

AMERICAN AIRLINES INC
Form 8-K
September 09, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of earliest event reported: September 9, 2013

AMR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	1-8400	75-1825172
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4333 Amon Carter Blvd. Fort Worth, Texas	76155
(Address of principal executive offices)	(Zip Code)

(817) 963-1234
(Registrant's telephone number)

(Former name or former address, if changed since last report.)

American Airlines, Inc.
(Exact name of registrant as specified in its charter)

Delaware	1-2691	13-1502798
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4333 Amon Carter Blvd. Fort Worth, Texas	76155
(Address of principal executive offices)	(Zip Code)

(817) 963-1234
(Registrant's telephone number)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 8.01 Other Events

AMR Corporation, the parent company of American Airlines, Inc., issued a press release on September 9, 2013 reporting August revenue and traffic results. The press release is attached as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits

The following exhibit is filed herewith:

Exhibit Number	Description
99.1	Press Release dated September 9, 2013

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMR CORPORATION

/s/ Kenneth W. Wimberly
Kenneth W. Wimberly
Corporate Secretary

Dated: September 9, 2013

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

American Airlines, Inc.

/s/ Kenneth W. Wimberly
Kenneth W. Wimberly
Corporate Secretary

Dated: September 9, 2013

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release

Contact:

Sean Collins
Media Relations
817 967 1577
mediarelations@aa.com

FOR RELEASE: Tuesday, September 9, 2013

AMR CORPORATION REPORTS RECORD AUGUST PASSENGER UNIT REVENUE

Consolidated Traffic Increased 3.2 Percent

FORT WORTH, Texas - AMR Corporation today reported August 2013 consolidated revenue and traffic results for its principal subsidiary, American Airlines, Inc., and its wholly owned subsidiary, AMR Eagle Holding Corporation.

August's consolidated passenger revenue per available seat mile (PRASM) was a record high for the month, increasing an estimated 3.0 percent versus last year.

Consolidated capacity and traffic were 4.2 percent and 3.2 percent higher year-over-year, respectively, resulting in a consolidated load factor of 85.0 percent, 0.8 points below the same period last year.

Domestic traffic was 0.8 percent higher year-over-year on 1.7 percent more capacity, resulting in a domestic load factor of 86.4 percent, 0.8 points lower compared to the same period last year.

International load factor of 84.7 percent was 1.0 points lower year-over-year, as traffic increased 6.7 percent on 8.1 percent more capacity. The Atlantic entity recorded the highest load factor of 88.5 percent, an increase of 1.0 points versus August 2012.

On a consolidated basis, the company boarded 9.7 million passengers in August.

The Company's Results Are Detailed Below:

AMR Preliminary Results Summary

August 2013 consolidated PRASM (cents/ASM)*	13.77	
August 2013 consolidated year-over-year PRASM change	3.0	%
August 2013 consolidated fuel price including effective hedges & taxes (dollars/gallon)	\$3.08	

*Note: Previously, consolidated PRASM (cents/ASM) was quoted for the prior year period.

AMR TRAFFIC SUMMARY
INCLUDES CHARTER SERVICES

	AUGUST			Year-to-Date		
	2013	2012	Change	2013	2012	Change
REVENUE PASSENGER MILES						
(000)						
Domestic	6,793,145	6,740,990	0.8 %	51,200,788	51,298,060	(0.2) %
International	5,022,484	4,705,622	6.7	35,798,359	34,596,998	3.5
Atlantic	1,910,947	1,931,832	(1.1)	12,181,520	12,500,470	(2.6)
Latin America	2,335,381	2,101,166	11.1	18,258,482	17,016,856	7.3
Pacific	776,156	672,625	15.4	5,358,357	5,079,672	5.5
Mainline	11,815,629	11,446,613	3.2	86,999,147	85,895,058	1.3
Regional	936,434	912,983	2.6	6,965,245	6,892,719	1.1
Consolidated	12,752,064	12,359,596	3.2	93,964,392	92,787,777	1.3
AVAILABLE SEAT MILES (000)						
Domestic	7,863,587	7,729,102	1.7 %	60,057,835	60,771,551	(1.2) %
International	5,929,160	5,487,282	8.1	43,756,172	42,218,154	3.6
Atlantic	2,158,680	2,208,420	(2.3)	14,586,332	15,146,460	(3.7)
Latin America	2,891,779	2,497,626	15.8	22,752,660	20,956,246	8.6
Pacific	878,701	781,237	12.5	6,417,179	6,115,448	4.9
Mainline	13,792,747	13,216,384	4.4	103,814,006	102,989,705	0.8
Regional	1,217,475	1,190,693	2.2	9,233,672	9,148,619	0.9
Consolidated	15,010,223	14,407,077	4.2	113,047,679	112,138,324	0.8
LOAD FACTOR						
Domestic	86.4	87.2	(0.8)	Pts 85.3	84.4	0.8 Pts
International	84.7	85.8	(1.0)	81.8	81.9	(0.1)
Atlantic	88.5	87.5	1.0	26,569	18,672	
Construction contract expenses	8,483		14,026			
Other service operations expenses	1,405		1,678			
General and administrative expenses	4,614		3,963			
Total operating expenses	72,819		59,400			
Operating income	26,933		26,131			
Interest expense	(19,876))	(17,029))		
Amortization of deferred financing costs	(884))	(556))		
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	6,173		8,546			
Equity in loss of unconsolidated entities	(94))	(23))		
Income tax expense	(105))	(215))		
	5,974		8,308			

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Income from continuing operations before minority interests

Minority interests in income from continuing operations		
Common units in the Operating Partnership	(308)	(826)
Preferred units in the Operating Partnership	(165)	(165)
Other consolidated entities	47	33
Income from continuing operations	5,548	7,350
(Loss) income from discontinued operations, net of minority interests	(1)	2,477
Income before gain on sales of real estate	5,547	9,827
Gain on sales of real estate, net		110
Net income	5,547	9,937
Preferred share dividends	(3,993)	(3,654)
Net income available to common shareholders	\$ 1,554	\$ 6,283
Basic earnings per common share		
Income from continuing operations	\$ 0.03	\$ 0.10
Discontinued operations		0.06
Net income available to common shareholders	\$ 0.03	\$ 0.16
Diluted earnings per common share		
Income from continuing operations	\$ 0.03	\$ 0.09
Discontinued operations		0.06
Net income available to common shareholders	\$ 0.03	\$ 0.15

