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CORPORATE OFFICE PROPERTIES TRUST

Form 8-K

September 05, 2001

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 Report (Date of earliest event reported): July 2, 2001

CORPORATE OFFICE PROPERTIES TRUST  
-----

(Exact name of registrant as specified in its charter)

MARYLAND -----	0-20047 -----	23-2947217 -----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

8815 CENTRE PARK DRIVE, SUITE 400  
COLUMBIA, MARYLAND 21045  
-----

(Address of principal executive offices)

(410) 730-9092  
-----

(Registrant's telephone number, including area code)

ITEM 5. OTHER EVENTS

AIRPORT SQUARE PROPERTIES

Through a series of transactions, the last occurring on August 3, 2001, Corporate Office Properties Trust (the "Company"), through affiliates of Corporate Office Properties, L.P. (the "Operating Partnership"), acquired six office buildings and a contiguous fitness center totaling approximately 412,000 square feet located in the Airport Square Business Park in Linthicum, Maryland

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(the "Airport Square Properties").

The Airport Square Properties were acquired for an aggregate cost of \$45.3 million, including transaction costs. The Company paid the purchase price and transaction costs using \$24.1 in borrowings under two mortgage loans payable, \$13.2 million in borrowings under its existing secured revolving credit facility with Deutsche Banc Alex. Brown and cash reserves for the balance.

The following schedule sets forth certain information relating to each of the buildings as of August 30, 2001:

Property Locations	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Percentage of Total Rental Revenue of Occupied Sq.Ft. (3)	Total Rental Revenue Occupied Square F
920 Elkridge Landing Rd.	1982	96,566	100.0%	\$ 1,346,798	21%	\$13.95
880 Elkridge Landing Rd.	1981	91,534	100.0%	1,533,195	25%	16.75
901 Elkridge Landing Rd.	1984	56,847	88.2%	752,158	12%	15.00
891 Elkridge Landing Rd.	1984	56,489	86.4%	877,341	14%	17.99
938 Elkridge Landing Rd.	1984	52,988	100.0%	913,248	14%	17.23
940 Elkridge Landing Rd.	1984	51,704	100.0%	777,432	12%	15.04
870 Elkridge Landing Rd.	1981	5,627	100.0%	105,738	2%	18.79
TOTAL/AVERAGE		----- 411,755 =====	96.5%	----- \$ 6,305,910 =====	100%	\$15.87

(1) This percentage is based on all leases in effect as of August 30, 2001.

(2) Total rental revenue is the monthly contractual base rent as of August 30, 2001 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.

(3) This percentage is based on the property's rental revenue to the total rental revenue of the Airport Square Properties.

(4) This represents the property's total rental revenue divided by its occupied square feet as of August 30, 2001.

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The following schedule sets forth annual lease expirations for the Airport Square Properties as of August 30, 2001 assuming that none of the tenants exercise renewal options:

Year of Lease Expiration(1)	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Total Rental Revenue of Expiring Leases (2)	Percent of Total Rental Revenue
-----					
(In thousands)					
8/31/01-12/31/01	1	5,921	1.5%	\$ 112	
2002	3	38,745	9.8%	660	
2003	4	15,320	3.9%	256	
2004	1	14,724	3.7%	281	
2005	2	73,121	18.4%	1,057	
2006	-	-	0.0%	-	
2007	1	96,566	24.3%	1,347	
2008	-	-	0.0%	-	
2009	1	8,431	2.1%	147	
2010	1	52,988	13.3%	913	
2011	1	91,534	23.0%	1,533	
	-	-----	-----	-----	
TOTAL/WEIGHTED	15	397,350	100.0%	\$ 6,306	
	==	=====	=====	=====	
AVERAGE					

(1) The two government leases within this portfolio are subject to certain early termination provisions which are customary to government leases.

The year of lease expiration was computed assuming such early termination rights will not be exercised.

(2) Total rental revenue is the monthly contractual base rent as of August 30, 2001 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.

### GATEWAY 63 PROPERTIES

On August 30, 2001, the Company, through the Operating Partnership, acquired four office buildings totaling approximately 187,000 square feet located in the Columbia Gateway Business Park in Columbia, Maryland (the "Gateway 63 Properties").

The Gateway 63 Properties were acquired for an aggregate cost of \$23.8 million, including transaction costs. The Company paid the purchase price and transaction costs by assuming a \$15.8 million mortgage loan payable, using \$4.3 million in borrowings under its existing secured revolving credit facility with Deutsche Banc Alex. Brown, issuing 310,342 common units in the Operating Partnership valued at \$3.3 million and using cash reserves for the balance.

