0.64	$ 0.48
Diluted EPS:				
Income from continuing operations	$ 0.05	$ 0.08	$ 0.27	$ 0.35
Income from discontinued operations	0.28	0.10	0.34	0.11
Net income available to common shareholders	$ 0.33	$ 0.18	$ 0.61	$ 0.46

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

	Weighted Average Shares in Denominator			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Conversion of weighted average common units	8,562	8,758	8,516	8,707
Conversion of weighted average convertible preferred units	176	176	176	176
Share-based compensation awards		191		175

4. Recent Accounting Pronouncements

See Note 5 for disclosure associated with our implementation of recent accounting pronouncements relating to our accounting for share-based compensation.

In June 2005, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding EITF 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. The conclusion provided a framework for addressing the question of when a general partner, as defined in EITF 04-05, should consolidate a limited partnership. Under the consensus, a general partner is presumed to control a limited partnership (or similar entity) and should consolidate that entity unless the limited partners possess kick-out rights or other substantive participating rights as described in EITF 96-16, Investor s Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights. This EITF was initially effective for all new limited partnerships formed and for existing limited partnerships for which the partnership agreements were modified after June 29, 2005, and, as of January 1, 2006, for existing limited partnership agreements. The EITF did not impact us in 2005. The adoption of this EITF in 2006 for existing limited partnership agreements did not have a material effect on our financial position, results of operations or cash flows.

In June 2006, the 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. We do not expect that the implementation of FIN 48 will 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 September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), which addresses diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. There have historically been two widely recognized methods for quantifying the effects of financial statement errors: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements on the balance sheet. Conversely, the iron-curtain method focuses primarily on the effect of correcting the period end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of the

error on each of the company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron-curtain and the roll-over methods. SAB 108 is effective for financial statements for fiscal years ending after November 15, 2006. We do not expect that SAB 108 will have a material effect on our consolidated financial position or results of operations.

5. Share-Based Compensation

Share-based Compensation Plans

In 1993, we adopted a share option plan for our Trustees under which we have 75,000 common shares reserved for issuance. These options expire ten years after the date of grant and are all exercisable. Shares for this plan are issued under a registration statement on Form S-8 that became effective upon filing with the Securities and Exchange Commission. As of September 30, 2006, there were no awards available for future grant under this plan.

In March 1998, we adopted a long-term incentive plan for our Trustees and employees. This plan provides for the award of options to acquire our common shares (share options), common shares subject to forfeiture restrictions (restricted shares) and dividend equivalents. We are authorized to issue awards under the plan amounting to no more than 13% of the total of (1) our common shares outstanding plus (2) the number of shares that would be outstanding upon redemption of all units of the Operating Partnership or other securities that are convertible into our common shares. Trustee options under this plan become exercisable beginning on the first anniversary of their grant. The vesting periods for employees options under this plan range from immediately to five years, although they generally are three years. Options expire ten years after the date of grant. Restricted shares generally vest annually in the following increments: 16% upon the first anniversary following the date of grant, 18% upon the second anniversary, 20% upon the third anniversary, 22% upon the fourth anniversary and 24% upon the fifth anniversary. Shares for this plan are issued under a registration statement on Form S-8 that became effective upon filing with the Securities and Exchange Commission. As of September 30, 2006, we had 743,683 awards available for future grant under this plan.

The following table summarizes share option transactions under the plans described above for the nine months
ended September 30, 2006:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	2,709,927	$ 14.41		
Granted	443,149	$ 42.00		
Forfeited	(41,978)	$ 32.11		
Exercised	(561,568)	$ 11.16		
Outstanding at September 30, 2006	2,549,530	$ 19.63	6	$ 64,172
Exercisable at September 30, 2006	1,771,197	$ 12.64	5	$ 56,886
Options expected to vest	739,416	$ 35.52	9	$ 6,922

The total intrinsic value of options exercised during the nine months ended September 30, 2006 was $18,916.

We received $6,265 in proceeds from the exercise of share options during the nine months ended September 30, 2006.

The following table summarizes restricted share transactions under the plans described above for the nine months ended September 30, 2006:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	395,609	$ 19.88
Granted	163,420	$ 42.65
Forfeited	(20,822)	$ 23.67
Vested	(124,517)	$ 17.16
Unvested at September 30, 2006	413,690	$ 29.51
Restricted shares expected to vest	393,006	

The total fair value of restricted shares vested during the nine months ended September 30, 2006 was $5,319.