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 5,547	\$ 9,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	426	1,538
Depreciation and other amortization	26,626	19,337
Amortization of deferred financing costs	884	559
Amortization of deferred market rental revenue	(511)	(556)
Equity in loss of unconsolidated entities	94	23
Gain on sales of real estate		(2,571)
Share-based compensation	1,340	642
Excess income tax benefits from share-based compensation	(865)	(258)
Changes in operating assets and liabilities:		
Increase in deferred rent receivable	(2,651)	(2,198)
Decrease (increase) in accounts receivable	1,889	(1,123)
Decrease in restricted cash and prepaid and other assets	1,349	5,152
Decrease in accounts payable, accrued expenses and other liabilities	(4,005)	(2,637)
Increase in rents received in advance and security deposits	4,890	1,620
Other	(25)	(79)
Net cash provided by operating activities	34,988	29,386
Cash flows from investing activities		
Purchases of and additions to commercial real estate properties	(187,966)	(38,267)
Proceeds from sales of properties		28,217
Investments in and advances to unconsolidated entities		(190)
Acquisition of partner interests in consolidated joint ventures		(3,016)
Distributions from unconsolidated entities	89	113
Leasing costs paid	(4,059)	(1,984)
Decrease in restricted cash associated with investing activities	13,858	218
Other	(5,951)	(175)
Net cash used in investing activities	(184,029)	(15,084)
Cash flows from financing activities		
Proceeds from mortgage and other loans payable	188,090	47,905
Repayments of mortgage and other loans payable	(10,380)	(36,559)
Deferred financing costs paid	(507)	(49)
Distributions paid to partners in consolidated joint ventures		(787)
Net proceeds from issuance of common shares	5,120	1,581
Dividends paid	(16,931)	(14,721)
Distributions paid	(2,787)	(2,553)
Excess income tax benefits from share-based compensation	865	258
Other	(349)	8
Net cash provided by (used in) financing activities	163,121	(4,917)
Net increase in cash and cash equivalents	14,080	9,385
Cash and cash equivalents		
Beginning of period	7,923	10,784
End of period	\$ 22,003	\$ 20,169

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 March 31, 2007, our investments in real estate included the following:

- 226 wholly owned operating properties in our portfolio totaling 17.4 million square feet;
- 17 wholly owned properties under construction or development that we estimate will total approximately 1.9 million square feet upon completion and two wholly owned office properties totaling approximately 129,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 1,254 acres that we believe are potentially developable into approximately 10.3 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), 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 March 31, 2007 follows:

Common Units	84%
Series G Preferred Units	100%
Series H Preferred Units	100%
Series I Preferred Units	0%
Series J Preferred Units	100%
Series K Preferred Units	100% (issued on January 9, 2007)

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

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

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

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

2. **Basis of Presentation**

The accompanying unaudited interim Consolidated Financial Statements have been prepared in accordance with the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States for complete Consolidated Financial

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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 March 31,	
	2007	2006
Numerator:		
Income from continuing operations	\$ 5,548	\$ 7,350
Add: Gain on sales of real estate, net		110
Less: Preferred share dividends	(3,993)	(3,654)
Numerator for basic and diluted EPS from continuing operations	1,555	3,806
(Loss) income from discontinued operations, net	(1)	2,477
Numerator for basic and diluted EPS on net income available to common shareholders	\$ 1,554	\$ 6,283
Denominator (all weighted averages):		
Denominator for basic EPS (common shares)	45,678	39,668
Dilutive effect of share-based compensation awards	1,465	1,842
Denominator for diluted EPS	47,143	41,510
Basic EPS:		
Income from continuing operations	\$ 0.03	\$ 0.10
Income from discontinued operations		0.06
Net income available to common shareholders	\$ 0.03	\$ 0.16
Diluted EPS:		
Income from continuing operations	\$ 0.03	\$ 0.09
Income from discontinued operations		0.06
Net income available to common shareholders	\$ 0.03	\$ 0.15

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 March 31,	
	2007	2006
Conversion of weighted average common units	8,411	8,520
Conversion of weighted average convertible preferred units	176	176
Conversion of weighted average convertible preferred shares	395	

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.

4. Recent Accounting Pronouncements

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. 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:

	March 31, 2007	December 31, 2006
Land	\$ 409,859	\$ 343,098
Buildings and improvements	1,904,154	1,689,359
	2,314,013	2,032,457
Less: accumulated depreciation	(233,703)	(219,574)
	\$ 2,080,310	\$ 1,812,883

At March 31, 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 March 31, 2007 included the following:

	March 31, 2007
Land	\$ 2,932
Buildings and improvements	14,588
	17,520
Less: accumulated depreciation	(2,947)
	\$ 14,573

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

	March 31, 2007	December 31, 2006
Land	\$ 193,715	\$ 153,436
Construction in progress	185,579	144,991
	\$ 379,294	\$ 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 \$366,830. The table below sets forth the allocation of the acquisition costs of the Nottingham Acquisition:

Land, operating properties	\$ 69,322
Land, construction or development	37,789
Building and improvements	211,194
Intangible assets on real estate acquisitions	53,214
Total assets	371,519
Deferred revenue associated with acquired operating leases	(4,689)
Total acquisition cost	\$ 366,830

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

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

2007 Construction and Development Activities

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As of March 31, 2007, we had construction underway on four new buildings in the Baltimore/Washington Corridor (including one partially operational property owned through a 50% joint venture), two in Colorado Springs, Colorado and one each in Suburban Baltimore, Southwest Virginia and Chesterfield, Virginia. We also had development activities underway on five new buildings located in the Baltimore/Washington Corridor (including one owned through a joint venture), two in Suburban Baltimore, two in Suburban Maryland and one each

in King George County, Virginia and Colorado Springs, Colorado (we owned a 50% undivided interest in the Colorado Springs property until April 6, 2007, when we purchased the remaining 50%). In addition, we had redevelopment underway on two wholly owned existing buildings (one is located in the Baltimore/Washington Corridor and the other in Colorado Springs, Colorado) and two buildings owned by a joint venture (one is located in Northern Virginia and the other in the Baltimore/Washington Corridor).

