

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

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Maryland

(State or other jurisdiction of
incorporation or organization)

23-2947217

(IRS Employer
Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia MD

(Address of principal executive offices)

21046

(Zip Code)

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

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

☒ Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

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

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

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

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

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands, except per share data)

(unaudited)

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

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

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 24,855	\$ 39,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	2,829	6,471
Depreciation and other amortization	80,660	59,993
Amortization of deferred financing costs	2,706	2,032
Amortization of deferred market rental revenue	(1,569)	(1,326)
Equity in loss of unconsolidated entities	197	40
Gain on sales of real estate	(4,199)	(17,990)
Gain on sale of non-real estate investment	(1,033)	
Share-based compensation	4,969	2,485
Changes in operating assets and liabilities:		
Increase in deferred rent receivable	(9,248)	(7,446)
Decrease (increase) in accounts receivable	5,687	(11,172)
Increase in restricted cash and prepaid and other assets	(10,217)	(136)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(3,847)	9,390
Increase in rents received in advance and security deposits	4,679	4,786