We did not realize a windfall tax benefit for the 2006 periods on options exercised and restricted shares vested by employees of our subsidiaries that are subject to income tax due to the existence of a net operating loss carryforward on such subsidiaries.

Adoption of Statement of Financial Accounting Standards No. 123(R)

We have historically issued two forms of share-based compensation: share options and restricted shares. Prior to January 1, 2006, when we adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)), our general method for accounting for these forms of share-based compensation was as follows:

- Share options: These awards were accounted for using the intrinsic value method. Under this method, we recorded compensation expense only when the exercise price of a grant was less than the market price of our common shares on the option grant date; when this occurred, we recognized compensation expense equal to the difference between the exercise price and the grant-date market price over the service period to which the options related.

- Restricted shares: We computed compensation expense for restricted share grants based on the value of such grants, as determined by the value of our common shares on the applicable measurement date (generally the date of grant). We recognized compensation expense for such grants over the service periods to which the grants related based on the vesting schedules for such grants.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123(R). The statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, focusing primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The statement requires us to measure the cost of employee services received in exchange for an award of equity instruments based generally on the fair value of the award on the grant date; such cost should then be recognized over the period during which the employee is required to provide service in exchange for the award (generally the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. In 2005, the FASB also issued several FASB Staff Positions that clarify certain aspects of SFAS 123(R). SFAS 123(R) became effective for us on January 1, 2006, applying to all awards granted after January 1, 2006 and to awards modified, repurchased or cancelled after that date. We used the modified prospective application approach to adoption provided for under SFAS 123(R); under this approach, we recognized compensation cost on or after January 1, 2006 for the portion of outstanding awards for which the requisite service was not yet rendered, based on the fair value of those awards on the date of grant.

The primary effect of our adoption of SFAS 123(R) on our Consolidated Financial Statements is that beginning January 1, 2006 we are: (1) incurring higher expense associated with share options issued to employees relative to what we would have recognized under the intrinsic value method; (2) recognizing expenses associated with restricted common shares over the life of the grant using a straight line basis methodology over the service period; and (3) reporting the benefits of tax deductions in excess of recognized compensation costs as cash flow from financing activities (such benefits were previously reported as operating cash flows).

5. Share-Based Compensation

Prior to our adoption of SFAS 123(R), we provided disclosures in our financial statements for periods prior to 2006 that summarized what our operating results would have been if we had elected to account for our share-based compensation under the fair value provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). In computing the amounts that appeared in these disclosures, we accounted for forfeitures as they occurred. SFAS 123(R) requires that share-based compensation be computed based on awards that are ultimately expected to vest. As a result, future forfeitures of awards are to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. SFAS 123(R) also requires that companies make a one-time cumulative effect adjustment upon adoption of the standard to record the effect that estimated future forfeitures of outstanding awards would have on expenses previously recognized in the companies financial statements; we did not record such a cumulative effect adjustment since we determined that the effect of pre-vesting forfeitures on our recorded expense has historically been negligible. The amounts included in our Consolidated Statements of Operations for share-based compensation in the three and nine months ended September 30, 2006 reflected an estimate of pre-vesting forfeitures of approximately 5%.

In the disclosures that we provided in our financial statements for periods prior to 2006 that summarized what our operating results would have been if we had elected to account for our share-based compensation under the fair value provisions of SFAS 123, we did not capitalize costs associated with share-based compensation. Effective upon our adoption of SFAS 123(R), we began capitalizing costs associated with share-based compensation.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. We elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123(R).

We compute the fair value of share options under SFAS 123(R) using the Black-Scholes option-pricing model; the weighted average assumptions we used in that model for share options issued during the nine months ended September 30, 2006 are set forth below:

Weighted average fair value of grants on grant date	$ 5.85	
Risk-free interest rate	4.91	%(1)
Expected life-years	7.06	
Expected volatility	23.83	%
Expected dividend yield	6.31	%

(1) Ranged from 4.35% to 5.31%.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected option life is based on our historical experience of employee exercise behavior. Expected volatility is based on historical volatility of our common shares. Expected dividend yield is based on the average historical dividend yield on our common shares over a period of time ending on the grant date of the options.

The table below sets forth information relating to expenses from share-based compensation included in our Consolidated Statements of Operations for the three and nine months ended September 30, 2006:

	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2006
Increase in general and administrative expenses	$ 710	$ 1,773
Increase in construction contract and other service operations expenses	233	575
Share-based compensation expense	943	2,348
Income taxes	(24)	(66)
Minority interests	(161)	(404)
Net share-based compensation expense	$ 758	$ 1,878
Net share-based compensation expense per share		
Basic	$ 0.02	$ 0.05
Diluted	$ 0.02	$ 0.04

We also capitalized share-based compensation costs of approximately $52 in the three months ended September 30, 2006 and $137 in the nine months ended September 30, 2006.