6. Real Estate Joint Ventures

During the three months ended March 31, 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 March 31, 2007	December 31, 2006	Date Acquired	Owner- ship	Nature of Activity	Total Assets at 3/31/2007	Maximum Exposure to Loss (1)
Harrisburg Corporate Gateway Partners, L.P.	\$(3,797)(2)	\$(3,614)(2)	9/29/2005	20%	Operates 16 buildings(3)	\$75,190	

(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 \$4,860 at March 31, 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.:

	March 31, 2007	December 31, 2006
Commercial real estate property	\$ 72,199	\$ 72,688
Other assets	2,991	3,207
Total assets	\$ 75,190	\$ 75,895
Liabilities	\$ 68,149	\$ 67,350
Owners' equity	7,041	8,545
Total liabilities and owners' equity	\$ 75,190	\$ 75,895

The following table sets forth a combined condensed statement of operations for Harrisburg Corporate Gateway Partners, L.P. for the three months ended March 31, 2007:

Revenues	\$ 2,444
Property operating expenses	(960)
Interest expense	(1,138)
Depreciation and amortization expense	(867)
Net loss	\$ (521)

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

	Date Acquired	Ownership % at 3/31/2007	Nature of Activity	Total Assets at 3/31/2007	Collateralized Assets at 3/31/2007
COPT Opportunity Invest I, LLC	12/20/2005	92.5%	Redeveloping two properties (1)	\$ 44,919	\$
Commons Office 6-B, LLC	2/10/2006	50.0%	Developing land parcel (2)	7,466	7,430
MOR Forbes 2 LLC	12/24/2002	50.0%	Operates one building (3)	4,074	3,697
COPT-FD Indian Head, LLC	10/23/2006	75.0%	Developing land parcel (4)	3,003	
				\$ 59,462	\$ 11,127

- (1) This joint venture owns one property in the Northern Virginia region and one in the Baltimore/Washington Corridor region.
- (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).
- (4) 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:

	March 31, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Lease-up value	\$ 125,144	\$ 43,900	\$ 81,244	\$ 105,719	\$ 38,279	\$ 67,440
Tenant relationship value	35,149	2,691	32,458	9,371	1,178	8,193
Lease cost portion of deemed cost avoidance	17,086	6,591	10,495	12,880	5,819	7,061
Lease to market value	14,428	7,869	6,559	10,623	7,178	3,445
Market concentration premium	1,333	155	1,178	1,333	147	1,186
	\$ 193,140	\$ 61,206	\$ 131,934	\$ 139,926	\$ 52,601	\$ 87,325

Amortization of the intangible asset categories set forth above totaled \$8,628 in the three months ended March 31, 2007 and \$5,017 in the three months ended March 31, 2006. The approximate weighted average amortization periods of the categories set forth below follow: lease-up value: nine years; tenant relationship value: eight years; lease cost portion of deemed cost avoidance: six years; lease to market value: five 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 for the nine months ended December 31, 2007 is \$20.1 million, for 2008 is \$21.8 million, for 2009 is \$19.1 million, for 2010 is \$14.8 million, for 2011 is \$11.9 million and for 2012 is \$9.6 million.

8. Deferred Charges

Deferred charges consisted of the following:

March 31, 2007	December 31, 2006
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Deferred leasing costs	\$ 55,716	\$ 52,263
Deferred financing costs	28,837	28,275
Goodwill	1,853	1,853
Deferred other	155	155
	86,561	82,546
Accumulated amortization	(41,065)	(38,836)
Deferred charges, net	\$ 45,496	\$ 43,710

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9. Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of \$286 at March 31, 2007 and \$252 at December 31, 2006.

10. Prepaid and Other Assets

Prepaid and other assets consisted of the following:

	March 31, 2007	December 31, 2006
Construction contract costs incurred in excess of billings	\$ 19,194	\$ 18,324
Furniture, fixtures and equipment	10,587	10,495
Prepaid expenses	7,714	9,059
Other assets	15,816	10,589
Prepaid and other assets	\$ 53,311	\$ 48,467

11. Debt

Our debt consisted of the following:

	Maximum			Scheduled Maturity Dates at	
	Principal Amount Under Debt at March 31, 2007	Carrying Value at March 31, 2007	December 31, 2006	March 31, 2007	
Mortgage and other loans payable:					
<u>Revolving Credit Facility</u>					
Wachovia Bank, N.A. Revolving Credit Facility	\$ 500,000	\$ 264,000	\$ 185,000	LIBOR + 1.15% to 1.55%	March 2008 (1)
<u>Mortgage Loans</u>					
Fixed rate mortgage loans (2)	N/A	1,048,913	1,020,619	5.20% 9.48% (3)	2007 2034 (4)
Variable rate construction loan facilities	122,447	76,324	56,079	LIBOR + 1.40% to 2.20%	2007 2008 (5)
Other variable rate mortgage loans	N/A	123,615	34,500	LIBOR + 1.20% to 1.50%	2007 (6)
Total mortgage loans		1,248,852	1,111,198		
<u>Note payable</u>					
Unsecured seller notes	N/A	2,331	2,339	0% 5.95%	2007-2008
Total mortgage and other loans payable		1,515,183	1,298,537		
3.5% Exchangeable Senior Notes	N/A	200,000	200,000	3.50%	September 2026(7)
Total debt		\$ 1,715,183	\$ 1,498,537		

(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 \$839 at March 31, 2007 and \$210 at December 31, 2006.

(3) The weighted average interest rate on these loans was 6.05% at March 31, 2007.

(4) A loan with a balance of \$4,874 at March 31, 2007 that matures in 2034 may be repaid in March 2014, subject to certain conditions.

(5) At March 31, 2007, \$53,505 in loans scheduled to mature in 2008 may be extended for a one-year period, subject to certain conditions.

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- (6) At March 31, 2007, a \$34,500 loan scheduled to mature in 2007 may be extended for a one-year period, subject to certain conditions.
- (7) Refer to our 2006 Annual Report on Form 10-K for descriptions of provisions for early redemption and repurchase of these notes.

We capitalized interest costs of \$4,132 in the three months ended March 31, 2007 and \$3,130 in three months ended March 31, 2006.