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The following schedule sets forth certain information relating to each of the buildings as of August 30, 2001:

Property Locations	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Percentage of Total Rental Revenue of Occupied Sq.Ft. (3)	Total Rental Revenue of Occupied Sq.Ft. (3)
7067 Columbia Gateway Dr.	2000	82,032	100.0%	\$1,148,448	39%	\$14.00 Cor
7065 Columbia Gateway Dr.	2000	38,560	100.0%	612,718	21%	15.89 Cor
7063 Columbia Gateway Dr.	2000	36,936	100.0%	575,832	19%	15.59 Cor
7061 Columbia Gateway Dr.	2000	29,604	100.0%	636,486	21%	21.50 Man Vis
TOTAL/AVERAGE		187,132	100.0%	\$2,973,484	100%	\$15.89

- (1) This percentage is based on all leases in effect as of August 30, 2001.
- (2) Total rental revenue is the monthly contractual base rent as of August 30, 2001 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.
- (3) This percentage is based on the property's rental revenue to the total rental revenue of the Gateway 63 Properties.
- (4) This represents the property's total rental revenue divided by the respective property's occupied square feet as of August 30, 2001.

The following schedule sets forth annual lease expirations as of August 30, 2001 for the Gateway 63 Properties assuming that none of the tenants exercise renewal options:

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Total Rental Revenue of Expiring Leases (1)	Percentage of Total Rental Revenue Expiring (1)
(in thousands)					

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8/31/01 - 12/31/01	-	-	0.0%	\$ -	0.0%
2002	-	-	0.0%	-	0.0%
2003	-	-	0.0%	-	0.0%
2004	-	-	0.0%	-	0.0%
2005	2	29,604	15.8%	636	21.4%
2006	-	-	0.0%	-	0.0%
2007	-	-	0.0%	-	0.0%
2008	-	-	0.0%	-	0.0%
2009	-	-	0.0%	-	0.0%
2010	2	75,496	40.3%	1,189	40.0%
2011	1	82,032	43.9%	1,148	38.6%
		-----	-----	-----	-----
TOTAL/WEIGHTED AVERAGE	5 =	187,132 =====	100.0% =====	\$2,973 =====	100.0% =====

(1) Total rental revenue is the monthly contractual base rent as of August 30, 2001 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Businesses Acquired

The financial statements of the Airport Square Properties and the Gateway 63 Properties are included herein. See pages F-14 through F-23.

(b) Pro Forma Financial Information

The pro forma condensed consolidating financial statements of the Company are included herein. See pages F-1 through F-13.

(c) Exhibits

EXHIBIT NUMBER

DESCRIPTION

99.1	Purchase and Sale Agreement, dated February 28, 2001, between Aetna Life Insurance Company and COPT Acquisitions, Inc.
99.2	Contribution Agreement, dated June 1, 2001,

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between RA & DM, Inc., Manekin Investment Associates 3 LLC and Corporate Office Properties, L.P.

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Computation of ratio of earnings to combined fixed charges and Preferred Share dividends.

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SIGNATURES

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

Dated: September 5, 2001

CORPORATE OFFICE PROPERTIES TRUST

By: /s/ Randall M. Griffin  
-----  
Name: Randall M. Griffin  
Title: President and Chief Operating Officer

By: /s/ Roger A. Waesche, Jr.  
-----  
Name: Roger A. Waesche, Jr.  
Title: Chief Financial Officer

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CORPORATE OFFICE PROPERTIES TRUST  
INDEX TO FINANCIAL STATEMENTS

- I. PRO FORMA CONDENSED CONSOLIDATING FINANCIAL STATEMENTS OF THE COMPANY
- Pro Forma Condensed Consolidating Balance Sheet  
as of June 30, 2001 (unaudited)
- Pro Forma Condensed Consolidating Statement of Operations for the Year  
Ended December 31, 2000 (unaudited)
- Pro Forma Condensed Consolidating Statement of Operations for the  
Six Month Period Ended June 30, 2001 (unaudited)

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Notes and Management's Assumptions to Pro Forma Condensed  
Consolidating Financial Information

### II. AIRPORT SQUARE PROPERTIES

Report of Independent Accountants

Statement of Revenue and Certain Expenses  
for the Year Ended December 31, 2000

Statement of Revenue and Certain Expenses  
for the Six Months Ended June 30, 2001

Notes to Financial Statements

### III. GATEWAY 63 PROPERTIES

Report of Independent Accountants

Statement of Revenue and Certain Expenses  
for the Year Ended December 31, 2000

Statement of Revenue and Certain Expenses  
for the Six Months Ended June 30, 2001

Notes to Financial Statements

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#### CORPORATE OFFICE PROPERTIES TRUST PRO FORMA CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Set forth below are the unaudited pro forma condensed consolidating balance sheet as of June 30, 2001, and the unaudited pro forma condensed consolidating statements of operations for the year ended December 31, 2000 and the six month period ended June 30, 2001, of Corporate Office Properties Trust and its consolidated affiliates, including Corporate Office Properties, L.P. (the "Operating Partnership"). Corporate Office Properties Trust and its consolidated affiliates, including the Operating Partnership, are collectively referred to herein as the "Company."