As of September 30, 2006, there was $1,492 of unrecognized compensation cost related to nonvested options that is expected to be recognized over a weighted average period of approximately two years. As of September 30, 2006, there was $9,273 of unrecognized compensation cost related to unvested restricted shares that is expected to be recognized over a weighted average period of approximately three years.

Disclosure for Periods Prior to 2006, Including Pro Forma Financial Information Under SFAS 123

Expenses from share-based compensation reflected in our Consolidated Statements of Operations for the three and nine months ended September 30, 2005 were as follows:

	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005
Increase in general and administrative expenses	$ 497	$ 1,420
Increase in construction contract and other service operations expenses	80	203

The following table summarizes our operating results for the three and nine months ended September 30, 2005 as if we elected to account for our share-based compensation under the fair value provisions of SFAS 123 in that period:

	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005
Net income, as reported	$ 10,589	$ 28,749
Add: Share-based compensation expense, net of related tax effects and minority interests, included in the determination of net income	437	1,239
Less: Share-based compensation expense determined under the fair value based method, net of related tax effects and minority interests	(432)	(1,200)
Net income, pro forma	$ 10,594	$ 28,788
Basic EPS on net income available to common shareholders, as reported	$ 0.19	$ 0.48
Basic EPS on net income available to common shareholders, pro forma	$ 0.19	$ 0.49
Diluted EPS on net income available to common shareholders, as reported	$ 0.18	$ 0.46
Diluted EPS on net income available to common shareholders, pro forma	$ 0.18	$ 0.47

The share-based compensation expense under the fair value method, as reported in the above table, was computed using the Black-Scholes option-pricing model.

6. Commercial Real Estate Properties

Operating properties consisted of the following:

	September 30, 2006	December 31, 2005
Land	$ 334,430	$ 314,719
Buildings and improvements	1,611,425	1,491,254
	1,945,855	1,805,973
Less: accumulated depreciation	(205,529)	(174,935)
	$ 1,740,326	$ 1,631,038

Projects we had under construction or pre-construction consisted of the following:

	September 30, 2006	December 31, 2005
Land	$ 155,232	$ 117,434
Construction in progress	160,128	138,183
	$ 315,360	$ 255,617

2006 Acquisitions

We acquired the following office properties during the nine months ended September 30, 2006:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
North Creek	Colorado Springs, CO	5/18/2006	3	324,549	$ 41,508
1915 & 1925 Aerotech Drive	Colorado Springs, CO	6/8/2006	2	75,892	8,378
7125 Columbia Gateway Drive	Columbia, MD (1)	6/29/2006	1	611,379	74,168
			6	1,011,820	$ 124,054

(1) Located in the Baltimore/Washington Corridor.

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

	North Creek	1915 & 1925 Aerotech Drive	7125 Columbia Gateway Drive	Total
Land, operating properties	$ 2,735	$ 1,113	$ 17,126	$ 20,974
Building and improvements	34,161	6,161	46,964	87,286
Intangible assets on real estate acquisitions	5,694	1,235	11,959	18,888
Total assets	42,590	8,509	76,049	127,148
Deferred revenue associated with acquired operating leases	(1,082)	(131)	(1,881)	(3,094)
Total acquisition cost	$ 41,508	$ 8,378	$ 74,168	$ 124,054

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

	Cost	Weighted Average Amortization Period
Lease-up value	$ 12,867	3
Tenant relationship value	3,345	6
Lease cost portion of deemed cost avoidance	1,825	3
Lease to market value	851	5
	$ 18,888	4

During the nine months ended September 30, 2006, we also acquired the following:

- a property located in Colorado Springs, Colorado containing a 60,000 square foot building that will be redeveloped and a four-acre parcel of land that we believe can support approximately 30,000 developable square feet for $2,602 on January 19, 2006;

- a 31-acre parcel of land located in San Antonio, Texas that we believe can support up to 375,000 developable square feet for $7,430 on January 20, 2006;

- a six-acre parcel of land located in Hanover, Maryland that we believe can support up to 60,000 developable square feet for $2,141 on February 28, 2006 (Hanover, Maryland is located in the Baltimore/Washington Corridor);

- a 20-acre parcel of land located in Colorado Springs, Colorado that we believe can support up to 300,000 developable square feet for $1,060 on April 21, 2006;