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12. Derivatives

The following table sets forth our derivative contracts at March 31, 2007 and their respective fair values:

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at March 31, 2007	December 31, 2006
Interest rate swap	\$ 50,000	5.0360	% 3/28/2006	3/30/2009	\$ (174)	\$ (42)
Interest rate swap	25,000	5.2320	% 5/1/2006	5/1/2009	(191)	(133)
Interest rate swap	25,000	5.2320	% 5/1/2006	5/1/2009	(191)	(133)
					\$ (556)	\$ (308)

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	
	March 31, 2007	2006
(Decrease) increase in fair value applied to accumulated other comprehensive loss and minority interests	\$ (248)	\$ 110

13. Shareholders Equity**Preferred Shares**

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

	March 31, 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 three months ended March 31, 2007, we converted 221,350 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 AOCL component of shareholders' equity:

	For the Three Months Ended March 31,	
	2007	2006
Beginning balance	\$ (693)	\$ (482)
Unrealized (loss) gain on derivatives, net of minority interests	(223)	90
Realized loss on derivatives, net of minority interests	13	12
Ending balance	\$ (903)	\$ (380)

The table below sets forth our comprehensive income:

	For the Three Months Ended March 31,	
	2007	2006
Net income	\$ 5,547	\$ 9,937
Unrealized (loss) gain on derivatives, net of minority interests	(223)	90
Realized loss on derivatives, net of minority interests	13	12
Total comprehensive income	\$ 5,337	\$ 10,039

14. Dividends and Distributions

The following table summarizes our dividends and distributions when either the payable dates or record dates occurred during the three months ended March 31, 2007:

	Record Date	Payable Date	Dividend/ Distribution Per Share/Unit	Total Dividend/ Distribution
Series G Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.5000	\$ 1,100
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.5000	\$ 1,100
Series H Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.4688	\$ 938
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.4688	\$ 938
Series J Preferred Shares:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.4766	\$ 1,616
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.4766	\$ 1,616
Series K Preferred Shares:				
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.7466	\$ 397
Common Shares:				
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
Series I Preferred Units:				
Fourth Quarter 2006	December 29, 2006	January 17, 2007	\$ 0.4688	\$ 165
First Quarter 2007	March 30, 2007	April 17, 2007	\$ 0.4688	\$ 165
Common Units:				
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

15. Supplemental Information to Statements of Cash Flows

	For the Three Months Ended March 31,	
	2007	2006
Supplemental schedule of non-cash investing and financing activities:		
Debt assumed in connection with acquisition of properties	\$ 38,848	\$
(Decrease) increase in accrued capital improvements and leasing costs	\$ (2,600)	\$ 6,307
Amortization of discounts and premiums on mortgage loans to commercial real estate properties	\$ 255	\$ 45
(Decrease) increase in fair value of derivatives applied to AOCL and minority interests	\$ (248)	\$ 110
Issuance of common shares in connection with acquisition of properties	\$ 156,691	\$
Issuance of preferred shares in connection with acquisition of properties	\$ 26,583	\$
Restricted cash used in connection with acquisition of properties	\$ 20,122	\$
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	\$ 26,511	\$ 778
Dividends/distribution payable	\$ 20,687	\$ 16,878
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 10,563	\$ 1,945

16. Information by Business Segment

As of March 31, 2007, we had nine primary office property segments: Baltimore/Washington Corridor; Northern Virginia; Suburban Baltimore; Colorado Springs, Suburban Maryland; Greater Philadelphia; St. Mary's and King George Counties; San Antonio; 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
Three Months Ended											
March 31, 2007											
Revenues	\$ 43,837	\$ 17,172	\$ 13,081	\$ 3,595	\$ 3,967	\$ 2,506	\$ 3,098	\$ 1,781	\$ 1,786	\$ (428)	\$ 90,395
Property operating expenses	14,526	6,328	5,771	1,280	1,663	33	771	359	697	596	32,024
NOI	\$ 29,311	\$ 10,844	\$ 7,310	\$ 2,315	\$ 2,304	\$ 2,473	\$ 2,327	\$ 1,422	\$ 1,089	\$ (1,024)	\$ 58,371
Additions to commercial real estate properties	\$ 77,115	\$ 10,852	\$ 261,734	\$ 3,803	\$ 496	\$ 232	\$ 69	\$ (34)	\$ 254	\$ 25,421	\$ 379,942
Segment assets at March 31, 2007	\$ 1,153,457	\$ 480,989	\$ 462,330	\$ 137,948	\$ 117,496	\$ 97,306	\$ 96,884	\$ 57,250	\$ 44,486	\$ 166,577	\$ 2,814,723
Three Months Ended											
March 31, 2006											
Revenues	\$ 34,393	\$ 15,573	\$ 7,357	\$ 1,289	\$ 3,553	\$ 2,505	\$ 2,988	\$ 1,810	\$ 2,893	\$ (182)	\$ 72,179
Property operating expenses	10,369	5,490	2,840	491	1,317	40	691	333	985	(489)	22,067
NOI	\$ 24,024	\$ 10,083	\$ 4,517	\$ 798	\$ 2,236	\$ 2,465	\$ 2,297	\$ 1,477	\$ 1,908	\$ 307	\$ 50,112
Additions to commercial real estate properties	\$ 31,563	\$ 3,123	\$ 871	\$ 5,833	\$ 404	\$ 338	\$ 311	\$ 7,702	\$ 587	\$ (268)	\$ 50,464
Segment assets at March 31, 2006	\$ 925,067	\$ 462,441	\$ 187,732	\$ 69,086	\$ 114,873	\$ 99,029	\$ 98,818	\$ 51,570	\$ 58,203	\$ 76,056	\$ 2,142,875

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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 March 31,	
	2007	2006
Segment revenues	\$ 90,395	\$ 72,179
Construction contract revenues	8,691	14,544
Other service operations revenues	1,386	1,765
Less: Revenues from discontinued real estate operations (Note 19)	(720)	(2,957)
Total revenues	\$ 99,752	\$ 85,531

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 March 31,	
	2007	2006
Segment property operating expenses	\$ 32,024	\$ 22,067
Less: Property operating expenses from discontinued real estate operations (Note 19)	(276)	(1,006)
Total property operating expenses	\$ 31,748	\$ 21,061

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 March 31,	
	2007	2006
NOI for reportable segments	\$ 58,371	\$ 50,112
Construction contract revenues	8,691	14,544
Other service operations revenues	1,386	1,765
Equity in loss of unconsolidated entities	(94)	(23)
Income tax expense	(105)	(215)
Less:		
Depreciation and other amortization associated with real estate operations	(26,569)	(18,672)
Construction contract expenses	(8,483)	(14,026)
Other service operations expenses	(1,405)	(1,678)
General and administrative expenses	(4,614)	(3,963)
Interest expense on continuing operations	(19,876)	(17,029)
Amortization of deferred financing costs	(884)	(556)
Minority interests in continuing operations	(426)	(958)
NOI from discontinued operations	(444)	(1,951)
Income from continuing operations	\$ 5,548	\$ 7,350

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 of unconsolidated entities, general and administrative expense, income taxes and minority interests because these items represent general corporate items not attributable to segments.