The pro forma condensed consolidating financial information is presented as if the following transactions had been consummated on the earlier of the actual date of consummation or June 30, 2001, for balance sheet purposes, and at January 1, 2000, for purposes of the statements of operations:

#### 2000 TRANSACTIONS:

- o The acquisition of an office building on April 18, 2000 ("7240 Parkway Drive") for \$7,464,000 using \$7,285,000 in proceeds from our Revolving Credit Facility with Deutsche Banc Alex. Brown (the "Revolving Credit Facility") and cash reserves for the balance.

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- o The disposition of a retail property on June 19, 2000 ("Minot Retail") for \$2,970,000 of which \$2,432,000 was used to pay off a mortgage loan payable on the property and the balance applied to cash reserves.
- o The disposition of a retail property on November 10, 2000 ("Tred Avon") for \$5,800,000 of which \$2,756,000 was used to pay off a mortgage loan payable on the property, \$2,000,000 to pay down our Revolving Credit Facility and the balance applied to cash reserves.
- o The disposition of an office building on December 28, 2000 ("3 Center Drive") for \$2,790,000 of which \$1,755,000 was used to pay off a mortgage loan payable on the property and the balance applied to cash reserves.

The above transactions are collectively referred to herein as the "2000 Transactions."

### 2001 TRANSACTIONS:

- o On January 1, 2001, we acquired all of the stock in Corporate Office Management, Inc. ("COMI") that we did not previously own for \$26,000. We accounted for this acquisition using the purchase method of accounting. Prior to January 1, 2001, we accounted for our investment in COMI and its subsidiaries using the equity method of accounting. Since we own all of the voting interests in COMI and control its operations effective January 1, 2001, we began consolidating the accounts of COMI and its subsidiaries with our accounts on that date.
- o The acquisition of two office buildings in Columbia, Maryland on May 14, 2001 (the "State Farm Properties") for \$13,245,000 using \$12,915,000 in proceeds from our Revolving Credit Facility and cash reserves for the balance.
- o The disposition of an office building located in Cranbury, New Jersey on June 18, 2001 ("19 Commerce Drive") for \$11,525,000 of which \$7,000,000 was used to pay off a mortgage loan

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payable on the property, \$728,000 to pay other settlement and sales costs and the balance applied to cash reserves.

- o The acquisition of six office buildings in Linthicum, Maryland during 2001 (the "Airport Square Properties") for \$45,301,000, including \$3,551,000 already reflected in the June 30, 2001 historical balances, using \$24,077,000 in proceeds from two mortgage loans payable, \$13,200,000 in proceeds from our Revolving Credit Facility, \$3,965,000 in proceeds from the sale of 19 Commerce Drive and cash reserves for the balance.
- o The acquisition of four office buildings in Columbia, Maryland on August 30, 2001 (the "Gateway 63 Properties") for \$23,835,000 using \$15,750,000 in proceeds from an assumed mortgage payable, \$4,295,000 in proceeds from our Revolving Credit Facility, issuing 310,342 common units in our Operating Partnership valued at \$3,259,000 to the seller and cash reserves for the balance.
- o The issuance of 544,000 Series D Cumulative Convertible Redeemable Preferred Shares of beneficial interest ("Series D Preferred Shares") on January 25, 2001 for net proceeds of \$11,893,000, \$8,245,000 of which was used to pay down the Revolving Credit Facility.



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- o The issuance of 1,150,000 Series E Cumulative Redeemable Preferred Shares of beneficial interest ("Series E Preferred Shares") on April 6, 2001 for net proceeds of \$26,950,000, all of which was used to pay down the Revolving Credit Facility.
- o The issuance of 1,000,000 Series F Cumulative Redeemable Preferred Shares of beneficial interest ("Series F Preferred Shares") expected to occur in September 2001 for net proceeds of \$23,747,000, all of which is expected to be used to pay down the Revolving Credit Facility.

The above transactions are collectively referred to herein as the "2001 Transactions."

This pro forma condensed consolidating financial information should be read in conjunction with the historical financial statements of the Company and those of the Airport Square Properties and the Gateway 63 Properties. In management's opinion, all adjustments necessary to reflect the effects of the above transactions have been made. This pro forma condensed consolidating financial information is unaudited and is not necessarily indicative of what the Company's actual financial position would have been at June 30, 2001, nor does it purport to represent the future financial position and results of operations of the Company.