• a 13-acre parcel of land located in Colorado Springs, Colorado that we believe can support up to 150,000 developable square feet for $2,263 on May 19, 2006;

- a 178-acre parcel of land located in Annapolis Junction, Maryland, located adjacent to the National Business Park, that we believe can support up to 1.25 million developable square feet for $26,833 on June 29, 2006 (Annapolis Junction, Maryland is located in the Baltimore/Washington Corridor);

- a five-acre parcel of land located in Columbia, Maryland that we believe can support up to 120,000 developable square feet for $3,361 on June 29, 2006; and

- a 28-acre parcel of land located in Chesterfield, Virginia on September 15, 2006 that was acquired under the terms of a lease for a 193,000 square foot building that we are constructing on the property (Chesterfield, Virginia, which is located in Greater Richmond, Virginia, is included in our other business segment). The fair value of the land and closing costs associated with the title transfer totaled $1,303.

We also acquired a 50% interest in a consolidated joint venture called Commons Office 6-B, LLC that owns a land parcel located in Hanover, Maryland for $1,830 on February 10, 2006. The joint venture is constructing an office property totaling approximately 44,000 square feet on the land parcel.

2006 Construction and Pre-Construction Activities

During 2006, we fully placed into service two properties totaling 212,000 (one located in the Baltimore/Washington Corridor and one in Colorado Springs, Colorado) and placed into service a portion of two properties totaling 179,000 square feet (both located in the Baltimore/Washington Corridor).

As of September 30, 2006, we had construction underway on six new buildings in the Baltimore/Washington Corridor (including the one 50% joint venture discussed above), one in Northern Virginia, one in St. Mary s County, Maryland, one in Suburban Baltimore and one in Chesterfield, Virginia. We also had pre-construction activities underway on four new buildings located in the Baltimore/Washington Corridor (including one through a 50% joint venture, the formation of which was pending at September 30, 2006), one in Suburban Maryland, one in King George County, Virginia, two in Colorado Springs, Colorado and one in Suburban Baltimore. In addition, we had redevelopment underway on two wholly owned existing buildings (one is located in the Baltimore/Washington Corridor and one in Colorado Springs, Colorado) and two buildings owned by a joint venture (one is located in Northern Virginia and one in the Baltimore/Washington Corridor).

2006 Dispositions

We sold the following operating properties during the nine months ended September 30, 2006:

Project Name	Location	Date of Sale	Number of Buildings	Total Rentable Square Feet	Sale Price	Gain on Sale
Lakeview at the Greens	Laurel, Maryland (1)	2/6/2006	2	141,783	$ 17,000	$ 2,087
68 Culver Road	Dayton, New Jersey	3/8/2006	1	57,280	9,700	316
710 Route 46	Fairfield, New Jersey	7/26/2006	1	101,263	15,750	4,498
230 Schilling Circle	Woodlawn, Maryland (2)	8/9/2006	1	107,348	13,795	951
7 Centre Drive	Monroe, New Jersey	8/30/2006	1	19,468	3,000	684
Brown s Wharf	Baltimore, Maryland	9/28/2006	1	104,203	20,300	8,565
			7	531,345	$ 79,545	$ 17,101

(1) Located in the Suburban Maryland region.

(2) Located in the Suburban Baltimore region.

During the nine months ended September 30, 2006, we also sold the following:

- a newly constructed property in Columbia, Maryland for $2,530 on January 17, 2006. We recognized a gain of $111 on this sale; and

- a two-acre parcel of land located in Linthicum Heights, Maryland for $900 on September 7, 2006. We recognized a gain of $165 on this sale.

7. Real Estate Joint Ventures

Our investments in and advances to unconsolidated real estate joint ventures accounted for using the equity method of accounting included the following:

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	Investment Balance at September 30, 2006	December 31, 2005	Date Acquired	Owner-ship	Nature of Activity		Total Assets at 9/30/2006	Maximum Exposure to Loss (1)
Harrisburg Corporate Gateway Partners, L.P.	$(3,103)(2)	$(3,081)(2)	9/29/2005	20 %	Operates 16 buildings	(3)	$76,827	
Route 46 Partners	(4)	1,451	3/14/2003	20 %	Operates one building	(5)	N/A	N/A

(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, that would be due if certain contingent events occurred.

(2) The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $5,195 at September 30, 2006 and $5,204 at December 31, 2005 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 does not change.