17. Share-Based Compensation

During the three months ended March 31, 2007, we granted to employees 226,660 options to purchase common shares with a weighted average exercise price of \$49.25 per share. All of these options 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, and they 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	\$ 9.85	
Risk-free interest rate	4.61	%(1)
Expected life (in years)	6.25	
Expected volatility	21.51	%(2)
Expected annual dividend yield	3.27	%(3)

(1) Ranged from 4.53% to 4.91%.

(2) Ranged from 21.41% to 21.75%.

(3) Ranged from 3.21% to 3.35%.

During the three months ended March 31, 2007, 469,918 options to purchase common shares were exercised. The weighted average exercise price of these options was \$10.92 per share, and the total intrinsic value of options exercised was \$19,642.

During the three months ended March 31, 2007, certain employees were granted 128,776 restricted shares with a weighted average grant date fair value of \$50.57 per share. All of these shares are subject to forfeiture restrictions that lapse 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. During the three months ended March 31, 2007, forfeiture restrictions lapsed on 126,619 common shares previously issued to employees. These shares had a weighted average grant date fair value of \$21.97 per share, and the total fair value of the shares on the vesting date was \$6,514.

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

	For the Three Months Ended March 31,	
	2007	2006
Increase in general and administrative expenses	\$ 879	\$ 469
Increase in construction contract and other service operations expenses	354	144
Share-based compensation expense	1,233	613
Income taxes	(35)	(17)
Minority interests	(193)	(109)
Net share-based compensation expense	\$ 1,005	\$ 487

18. Income Taxes

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

	For the Three Months Ended March 31,	
	2007	2006
Deferred		
Federal	\$ 86	\$ 176
State	19	39
Total	\$ 105	\$ 215

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 months ended March 31, 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; and
- the 429 Ridge Road property which, as of March 31, 2007, we were under contract to sell, and was classified as held for sale.

The table below sets forth the components of income from discontinued operations:

	For the Three Months Ended March 31,	
	2007	2006
Revenue from real estate operations	\$ 720	\$ 2,957
Expenses from real estate operations:		
Property operating expenses	276	1,006
Depreciation and amortization	57	665
Interest expense	388	686
Other		3
Expenses from real estate operations	721	2,360
Income from discontinued operations before gain on sales of real estate and minority interests	(1)	597
Gain on sales of real estate		2,435
Minority interests in discontinued operations		(555)
Income from discontinued operations, net of minority interests	\$ (1)	\$ 2,477

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 March 31, 2007, we were under contract to acquire the following properties:

- a parcel of land in Aberdeen, Maryland for \$10,000, of which we paid a deposit of \$100 in 2006; and
- 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 may be required to make unilateral payments to fund rent shortfalls on behalf of a tenant that was in bankruptcy at the time the partnership was formed. Our total unilateral commitment under this guaranty is approximately \$153; the tenant's account was current as of March 31, 2007. We also 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.

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, we would make additional cash capital contributions into newly-formed entities and our joint venture partner would contribute land into such entities. We will have a 50% interest in this joint venture relationship.

We may need 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 need to make even larger investments in these joint ventures.

In two of the consolidated joint ventures that we owned as of March 31, 2007, we would be obligated to acquire the other members' 50% interests in the joint ventures if defined events were to occur. The amounts we would need to pay for those membership interests are computed based on the amounts that the owners of the interests would receive under the joint venture agreements in the event that office properties owned by the joint ventures were 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 members' membership

interests in these joint ventures to be \$2,383; however, since the determination of this amount is dependent on the operations of the office properties, which are not both completed and sufficiently occupied, this estimate is preliminary and could be materially different from the actual obligation.

Ground Lease

On April 4, 2006, we entered into a 62-year ground lease agreement on a six-acre land parcel on which we expect to construct a 110,000 square foot property. We paid \$550 to the lessor upon lease execution and expect to pay an additional amount of approximately \$1,898 in rent under the lease in 2007. No other rental payments are required over the life of the lease, although we are responsible for expenses associated with the property. We will recognize the total lease payments incurred under the lease evenly over the term of the lease

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 March 31, 2007 follow:

Nine months ended December 31, 2007	\$ 212
2008	261
2009	176
2010	135
2011	57
	\$ 841

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 March 31, 2007 follow:

Nine months ended December 31, 2007	\$ 426
2008	493
2009	317
2010	142
2011	21
	\$ 1,399

Environmental Indemnity Agreement

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.

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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 (Unaudited)

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 March 31, 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 unaudited and 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 Three Months Ended March 31,	
	2007	2006
Pro forma total revenues	\$ 100,571	\$ 93,804
Pro forma net income	\$ 5,809	\$ 8,046
Pro forma net income available to common shareholders	\$ 1,783	\$ 4,020
Pro forma earnings per common share on net income available to common shareholders		
Basic	\$ 0.04	\$ 0.09
Diluted	\$ 0.04	\$ 0.09

22. Subsequent Events

At March 31, 2007, we owned a 50% undivided interest in a 132 acre parcel of land that we believe can support future development of 1.75 million square feet of office space in Colorado Springs, Colorado. On April 6, 2007, we acquired the remaining 50% interest for approximately \$14.0 million. We issued 262,165 common units in our Operating Partnership valued at \$47.68 per unit in connection with this transaction.

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 March 31, 2007, our investments in real estate included the following:

- 226 wholly owned operating properties in our portfolio totaling 17.4 million square feet;
- 17 wholly owned properties under construction or development that we estimate will total approximately 1.9 million square feet upon completion and two wholly owned office properties totaling approximately 129,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 1,254 acres that we believe are potentially developable into approximately 10.3 million square feet; and
- partial ownership interests in a number of other real estate projects in operations or under development or redevelopment.

During the three months ended March 31, 2007, we:

- experienced increased revenues, operating expenses and operating income 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 93.0%;
- 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 \$366.8 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, 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.