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CORPORATE OFFICE PROPERTIES TRUST  
 PRO FORMA CONDENSED CONSOLIDATING BALANCE SHEET  
 AS OF JUNE 30, 2001  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Historical Consolidated (A)	Airport Square Properties (B)	Gateway 63 Properties (C)	Preferre Offe (D)
<b>ASSETS</b>				
Net investments in real estate	\$ 792,000	\$ 41,750	\$ 23,835	\$
Cash and cash equivalents	2,962	(508)	(531)	
Other assets	53,845	(3,965)	-	
	-----	-----	-----	-----
Total assets	\$ 848,807	\$ 37,277	\$ 23,304	\$
	=====	=====	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Mortgage loans payable	\$ 475,999	\$ 37,277	\$ 20,045	\$ (2
Other liabilities	38,171	-	-	
	-----	-----	-----	-----
Total liabilities	514,170	37,277	20,045	(2
	-----	-----	-----	-----

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Minority interests	103,491	-	2,847	
	-----	-----	-----	-----
Shareholders' equity				
Preferred shares of beneficial interest	29	-	-	
Common shares of beneficial interest	207	-	-	
Additional paid-in capital	249,618	-	412	
Other	(18,708)	-	-	
	-----	-----	-----	-----
Total shareholders' equity	231,146	-	412	
	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$ 848,807	\$ 37,277	\$ 23,304	\$
	=====	=====	=====	=====

See accompanying notes and management's assumptions to pro forma financial statements.

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CORPORATE OFFICE PROPERTIES TRUST  
PRO FORMA CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2000  
(UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Historical Consolidated (A)	2000 Transactions (B)	COMI (C)	State Farm Properties (D)	19 Commerce Drive (E)	Air Squ Prope (
<b>REVENUES:</b>						
Rental revenue	\$ 93,309	\$ (638)	\$ -	\$ 1,698	\$ (1,401)	\$
Tenant recoveries and other revenue	15,684	(232)	-	558	(27)	
Service operation revenue	-	-	4,040	-	-	
	-----	-----	-----	-----	-----	-----
Total revenues	108,993	(870)	4,040	2,256	(1,428)	
	-----	-----	-----	-----	-----	-----
<b>EXPENSES:</b>						
Property operating General and administrative	31,235	(189)	-	898	(413)	
Interest	4,867	(5)	-	-	-	
Depreciation and Amortization	30,454	-	-	-	-	
Service operation expenses	18,359	-	-	-	-	
	-	-	4,254	-	-	

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	-----	-----	-----	-----	-----	-----
Total expenses	84,915	(194)	4,254	898	(413)	
	-----	-----	-----	-----	-----	-----
Gain (loss) on sale of Properties	107	(107)	-	-	-	
Equity in loss of unconsolidated subsidiary	(310)	-	-	-	-	
	-----	-----	-----	-----	-----	-----
Income (loss) before minority interests and income taxes	23,875	(783)	(214)	1,358	(1,015)	
Minority interests						
Preferred Units	(2,240)	-	-	-	-	
Other partnerships	(26)	-	(51)	-	-	
Common Units	(6,322)	-	-	-	-	
	-----	-----	-----	-----	-----	-----
Net income (loss) from continuing operations before income taxes	15,287	(783)	(265)	1,358	(1,015)	
Income taxes	-	-	(61)	-	-	
	-----	-----	-----	-----	-----	-----
Net income (loss) from continuing operations	15,287	(783)	(326)	1,358	(1,015)	
Preferred share dividends	(3,802)	-	-	-	-	
	-----	-----	-----	-----	-----	-----
Net income (loss) from continuing operations available to Common Shareholders	\$ 11,485	\$ (783)	\$ (326)	\$ 1,358	\$ (1,015)	\$
	=====	=====	=====	=====	=====	=====
Earnings per share: Basic	\$ 0.61					
	=====					
Earnings per share: Diluted	\$ 0.60					
	=====					
Weighted average number of shares: Basic	18,818					
	=====					
Diluted	19,213					
	=====					

	Preferred Offerings (H)	Pro Forma Adjustments	Pro Forma Consolidated
REVENUES:			
Rental revenue	\$ -	\$ -	\$ 98,720
Tenant recoveries and other revenue	-	(217) (I)	16,223
Service operation revenue	-	-	4,040
	-----	-----	-----