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

(4) As discussed further below, we sold the property owned by this joint venture on July 26, 2006, after which the joint venture was dissolved. The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $1,370 at December 31, 2005 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation.

(5) This joint venture s property was located in Fairfield, New Jersey.

On July 26, 2006, Rt. 46 Partners sold its property for $27,000. After the sale, the joint venture was dissolved. We recognized a gain of $563 on the disposition of our joint venture interest.

The following table sets forth condensed balance sheets for our unconsolidated real estate joint ventures:

	September 30, 2006	December 31, 2005
Commercial real estate property	$ 72,915	$ 94,552
Other assets	3,912	8,006
Total assets	$ 76,827	$ 102,558
Liabilities	$ 67,901	$ 82,619
Owners equity	8,926	19,939
Total liabilities and owners equity	$ 76,827	$ 102,558

The following table sets forth combined condensed statements of operations for the three and nine months ended September 30, 2006 for the two unconsolidated joint ventures we owned during the nine months ended September 30, 2006:

	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2006
Revenues	$ 2,738	$ 9,196
Property operating expenses	(1,000)	(3,187)
Interest expense	(1,050)	(3,401)
Depreciation and amortization expense	(1,677)	(3,582)
Gain on sale	4,033	4,033
Net income	$ 3,044	$ 3,059

The table above includes net income from Rt. 46 Partners of $3,272 for the three month period and $3,501 for the nine month period. Our joint venture partner in Route 46 Partners had preference in receiving distributions of cash flows for a defined return. We were not entitled to receive distributions for a defined return until our partner received its defined return. We did not recognize income from our investment in Route 46 Partners in the three and nine months ended September 30, 2006 and 2005 until the dissolution of the entity since the income earned by

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the entity in those periods did not exceed our partner s defined return until that point in time. Upon dissolution of the entity, we recognized income from our investment of $60, excluding the $563 gain on disposition of the joint venture interest discussed above.

Our investments in consolidated real estate joint ventures included the following:

	Date Acquired	Ownership % at 9/30/2006	Nature of Activity	Total Assets at 9/30/2006	Collateralized Assets at 9/30/2006
COPT Opportunity Invest I, LLC	12/20/2005	92.5%	Redeveloping two properties(1)	$ 39,130	$
Commons Office 6-B, LLC	2/10/2006	50.0%	Developing land parcel(2)	7,118	7,118
MOR Forbes 2 LLC	12/24/2002	50.0%	Operating building(3)	4,192	3,787
				$ 50,440	$ 10,905

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

(2) This joint venture s property is located in Hanover, Maryland (located in the Baltimore/Washington Corridor region).

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

On January 17, 2006 we acquired our partner s remaining 50% interest in MOR Montpelier 3 LLC, an entity that recently completed the construction of an office property, for $1,186. We then sold the property to a third party for $2,530, as discussed in Note 6.

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

8. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	September 30, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Lease-up value	$ 105,719	$ 34,608	$ 71,111	$ 92,812	$ 20,824	$ 71,988
Lease cost portion of deemed cost avoidance	12,880	5,409	7,471	11,054	3,991	7,063
Lease to market value	10,623	6,802	3,821	9,772	5,277	4,495
Tenant relationship value	9,371	907	8,464	6,349	130	6,219
Market concentration premium	1,333	139	1,194	1,333	114	1,219
	$ 139,926	$ 47,865	$ 92,061	$ 121,320	$ 30,336	$ 90,984

Amortization of the intangible asset categories set forth above totaled approximately $15.9 million in the nine months ended September 30, 2006 and $10.2 million in the nine months ended September 30, 2005. The approximate weighted average amortization periods of the categories set forth above follow: lease up value: 6 years; lease cost portion of deemed cost avoidance: 4 years; lease to market value: 3 years; tenant relationship value: 5 years; and market concentration premium: 36 years. The approximate weighted average amortization period for all of the categories combined above is 5 years. Estimated amortization expense associated with the intangible asset categories set forth above for the three months ended December 31, 2006 is $4.3 million, for 2007 is $15.1 million, 2008 is $13.4 million, 2009 is $11.5 million, 2010 is $8.5 million and 2011 is $6.7 million.

9. Deferred Charges

Deferred charges consisted of the following:

	September 30, 2006	December 31, 2005
Deferred leasing costs	$ 47,658	$ 42,752
Deferred financing costs	26,902	21,574
Goodwill	1,853	1,853
Deferred other	155	155
	76,568	66,334
Accumulated amortization	(36,477)	(31,288)
Deferred charges, net	$ 40,091	$ 35,046

10. Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of $253 at September 30, 2006 and $421 at December 31, 2005.