In this section, we discuss our financial condition and results of operations as of and for the three months ended March 31, 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 months ended March 31, 2007 compared to the same period in 2006;

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- how we raised cash for acquisitions and other capital expenditures during the three months ended March 31, 2007;
- our cash flows;
- how we expect to generate cash for short and long-term capital needs;
- our commitments and contingencies; and
- the computation of our Funds from Operations for the three months ended March 31, 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

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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 March 31,				
	2007	2006	Variance		% Change
Revenues					
Rental revenue	\$ 75,882	\$ 60,562	\$ 15,320		25.3 %
Tenant recoveries and other real estate operations revenue	13,793	8,660	5,133		59.3 %
Construction contract revenues	8,691	14,544	(5,853)		(40.2 %)
Other service operations revenues	1,386	1,765	(379)		(21.5 %)
Total revenues	99,752	85,531	14,221		16.6 %
Expenses					
Property operating expenses	31,748	21,061	10,687		50.7 %
Depreciation and other amortization associated with real estate operations	26,569	18,672	7,897		42.3 %
Construction contract expenses	8,483	14,026	(5,543)		(39.5 %)
Other service operations expenses	1,405	1,678	(273)		(16.3 %)
General and administrative expense	4,614	3,963	651		16.4 %
Total operating expenses	72,819	59,400	13,419		22.6 %
Operating income	26,933	26,131	802		3.1 %
Interest expense and amortization of deferred financing costs	(20,760)	(17,585)	(3,175)		18.1 %
Equity in loss of unconsolidated entities	(94)	(23)	(71)		308.7 %
Income tax expense	(105)	(215)	110		(51.2 %)
Income from continuing operations before minority interests	5,974	8,308	(2,334)		(28.1 %)
Minority interests in income from continuing operations	(426)	(958)	532		(55.5 %)
Income from continuing operations	5,548	7,350	(1,802)		(24.5 %)
(Loss) income from discontinued operations, net	(1)	2,477	(2,478)		(100.0 %)
Gain on sales of real estate, net		110	(110)		(100.0 %)
Net income	5,547	9,937	(4,390)		(44.2 %)
Preferred share dividends	(3,993)	(3,654)	(339)		9.3 %
Net income available to common shareholders	\$ 1,554	\$ 6,283	\$ (4,729)		(75.3 %)
Basic earnings per common share					
Income from continuing operations	\$ 0.03	\$ 0.10	\$ (0.07)		(70.0 %)
Net income available to common shareholders	\$ 0.03	\$ 0.16	\$ (0.13)		(81.3 %)
Diluted earnings per common share					
Income from continuing operations	\$ 0.03	\$ 0.09	\$ (0.06)		(66.7 %)
Net income available to common shareholders	\$ 0.03	\$ 0.15	\$ (0.12)		(80.0 %)

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 March 31, 2007. These changes occurred primarily as a result of the Nottingham Acquisition:

Region	Percentage of Annualized Rental Revenue of Wholly Owned Properties as of			
	March 31, 2007		December 31, 2006	
Baltimore/Washington Corridor	46.6	%	51.2	%
Northern Virginia	20.2	%	20.5	%
Suburban Baltimore	15.1	%	7.5	%
Suburban Maryland	4.3	%	4.1	%
Colorado Springs, Colorado	3.9	%	4.2	%
St. Mary's and King George Counties	3.6	%	4.2	%
Greater Philadelphia	3.2	%	3.7	%
San Antonio, Texas	2.1	%	2.4	%
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 three months ended March 31, 2007 due primarily to the Nottingham Acquisition, but also due to development and leasing activity. The following table lists our 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			
	March 31, 2007		December 31, 2006	
United States Government	14.4	%	16.3	%
Booz Allen Hamilton, Inc.	6.2	%	6.9	%
Northrop Grumman Corporation	5.4	%	4.2	%
Computer Sciences Corporation(1)	3.4	%	3.8	%
L-3 Communications Holdings, Inc.(1)	2.6	%	3.0	%
Unisys Corporation(2)	2.6	%	3.0	%
General Dynamics Corporation	2.1	%	2.4	%
Wachovia Corporation	2.0	%	2.1	%
The Aerospace Corporation	1.9	%	2.1	%
AT&T Corporation(1)	1.7	%	3.0	%
Comcast Corporation	1.5	%	N/A	
The Boeing Company(1)	1.2	%	1.4	%
Ciena Corporation	1.1	%	1.2	%
Science Applications International Corporation	1.0	%	1.1	%
Lockheed Martin Corporation	0.9	%	1.0	%
Magellan Health Services, Inc.	0.9	%	1.0	%
BAE Systems PLC	0.8	%	1.0	%
Merck & Co., Inc.(2)	0.8	%	0.8	%
Johns Hopkins University(1)	0.7	%	N/A	
Wyle Laboratories, Inc.	0.7	%	0.8	%
Harris Corporation	N/A		0.8	%
EDO Corporation	N/A		0.8	%
Subtotal of 20 largest tenants	51.9	%	56.7	%
All remaining tenants	48.1	%	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 three months ended March 31, 2007 due primarily to the Nottingham Acquisition, since the properties included in that transaction had an insignificant number of tenants in that industry. The table below sets forth the percentage of annualized rental revenue in our portfolio of wholly owned properties derived from that industry:

	Percentage of Annualized Rental Revenue of Wholly Owned Properties from Defense Industry Tenants as of			
	March 31, 2007		December 31, 2006	
Total Portfolio	48.3	%	54.4	%
Baltimore/Washington Corridor	64.4	%	66.7	%
Northern Virginia	49.4	%	54.5	%
Suburban Baltimore	6.7	%	9.8	%
Suburban Maryland	11.2	%	13.3	%
Colorado Springs	37.1	%	39.4	%
St. Mary's and King George Counties	89.8	%	89.8	%
San Antonio	100.0	%	100.0	%

Occupancy and Leasing

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

	March 31, 2007	December 31, 2006	
Occupancy rates			
Total	93.0	% 92.8	%
Baltimore/Washington Corridor	94.1	% 95.1	%
Northern Virginia	99.4	% 90.9	%
Suburban Baltimore	85.2	% 81.1	%
Suburban Maryland	94.8	% 83.2	%
Colorado Springs, Colorado	94.1	% 92.8	%
St. Mary's and King George Counties	92.1	% 92.1	%
Greater Philadelphia	100.0	% 100.0	%
San Antonio, Texas	100.0	% 100.0	%
Northern/Central New Jersey	68.7	% 97.2	%
Average contractual annual rental rate per square foot at period end (1)	\$ 20.92	\$ 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 86.1% occupied at March 31, 2007. We also had a decrease in occupancy in our New Jersey region that was attributable 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 positive increase in occupancy in our other properties that offset the decreasing effects of the Nottingham Acquisition and the 429 Ridge Road property; this positive increase was largely attributable to lease commencements for space in our Northern Virginia and Suburban Maryland regions.

We renewed 72.1% of the square footage scheduled to expire in the three months ended March 31, 2007 (including the effect of early renewals and excluding the effect of early lease terminations).