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Total revenues	-	(217)	118,983
	-----	-----	-----
EXPENSES:			
Property operating	-	-	33,484
General and			
administrative	-	-	4,862
Interest	(4,805)	3,792 (J)	29,441
Depreciation and			
Amortization	-	1,380 (K)	19,739
Service operation			
expenses	-	(217) (I)	4,037
	-----	-----	-----
Total expenses	(4,805)	4,955	91,563
	-----	-----	-----
Gain (loss) on sale of			
Properties	-	-	-
Equity in loss of			
unconsolidated			
subsidiary	-	310 (L)	-
	-----	-----	-----
Income (loss) before			
minority interests			
and income taxes	4,805	(4,862)	27,420
Minority interests			
Preferred Units	-	(48) (M)	(2,288)
Other partnerships	-	-	(77)
Common Units	-	934 (N)	(5,388)
	-----	-----	-----
Net income (loss)			
from continuing			
operations before income			
taxes	4,805	(3,976)	19,667
Income taxes	-	-	(61)
	-----	-----	-----
Net income (loss) from			
continuing operations	4,805	(3,976)	19,606
Preferred share dividends	(5,991)	-	(9,793)
	-----	-----	-----
Net income (loss) from			
continuing operations			
available to Common			
Shareholders	\$ (1,186)	\$ (3,976)	\$ 9,813
	=====	=====	=====
Earnings per share: Basic			\$ 0.52
			=====
Earnings per share: Diluted			\$ 0.51
			=====
Weighted average number			
of shares: Basic			18,818
			=====
Diluted			20,410
			=====

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See accompanying notes and management's assumptions to pro forma financial statements.

CORPORATE OFFICE PROPERTIES TRUST  
 PRO FORMA CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2001  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Historical Consolidated (A)	State Farm Properties (D)	19 Commerce Drive (E)	Air Squ Prope (
<b>REVENUES:</b>				
Rental revenue	\$ 51,579	\$ 611	\$ (779)	\$
Tenant recoveries and other revenue	7,033	(50)	(4)	
Service operation revenues	2,176	-	-	
	-----	-----	-----	-----
Total revenues	60,788	561	(783)	
	-----	-----	-----	-----
<b>EXPENSES:</b>				
Property operating	17,024	322	(204)	
General and administrative	2,775	-	-	
Interest	15,956	-	-	
Depreciation and amortization	10,786	-	-	
Service operation expenses	2,244	-	-	
	-----	-----	-----	-----
Total expenses	48,785	322	(204)	
	-----	-----	-----	-----
Gain (loss) on sale of properties	1,596	-	(1,596)	
Equity in income of unconsolidated subsidiaries	36	-	-	
	-----	-----	-----	-----
Income (loss) before minority interests and income taxes	13,635	239	(2,175)	
Minority interests				
Preferred Units	(1,144)	-	-	
Other partnerships	(54)	-	-	
Common Units	(3,372)	-	-	
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes	9,065	239	(2,175)	
Income tax benefit	52	-	-	
	-----	-----	-----	-----
Net income (loss) from continuing operations	9,117	239	(2,175)	
Preferred share dividends	(2,494)	-	-	

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Net income (loss) from continuing operations available to Common Shareholders	\$ 6,623	\$ 239	\$ (2,175)	\$
Earnings per share: Basic	\$ 0.33			
Earnings per share: Diluted	\$ 0.32			
Weighted average number of shares:				
Basic	20,034			
Diluted	21,359			

	Preferred Offerings (H)	Pro Forma Adjustments	Total
<b>REVENUES:</b>			
Rental revenue	\$ -	\$ -	\$ 56,096
Tenant recoveries and other revenue	-	-	7,410
Service operation revenues	-	-	2,176
Total revenues	-	-	65,682
<b>EXPENSES:</b>			
Property operating	-	-	18,329
General and administrative	-	-	2,775
Interest	(1,381)	2,202 (J)	16,777
Depreciation and amortization	-	612 (K)	11,398
Service operation expenses	-	-	2,244
Total expenses	(1,381)	2,814	51,523
Gain (loss) on sale of properties	-	-	-
Equity in income of unconsolidated subsidiaries	-	(133) (O)	(97)
Income (loss) before minority interests and income taxes	1,381	(2,947)	14,062
Minority interests			
Preferred Units	-	-	(1,144)
Other partnerships	-	-	(54)
Common Units	-	576 (N)	(2,796)
Income (loss) from continuing operations before income taxes	1,381	(2,371)	10,068
Income tax benefit	-	-	52
Net income (loss) from continuing operations	1,381	(2,371)	10,120
Preferred share distributions	(2,064)	-	(4,558)

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Net income (loss) from continuing operations available to Common Shareholders	\$ (683)	\$ (2,371)	\$ 5,562
Earnings per share: Basic			\$ 0.28
Earnings per share: Diluted			\$ 0.27
Weighted average number of shares:			
Basic			20,034
Diluted			21,518

See accompanying notes and management's assumptions to pro forma financial statements.

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CORPORATE OFFICE PROPERTIES TRUST  
NOTES AND MANAGEMENT'S ASSUMPTIONS TO  
PRO FORMA CONDENSED CONSOLIDATING  
FINANCIAL INFORMATION  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION:

Corporate Office Properties Trust (the "Company") is a self-administered Maryland real estate investment trust. As of June 30, 2001, the Company's portfolio included 91 properties, including six owned through joint ventures.