11. Prepaid and Other Assets

Prepaid and other assets consisted of the following:

	September 30, 2006	December 31, 2005
Construction contract costs incurred in excess of billings	$ 9,933	$ 15,277
Prepaid expenses	9,287	7,007
Other assets	8,464	6,971
Prepaid and other assets	$ 27,684	$ 29,255

12. Derivatives

The following table sets forth our derivative contracts at September 30, 2006 and their respective fair values:

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at September 30, 2006	December 31, 2005
Interest rate swap	$ 50,000	5.0360 %	3/28/2006	3/30/2009	$ (113)	N/A
Interest rate swap	25,000	5.2320 %	5/1/2006	5/1/2009	(180)	N/A
Interest rate swap	25,000	5.2320 %	5/1/2006	5/1/2009	(180)	N/A
					$ (473)	$

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,	
	2006	2005	2006	2005
(Decrease) increase in fair value applied to accumulated comprehensive loss and minority interests	$ (1,306)	$ 2,672	$ (473)	$ (1,516)

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12. Derivatives

The activity reported in the table above for the three and nine months ended September 30, 2005 represents changes in the fair value of a forward starting swap into which we entered to lock in the 10-year LIBOR swap rate in contemplation of our obtaining a long-term, fixed rate financing later in 2005. We obtained this long-term financing in October 2005 and cash settled the swap at that time for a payment to the swap party of $603.

13. Loans Payable

Mortgage and other loans payable consisted of the following:

	Maximum Principal Amount Under Loans at September 30, 2006	Carrying Value at September 30, 2006	December 31, 2005	Stated Interest Rates at September 30, 2006	Scheduled Maturity Dates at September 30, 2006
Revolving Credit Facility					
Wachovia Bank, N.A. Revolving Credit Facility	$ 500,000	$ 200,000	$ 273,000	LIBOR + 1.15% to 1.55%	March 2008 (1)
Mortgage Loans					
Fixed rate mortgage loans (2)	N/A	877,985	921,265	3.00% - 9.48% (3)	2006 - 2034 (4)
Variable rate construction loan facilities	154,447	93,327	70,238	LIBOR + 1.40% to 2.20%	2006 - 2008 (5)
Other variable rate mortgage loans	N/A	34,500	82,800	LIBOR + 1.20% to 1.50%	September 2007
Total mortgage loans		1,005,812	1,074,303		
Note payable					
Unsecured seller note	N/A	870	1,048	5.95%	May 2007 (6)
Total mortgage and other loans payable, net		$ 1,206,682	$ 1,348,351		

(1) The Revolving Credit Facility may be extended for a one-year period, subject to certain conditions.

(2) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore are recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect net premiums totaling $461 at September 30, 2006 and $1,391 at December 31, 2005.

(3) The weighted average interest rate on these loans was 7.03% at September 30, 2006.

(4) A loan with a balance of $4,911 at September 30, 2006 that matures in 2034 may be repaid in March 2014, subject to certain conditions.

(5) At September 30, 2006, $71,095 in loans scheduled to mature in 2008 may be extended for a one-year period, subject to certain conditions; two of these loans, totaling $37,203 at September 30, 2006, were repaid on October 2, 2006.

(6) This loan is callable within 90 days by the lender.

On July 3, 2006, we exercised our right to increase the borrowing capacity under our Revolving Credit Facility from $400,000 to $500,000.

On September 18, 2006, the Operating Partnership issued a $200,000 aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. Interest on the notes is payable on March 15 and September 15 of each year. The notes have an exchange settlement feature which provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, into (at our option) cash, our common shares or a combination of cash and our common shares at an initial exchange rate of 18.4162 shares per one thousand dollar principal amount of the notes (equivalent to an initial exchange price of $54.30 per common share). On or after September 20, 2011, the Operating Partnership may redeem the notes in cash in whole or in part. The holders of the notes have the right to require us to repurchase the notes in cash in whole or in part on each of September 15, 2011, September 15, 2016 and September 15, 2021, or in the event of a fundamental change, as defined under the terms of the notes, for a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. Prior to September 11, 2011, subject to certain exceptions, if (1) a fundamental change occurs as a result of certain forms of transactions or series of transactions and (2) a holder elects to exchange its notes in connection with such fundamental change, we will increase the applicable exchange rate for the notes surrendered for exchange by a number of additional shares of our common shares as a make whole premium. The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. The Operating Partnership s obligations under the notes are fully and unconditionally guaranteed by us.