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

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

(1) Excludes the effect of 62,000 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 three months ended March 31, 2006 and 2007, Same-Office Properties would be properties owned and 100% operational from January 1, 2006 through March 31, 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 table below sets forth the components of our changes in revenues from real estate operations and property operating expenses (dollars in thousands):

	Changes From the Three Months Ended March 31, 2006 to 2007					Total Dollar Change
	Property Additions Dollar Change(1)	Same-Office Properties Dollar Change	Percentage Change	Other Dollar Change(2)		
Revenues from real estate operations						
Rental revenue	\$ 13,684	\$ 1,869	3.1 %	\$ (233)	\$ 15,320	
Tenant recoveries and other real estate operations revenue	2,688	2,427	29.1 %	18	5,133	
Total	\$ 16,372	\$ 4,296	6.3 %	\$ (215)	\$ 20,453	
Property operating expenses	\$ 5,722	\$ 3,900	18.5 %	\$ 1,065	\$ 10,687	
Straight-line rental revenue adjustments included in rental revenue	\$ 1,218	\$ (592)	N/A	\$ 3	\$ 629	
Amortization of deferred market rental revenue	\$ 120	\$ (76)	N/A	\$	\$ 44	
Number of operating properties included in component category	70	157	N/A		227	

(1) Includes 63 acquired properties and seven newly-constructed properties.

(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.

The analysis set forth in this section pertains to properties included in continuing operations.

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

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With regard to changes in the Same-Office Properties revenues from real estate operations:

- the increase in revenues from real estate operations for the Same-Office Properties included the following:
- an increase of \$1.4 million, or 2.3%, in rental revenue from the Same-Office Properties attributable primarily to changes in rental rates and occupancy between the two periods; and
- an increase of \$492,000, or 99.3%, 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 the increase in property operating expenses described below.

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

- an increase of \$1.3 million, or 28.1%, 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 \$1.2 million, or 165.1%, in snow removal due to increased snow and ice in our regions;
- an increase of \$452,000, or 11.2%, in real estate taxes reflecting primarily an increase in the assessed value of many of our properties; and
- an increase of \$292,000, or 32.1% in heating and air conditioning repairs and maintenance due to an increase in general repair activity and the commencement of new service contracts at certain properties.

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 March 31, 2007 and 2006		
	Construction Contract Dollar Change	Other Service Operations Dollar Change	Total Dollar Change
Service operations			
Revenues	\$ (5,853)	\$ (379)	\$ (6,232)
Expenses	(5,543)	(273)	(5,816)
Income from service operations	\$ (310)	\$ (106)	\$ (416)

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.

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Depreciation and amortization

Our increase in depreciation and other amortization expense was due primarily to a \$9.0 million increase attributable to the Property Additions, of which \$6.3 million was attributable to the Nottingham Acquisition. 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.

The change in depreciation and other amortization expense also included a \$1.1 million, or 6.3%, decrease attributable to the Same Office Properties due to unamortized costs expensed in the prior period in connection with lease terminations.

General and administrative expenses

The increase in general and administrative expenses included the following:

- a \$921,000, or 27.4%, increase in compensation expense due in large part to the increased number of employees in response to the continued growth of the Company, increased salaries and bonuses for existing employees and increased expense associated with share-based compensation due to an increase in the award values being amortized into expense;
- a \$298,000 increase in the write off of costs incurred on acquisition opportunities that we ultimately decided not to pursue; and
- an \$823,000, or 73.4%, decrease attributable to increased allocation of corporate overhead primarily to our service companies. The increased allocation of corporate overhead to our service companies was attributable primarily to our increased general and administrative expenses and the increase in the number of employees in our service companies in response to the continued growth of the Company.

Interest expense and amortization of deferred financing costs

The increase in interest expense and amortization of deferred financing costs included in continuing operations was due primarily to a 23.7% increase in our average outstanding debt balance, resulting primarily from our acquisition and construction activities, offset in part by the effects of: (1) a \$1.0 million, or 32.0%, 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 6.1% to 5.8%.

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 before 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.

As of March 31, 2007, we owned 96% of the outstanding preferred units and 84% 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;
- our issuance of common units to third parties totaling 181,097 in 2006;
- the redemption by us of the Series E and Series F Preferred Shares in 2006.

The decrease in income allocated to minority interest holders of common units included in income from continuing operations 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 84% at March 31, 2007).

Income from discontinued operations, net of minority interests

Our income from discontinued operations decreased due primarily to the sale of three properties in the prior period from which we recognized gain of \$2.4 million before allocation to minority interests.

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 \$22.0 million as of March 31, 2007, a 177.7% 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 on 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.

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Our cash flow from operations determined in accordance with GAAP increased \$5.6 million, or 19.1%, when comparing the three months ended March 31, 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

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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 Three Months Ended March 31, 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 \$366.8 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; and
- a \$2.0 million deposit previously paid.

We issued the Series K Preferred Shares in the Nottingham Acquisition at a value, 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.

At March 31, 2007, we had construction activities underway on nine office properties totaling 935,000 square feet that were 71.9% pre-leased, including 68,196 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 March 31, 2007 totaled approximately \$139.5 million, of which approximately \$29.8 million was incurred in the three months ended March 31, 2007. We have construction loan facilities in place totaling \$117.7 million to finance the construction of five of these properties; borrowings under these facilities totaled \$72.6 million at March 31, 2007, \$20.2 of which was borrowed in the three months ended March 31, 2007. The remaining costs incurred in the three months ended March 31, 2007 were funded using primarily borrowings from our Revolving Credit Facility and cash reserves.

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 three months ended March 31, 2007 (in thousands):

Acquisitions	\$ 320,867
Construction and development	47,108
Capital improvements on operating properties	6,164
Tenant improvements on operating properties	5,803 (1)
	\$ 379,942

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

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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 March 31, 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 \$168.9 million when comparing the three months ended March 31, 2007 and 2006. This increase was due primarily to the following:

- a \$149.7 million, or 391%, increase in purchases of and additions to commercial real estate due primarily to the completion of the Nottingham Acquisition;
- a \$28.2 million decrease in proceeds from sales of properties; and
- a \$13.6 million decrease in restricted cash associated with investing activities due primarily to the release of funds held in escrow relating to a property sale completed in 2006.

Our cash flow provided by financing activities increased \$168.0 million due primarily to a \$140.2 million, or 293%, increase in proceeds from mortgage and other loans payable driven mostly by the financing needs of the Nottingham Acquisition.

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 March 31, 2007

At March 31, 2007, we owned a 50% undivided interest in a 132 acre parcel of land that we believe can support future development of 1.75 million square feet of office space in Colorado Springs, Colorado. On April 6, 2007, we acquired the remaining 50% interest for approximately \$14.0 million. We issued 262,165 common units in our Operating Partnership valued at \$47.68 per unit in connection with this transaction.