These pro forma condensed consolidating financial statements should be read in conjunction with the historical financial statements and notes thereto of the Company, the Airport Square Properties and the Gateway 63 Properties. In management's opinion, all adjustments necessary to reflect the effects of the 2000 Transactions and the 2001 Transactions have been made. This pro forma condensed consolidating financial information is unaudited and is not necessarily indicative of what the Company's actual financial position would have been at June 30, 2001, nor does it purport to represent the future financial position and results of operations of the Company.

2. ADJUSTMENTS TO PRO FORMA CONDENSED CONSOLIDATING BALANCE SHEET:

- (A) Reflects the historical consolidated balance sheet of the Company as of June 30, 2001.
- (B) Reflects the acquisition of the Airport Square Properties from

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unrelated parties using: (i) \$24,077 in proceeds from two mortgage loans payable; (ii) \$13,200 in proceeds from our Revolving Credit Facility; (iii) \$3,965 in proceeds from the sale of 19 Commerce Drive; and (iv) \$508 in cash payments.

- (C) Reflects the acquisition of the Gateway 63 Properties from an unrelated party using: (i) a \$15,750 mortgage loan payable assumed; (ii) \$4,295 in loan proceeds from our Revolving Credit Facility; (iii) issuing 310,342 common units in our operating partnership valued at \$3,259; and (iv) \$531 in cash payments. This transaction also resulted in a \$412 increase to paid-in capital and a corresponding decrease to minority interests resulting from the change in ownership of our Operating Partnership.
- (D) Reflects the issuance of 1,000,000 Series F Preferred Shares expected to occur in September 2001 for net proceeds of \$23,747, all of which is expected to be used to pay down the Revolving Credit Facility.

3. ADJUSTMENTS TO PRO FORMA CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS:

- (A) Reflects the historical consolidated operations of the Company.

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- (B) The pro forma adjustments associated with the 2000 Transactions are set forth in the table below.

	7240 Parkway Drive (i)	Minot Retail (ii)	Tred Avon (iii)	3 Center Drive (iv)	T
<b>Revenues</b>					
Rental income	\$ 361	\$ (149)	\$ (600)	\$ (250)	\$
Tenant recoveries and other revenue	4	-	(145)	(91)	
Total revenues	365	(149)	(745)	(341)	
<b>Expenses</b>					
Property operating	116	(2)	(215)	(88)	
General and administrative	-	(1)	(4)	-	
Interest	-	-	-	-	
Depreciation and amortization	-	-	-	-	
Total expenses	116	(3)	(219)	(88)	
Gain (loss) on sale of properties	-	(57)	94	(144)	
Income (loss) before minority interests and income taxes	\$ 249	\$ (203)	\$ (432)	\$ (397)	\$



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- (i) Reflects the effects of the historical operations of 7240 Parkway Drive prior to its acquisition on April 18, 2000.
  - (ii) Reflects the effects of the historical operations of Minot Retail prior to its disposition on June 19, 2000.
  - (iii) Reflects the effects of the historical operations of Tred Avon prior to its disposition on November 10, 2000.
  - (iv) Reflects the effects of the historical operations of 3 Center Drive prior to its disposition on December 28, 2000.
- (C) Reflects the effects of the historical operations of COMI and its subsidiaries, net of relevant elimination entries, prior to our purchase of the interests that we did not previously own on January 1, 2001.
- (D) Reflects the effects of the historical operations of the State Farm Properties prior to their acquisition on May 14, 2001.
- (E) Reflects the effects of the historical operations of 19 Commerce Drive prior to its disposition on June 18, 2001.
- (F) Reflects the effects of the historical operations of the Airport Square Properties for the periods presented.
- (G) Reflects the effects of the historical operations of the Gateway 63 Properties for the periods presented.

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- (H) Reflects the effects of the issuance of the Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares as if such issuances and the resulting repayments of debt occurred at the beginning of the respective reporting periods.

FOR THE YEAR  
ENDED  
DECEMBER 31,  
2000  
----

INTEREST EXPENSE:

Series D Preferred Share issuance - \$8,245 of proceeds used to pay down the Revolving Credit Facility, bearing interest on the outstanding balance at LIBOR plus 175 basis points, assuming a LIBOR rate of 6.4% per annum for 2000 and 5.34% per annum for the six months ended June 30, 2001. \$ (672)

Series E Preferred Share issuance - \$26,950 of the proceeds used to pay down the Revolving Credit Facility, bearing interest on the outstanding balance at LIBOR plus 175 basis points, assuming

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a LIBOR rate of 6.4% per annum for 2000 and 5.34% per annum for the six months ended June 30, 2001.	(2,199)
Series F Preferred Share issuance - \$23,747 of the proceeds used to pay down the Revolving Credit Facility, bearing interest on the outstanding balance at LIBOR plus 175 basis points, assuming a LIBOR rate of 6.4% per annum for 2000 and 5.34% per annum for the six months ended June 30, 2001.	(1,934)
	-----
Total	\$ (4,805)
	=====