14. Shareholders Equity

Preferred Shares

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

	September 30, 2006	December 31, 2005
1,265 designated as Series E Cumulative Redeemable Preferred Shares of beneficial interest (1,150 shares issued with an aggregate liquidation preference of $28,750)	$	$ 11
1,425 designated as Series F Cumulative Redeemable Preferred Shares of beneficial interest (1,425 shares issued with an aggregate liquidation preference of $35,625)	14	14
2,200 designated as Series G Cumulative Redeemable Preferred Shares of beneficial interest (2,200 shares issued with an aggregate liquidation preference of $55,000)	22	22
2,000 designated as Series H Cumulative Redeemable Preferred Shares of beneficial interest (2,000 shares issued with an aggregate liquidation preference of $50,000)	20	20
3,390 designated as Series J Cumulative Redeemable Preferred Shares of beneficial interest (3,390 shares issued with an aggregate liquidation preference of $84,750)	34	
Total preferred shares	$ 90	$ 67

On July 15, 2006, we redeemed all of the outstanding 10.25% Series E Cumulative Redeemable Preferred Shares of beneficial interest (the Series E Preferred Shares) at a price of $25 per share, or $28,750. We recognized a $1,829 decrease to net income available to common shareholders pertaining to the original issuance costs incurred on these shares at the time of the redemption.

On July 20, 2006, we completed the sale of 3.4 million Series J Preferred Shares at a price of $25.00 per share for net proceeds of $81,863. These shares are nonvoting and redeemable for cash at $25.00 per share at our option on or after July 20, 2011. Holders of these shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). Dividends accrue from the date of issue at the annual rate of $1.90625 per share, which is equal to 7.625% of the $25.00 per share redemption price. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 3.4 million Series J Preferred Units. The Series J Preferred Units carry terms that are substantially the same as the Series J Preferred Shares.

Common Shares

In April 2006, we sold 2.0 million common shares to an underwriter at a net price of $41.31 per share for net proceeds of $82,438. We contributed the net proceeds to our Operating Partnership in exchange for 2.0 million common units.

During the nine months ended September 30, 2006, we converted 179,227 common units in our Operating Partnership into common shares on the basis of one common share for each common unit.

See Note 5 for disclosure of common share activity pertaining to our share-based compensation plans.

Accumulated Other Comprehensive Loss

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

	For the Nine Months Ended September 30, 2006	2005
Beginning balance	$ (482)	$
Unrealized loss on derivatives, net of minority interests	(397)	(1,396)
Realized loss on derivatives, net of minority interests	38	
Ending balance	$ (841)	$ (1,396)

The table below sets forth our comprehensive income:

	For the Three Months Ended September 30, 2006	2005	For the Nine Months Ended September 30, 2006	2005
Net income	$ 20,587	$ 10,589	$ 39,640	$ 28,749
Unrealized (loss) gain on derivatives, net of minority interests	(1,080)	1,962	(397)	(1,396)
Realized loss on derivatives, net of minority interests	13		38	
Total comprehensive income	$ 19,520	$ 12,551	$ 39,281	$ 27,353

15. 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, 2006:

	Record Date	Payable Date	Dividend/ Distribution Per Share/Unit	Total Dividend/ Distribution
Series E Preferred Shares:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.6406	$ 737
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.6406	$ 737
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.6406	$ 737
Series F Preferred Shares:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.6172	$ 880
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.6172	$ 880
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.6172	$ 880
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.6172	$ 880
Series G Preferred Shares:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.5000	$ 1,100
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.5000	$ 1,100
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.5000	$ 1,100
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.5000	$ 1,100
Series H Preferred Shares:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.4688	$ 938
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.4688	$ 938
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.4688	$ 938
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.4688	$ 938
Series J Preferred Shares:				
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.4501	$ 1,526
Common Shares:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.2800	$ 11,180
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.2800	$ 11,268
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.2800	$ 11,859
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.3100	$ 13,271
Series I Preferred Units:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.4688	$ 165
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.4688	$ 165
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.4688	$ 165
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.4688	$ 165
Common Units:				
Fourth Quarter 2005	December 31, 2005	January 13, 2006	$ 0.2800	$ 2,387
First Quarter 2006	March 31, 2006	April 14, 2006	$ 0.2800	$ 2,374
Second Quarter 2006	June 30, 2006	July 14, 2006	$ 0.2800	$ 2,357
Third Quarter 2006	September 30, 2006	October 13, 2006	$ 0.3100	$ 2,643