Other Future Cash Requirements for Investing and Financing Activities

As of March 31, 2007, we were under contract to acquire the following:

- a parcel of land in Aberdeen, Maryland for \$10.0 million, of which we paid a deposit of \$100,000 in 2006; and
- 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.

We expect to fund these acquisitions and development costs using borrowings under our Revolving Credit Facility.

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As previously discussed, as of March 31, 2007, we had construction activities underway on nine office properties totaling 935,000 square feet that were 71.9% pre-leased (one of these properties is owned

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through a consolidated joint venture in which we have a 50% interest). We estimate remaining costs to be incurred will total approximately \$72.5 million upon completion of these properties; we expect to incur these costs primarily in 2007 and 2008. We have \$45.1 million remaining to be borrowed under construction loan facilities totaling \$117.7 million for five 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 March 31, 2007, we had development activities underway on 11 new office properties estimated to total 1.3 million square feet (we owned a 50% interest in two of these properties as of March 31, 2007). We estimate that costs for these properties will total approximately \$260.0 million. As of March 31, 2007, costs incurred on these properties totaled \$30.9 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 March 31, 2007, we had redevelopment activities underway on four properties totaling 740,000 square feet (two 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 \$44.1 million. We expect to fund most of these costs using borrowings under new construction loan facilities.

During the remainder of 2007 and beyond, we expect to 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.

The maximum principal amount on our Revolving Credit Facility is \$500.0 million, with a right to further increase the maximum principal amount in the future to \$600.0 million, subject to certain conditions. The borrowing capacity under this Revolving Credit Facility is generally computed based on 65% of the value of assets identified by us to support repayment of the loan. As of April 30, 2007, the borrowing capacity under the Revolving Credit Facility was \$500.0 million, of which \$202.0 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.

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Since FFO excludes certain items includable in net income, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non GAAP measures. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. 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 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.

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Our Basic FFO, Diluted FFO and Diluted FFO per share for the three months ended March 31, 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):

	For the Three Months Ended March 31,	
	2007	2006
Net income	\$ 5,547	\$ 9,937
Add: Real estate-related depreciation and amortization	26,300	19,068
Add: Depreciation and amortization on unconsolidated real estate entities	168	85
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(42)	(33)
Less: Gain on sales of real estate, excluding development portion (1)		(2,459)
Funds from operations (FFO)	31,973	26,598
Add: Minority interests-common units in the Operating Partnership	308	1,406
Less: Preferred share dividends	(3,993)	(3,654)
Funds from Operations - basic and diluted (Basic and Diluted FFO)	\$ 28,288	\$ 24,350
Weighted average common shares	45,678	39,668
Conversion of weighted average common units	8,411	8,520
Weighted average common shares/units - Basic FFO	54,089	48,188
Dilutive effect of share-based compensation awards	1,465	1,842
Weighted average common shares/units - Diluted FFO	55,554	50,030
Diluted FFO per common share	\$ 0.51	\$ 0.49
Numerator for diluted EPS	\$ 1,554	\$ 6,283
Add: Minority interests-common units in the Operating Partnership	308	1,406
Add: Real estate-related depreciation and amortization	26,300	19,068
Add: Depreciation and amortization on unconsolidated real estate entities	168	85
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(42)	(33)
Less: Gain on sales of real estate, excluding development portion (1)		(2,459)
Diluted FFO	\$ 28,288	\$ 24,350
Denominator for diluted EPS	47,143	41,510
Weighted average common units	8,411	8,520
Denominator for Diluted FFO per share	55,554	50,030

(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. 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.

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 March 31, 2007, 77.9% of our fixed-rate debt was scheduled to mature after 2008. As of March 31, 2007, 21.2% of our total debt had variable interest rates, including the effect of interest rate swaps. As of March 31, 2007, the percentage of variable-rate debt, including the effect of interest rate swaps, relative to total assets was 12.9%.

The following table sets forth our long-term debt obligations by scheduled maturity and weighted average interest rates at March 31, 2007 (dollars in thousands):

	For the Periods Ended December 31,							
	2007(2)	2008(3)	2009	2010	2011	Thereafter	Total	
Long term debt:								
Fixed rate (1)	\$ 74,215	\$ 157,660	\$ 62,745	\$ 74,141	\$ 109,930	\$ 771,714	\$ 1,250,405	
Average interest rate	5.58	% 5.42	% 5.25	% 5.17	% 5.09	% 4.31	% 4.81	%
Variable rate	\$ 146,435	\$ 317,504	\$	\$	\$	\$	\$ 463,939	
Average interest rate	6.31	% 6.66	%				6.31	%

(1) Represents scheduled principal maturities only and therefore excludes a net premium of \$839,000.

(2) Our loan maturities in 2007 include \$49.0 million that may be extended until 2008, subject to certain conditions, and \$159.2 million under various loans 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 \$317.5 million that may be extended until 2009, subject to certain conditions

The fair market value of our debt was \$1.72 billion at March 31, 2007. If interest rates on our fixed-rate debt had been 1% lower, the fair value of this debt would have increased by \$49.2 million at March 31, 2007.

The following table sets forth information pertaining to our derivative contracts in place as of March 31, 2007, and their respective fair values (dollars in thousands):

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at March 31, 2007
Interest rate swap	\$50,000	5.0360	% 3/28/2006	3/30/2009	\$(174)
Interest rate swap	25,000	5.2320	% 5/1/2006	5/1/2009	(191)
Interest rate swap	25,000	5.2320	% 5/1/2006	5/1/2009	(191)

Based on our variable-rate debt balances, our interest expense would have increased by \$705,000 in the three months ended March 31, 2007 if short-term interest rates were 1% higher.

Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures

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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 March 31, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2007 are 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

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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

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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

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- (a) During the three months ended March 31, 2007, 221,350 of the Operating Partnership's common units were exchanged for 221,350 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
10.1	Amended and Restated 1998 Long Term Incentive Plan (filed with the Company's Current Report on Form 8-K dated April 3, 2007 and incorporated herein by reference)
10.2	Twenty-Third Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 6, 2007 (filed with the Company's Current Report on Form 8-K dated April 12, 2007 and incorporated herein by reference).
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	

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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

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EXHIBIT

NO.	DESCRIPTION
	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.)

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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: May 10, 2007

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

Date: May 10, 2007

By: /s/ STEPHEN E. RIFFEE
Stephen E. Riffée
Executive Vice President and Chief
Financial Officer

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