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PREFERRED SHARE DIVIDENDS:

Series D Preferred Share issuance - 544,000 shares issued with an aggregate liquidation preference of \$13,600, paying dividends at a yearly rate of 4% of such liquidation preference.	\$ 544
Series E Preferred Share issuance- 1,150,000 shares issued with an aggregate liquidation preference of \$28,750, paying dividends at a yearly rate of 10.25% of such liquidation preference.	2,947
Series F Preferred Share issuance- 1,000,000 shares issued with an aggregate liquidation preference of \$25,000, paying dividends at a yearly rate of 10% of such liquidation preference.	2,500
	-----
Total	\$ 5,991
	=====

- (I) Adjustment to reverse interest income recognized by the Company from COMI and the associated expense recognized by COMI due to COMI being a consolidated subsidiary effective January 1, 2001.
- (J) Pro forma adjustments are reflected below for additional interest expense resulting from acquisitions activity. Pro forma adjustments are also reflected below for decreases in historical interest expense resulting from property dispositions. Pro forma adjustments below associated with our Revolving Credit Facility, which bears interest at LIBOR plus 175 basis points, assumes a LIBOR rate of 6.4% per annum for the year ended December 31, 2000 and 5.34% per annum for the six months ended June 30, 2001.

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ADJUSTMENT TO INTEREST EXPENSE, NET OF RELATED HISTORICAL AMOUNTS, AS A RESULT OF: -----	FOR THE YEAR ENDED DECEMBER 31,  2000 -----
Proceeds borrowed under the Revolving Credit Facility of \$7,285 in connection with the acquisition of 7240 Parkway Drive.	\$ 175
Debt repaid in connection with the sale of Minot Retail in the amount of \$2,432, bearing interest at 8% per annum.	(93)
Debt repaid in connection with the sale of Tred Avon consisting of: (i) \$2,756 mortgage loan payable on the property with an interest rate of LIBOR plus 1.75% and (ii) \$2,000 under the Revolving Credit Facility.	(335)
F-10	
Debt repaid under the Revolving Credit Facility in connection with the sale of 3 Center Drive in the amount of \$1,755.	(142)
Proceeds borrowed under the Revolving Credit Facility of \$12,915 in connection with the acquisition of the State Farm Properties.	1,051
Debt repaid in connection with the sale of 19 Commerce Drive consisting of: (i) a \$7,000 mortgage loan payable on the property with an interest rate of LIBOR plus 1.75% and (ii) \$4,550 on the Revolving Credit Facility.	(382)
Proceeds from debt in connection with the acquisition of the Airport Square Properties consisting of: (i) \$16,215 borrowed under a mortgage loan payable bearing interest at LIBOR plus 1.75 basis points; (ii) \$13,200 borrowed under the Revolving Credit Facility; and (iii) \$7,862 borrowed under a mortgage loan payable bearing interest at 7.18% per annum.	2,961
Proceeds from debt in connection with the acquisition of the Gateway 63 Properties consisting of: (i) \$15,750 mortgage loan payable assumed bearing interest at the Prime rate; and (ii) \$4,295 borrowed under the Revolving Credit Facility.	557
	----- \$ 3,792 -----

(K) Pro forma depreciation expense adjustments are reflected on acquisitions based on a useful life of 40 years on the portion of the acquisition attributable to the building. Pro forma amortization expense adjustments are reflected assuming pro forma deferred financing fees are amortized over the life of the related loans. Pro forma

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depreciation and amortization expense adjustments on dispositions are reflected based on historical amounts.

ADJUSTMENT TO DEPRECIATION AND AMORTIZATION EXPENSE, NET OF RELATED HISTORICAL AMOUNTS, AS A RESULT OF: -----	FOR THE YEAR ENDED DECEMBER 31, 2000 ----
DEPRECIATION EXPENSE:	
7240 Parkway Drive	\$          44
Minot Retail	(31)
Tred Avon	(105)
3 Center Drive	(51)
F-11	
State Farm Properties	132
19 Commerce Drive	(158)
Airport Square Properties	905
Gateway 63 Properties	471
AMORTIZATION OF DEFERRED FINANCING FEES RELATED TO:	
Minot Retail	(1)
Tred Avon	(31)
19 Commerce Drive	-
Airport Square Properties	205
	-----
	\$          1,380
	=====

- (L) Adjustment to reverse income recorded for the Operating Partnership's investment in COMI under the equity method of accounting during 2000.
- (M) Adjustment for distributions on additional Preferred Units issued in connection with a 1999 property acquisition.
- (N) Adjustment for minority interests' share of pro forma adjustments made to the Operating Partnership.