16. Supplemental Information to Statements of Cash Flows

	For the Nine Months Ended September 30, 2006	2005
Supplemental schedule of non-cash investing and financing activities:		
Debt assumed in connection with acquisitions	$ 37,484	$ 13,128
Property acquired through lease arrangement included in rents received in advance and security deposits	$ 1,282	$
Proceeds from sales of properties invested in restricted cash account	$ 33,730	$
Increase (decrease) in accrued capital improvements and leasing costs	$ 7,217	$ (9,531)
Amortization of discounts and premiums on mortgage loans to commercial real estate properties	$ 131	$ 203
Decrease in fair value of derivatives applied to AOCL and minority interests	$ (473)	$ (1,516)
Issuance of common units in the Operating Partnership in connection with acquisition of properties	$ 7,497	$ 2,647
Issuance of common units in the Operating Partnership in connection with contribution of properties accounted for under the financing method of accounting	$	$ 3,687
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	$ 13,962	$ 6,863
Dividends/distribution payable	$ 19,810	$ 16,665
Decrease in minority interests and increase in shareholders equity in connection with the conversion of common units into common shares	$ 7,891	$ 324
Issuance of restricted shares	$	$ 3,481

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17. Information by Business Segment

As of September 30, 2006, we had nine primary office property segments: Baltimore/Washington Corridor; Northern Virginia; Suburban Baltimore, Maryland; Colorado Springs, Colorado; Suburban Maryland; Greater Philadelphia; St. Mary s and King George Counties; Northern/Central New Jersey; and San Antonio, Texas. During 2005, we also had an office property segment in Greater Harrisburg, Pennsylvania prior to the contribution of our properties in that region into a real estate joint venture in exchange for cash and a 20% interest in such joint venture on September 29, 2005.

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	Northern/ Central New Jersey	San Antonio	Greater Harrisburg	Other	Total
Three Months Ended September 30, 2006												
Revenues	$ 38,347	$ 16,747	$ 7,569	$ 3,158	$ 4,114	$ 2,506	$ 2,979	$ 2,317	$ 1,787	$	$ (466)	$ 79,058
Property operating expenses	12,604	5,568	3,090	1,208	1,598	43	856	869	310		(419)	25,727
NOI	$ 25,743	$ 11,179	$ 4,479	$ 1,950	$ 2,516	$ 2,463	$ 2,123	$ 1,448	$ 1,477	$	$ (47)	$ 53,331
Commercial real estate property expenditures	$ 19,937	$ 4,893	$ 830	$ 4,109	$ 2,212	$ 334	$ 429	$ 237	$ 127	$	$ 8,690	$ 41,798
Three Months Ended September 30, 2005												
Revenues	$ 30,771	$ 15,473	$ 2,719	$ 23	$ 3,354	$ 2,506	$ 2,900	$ 3,862	$	$ 2,196	$ (137)	$ 63,667
Property operating expenses	9,246	5,207	1,079	37	1,231	43	715	1,617		771	(618)	19,328
NOI	$ 21,525	$ 10,266	$ 1,640	$ (14)	$ 2,123	$ 2,463	$ 2,185	$ 2,245	$	$ 1,425	$ 481	$ 44,339
Commercial real estate property expenditures	$ 51,640	$ 5,083	$ 1,150	$ 44,178	$ 736	$ 243	$ 748	$ 482	$ 1,367	$ 287	$ 130	$ 106,044
Nine Months Ended September 30, 2006												
Revenues	$ 107,537	$ 48,116	$ 22,156	$ 6,410	$ 11,452	$ 7,519	$ 9,004	$ 7,597	$ 5,395	$	$ (871)	$ 224,315
Property operating expenses	33,107	16,862	8,862	2,315	4,180	124	2,251	2,677	962		(1,148)	70,192
NOI	$ 74,430	$ 31,254	$ 13,294	$ 4,095	$ 7,272	$ 7,395	$ 6,753	$ 4,920	$ 4,433	$	$ 277	$ 154,123
Commercial real estate property expenditures	$ 170,373	$ 11,781	$ 2,584	$ 61,712	$ 3,446	$ 949	$ 1,399	$ 1,358	$ 8,735	$	$ 8,032	$ 270,369
Segment assets at September 30, 2006	$ 1,069,445	$ 466,938	$ 161,948	$ 130,845	$ 118,619	$ 98,260	$ 98,267	$ 45,208	$ 54,673	$	$ 111,719	$ 2,355,922
Nine Months Ended September 30, 2005												