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(0) Adjustment to reverse income recorded for our investment in certain of the Airport Square Properties under the equity method of accounting during 2001.

### 4. ESTIMATED TWELVE-MONTH PRO FORMA STATEMENT OF TAXABLE NET OPERATING INCOME AND OPERATING FUNDS AVAILABLE

The following unaudited statement is a pro forma estimate for a twelve-month period of taxable income and operating funds available for the Company. The unaudited pro forma statement is based on the Company's historical operating results for the year ended December 31, 2000 adjusted as if the following transactions had occurred on January 1, 2000: (i) the acquisition of 7240 Parkway Drive, (ii) the acquisition of the State Farm Properties, (iii) the acquisition of the Airport Properties as reported herein, and (iv) the acquisition of the Gateway 63 Properties as reported herein.

This estimated twelve-month pro forma statement of taxable net operating income and operating funds available is based upon the historical results of operations of the Company for the year ended December 31, 2000. This information should be read in conjunction with the proforma condensed balance sheet and the pro forma condensed statement of operations of the Company set forth elsewhere herein and the historical financial statements and notes thereto of the Company included in the Corporate Office Properties Trust Form 10-K for the year ended December 31, 2000, the Airport Square Properties Statement of Revenue and Certain Expenses and the Gateway 63 Properties Statement of Revenue and Certain Expenses included in their Form 8-K.

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#### Estimate of Taxable Net Operating Income

-----

Historical earnings from operations, exclusive of depreciation and amortization and Preferred Share dividends (1)	\$ 33,646
Historical earnings from operations, exclusive of depreciation and amortization (2)	
7240 Parkway Drive	46
State Farm Properties	192
Airport Square Properties	226
Gateway 63 Properties	236
Estimated tax basis depreciation and amortization (3)	
Historical tax basis depreciation and amortization	(16,671)
7240 Parkway Drive	(45)
State Farm Properties	(136)
Airport Square Properties	(929)
Gateway 63 Properties	(483)
Other historical tax adjustments	(3,365)
	-----
Pro Forma taxable operating income before dividends deduction	12,717
Dividends deduction (4)	(18,917)
	-----
Excess of dividends over pro forma taxable operating income	\$ (6,200)
	=====

Estimate of Pro Forma Operating Funds Available (5)

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Pro Forma taxable operating income before dividends deduction	\$ 12,717
Add pro forma tax basis depreciation and amortization	18,264
	-----
Estimate of pro forma operating funds available	\$ 30,981
	=====

(1) The historical earnings from operations represents the Company's net income from continuing operations as adjusted for depreciation and amortization for the year ended December 31, 2000 reflected in the historical financial statements.

(2) The historical earnings from operations represents the pro forma results of 7240 Parkway Drive, the State Farm Properties, the Airport Square Properties and the Gateway 63 Properties reported net of related interest and minority interest expense.

(3) The estimated tax basis depreciation reported is based upon the historic gross depreciation and amortization as reported in income tax returns filed by the Company and its consolidated subsidiaries. Adjustments are provided for 7240 Parkway Drive, the State Farm Properties, the Airport Square Properties and the Gateway 63 Properties based upon the original purchase price allocated to the buildings, depreciated on a straight-line basis over 39 year lives.

(4) The dividends deduction is based on the historical dividends reported for the year ended December 31, 2000.

(5) Operating funds available does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

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### REPORT OF INDEPENDENT ACCOUNTANTS

To Airport Square Properties

We have audited the accompanying statement of revenue and certain expenses of the Airport Square Properties (the "Properties") as described in Note 1 for the year ended December 31, 2000. This historical statement is the responsibility of the Properties' management; our responsibility is to express an opinion on this historical statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the historical statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the historical statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the historical statement. We believe that our audit provides a reasonable basis for our opinion.

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The accompanying historical statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion on Form 8-K of Corporate Office Properties Trust as described in Note 2, and is not intended to be a complete presentation of the Properties' revenue and expenses.

In our opinion, the historical statement referred to above presents fairly, in all material respects, the revenue and certain expenses described in Note 2, of the Airport Square Properties for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
September 4, 2001

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### AIRPORT SQUARE PROPERTIES STATEMENT OF REVENUE AND CERTAIN EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2000

-----

Revenue	
Base rents	\$4,748,064
Tenant reimbursements	373,916
	-----
Total revenue	5,121,980
	-----
Certain expenses	
Property operating expenses	
Utilities	451,701
Property taxes	304,472
Cleaning	198,765
Management fees	139,962
Other operating expenses	178,496
	-----
Total property operating	1,273,396
Repairs and maintenance	526,731
	-----
Total certain expenses	1,800,127
	-----
Revenues in excess of certain expenses	\$3,321,853
	=====

The accompanying notes are an integral part of these financial statements.

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AIRPORT SQUARE PROPERTIES  
STATEMENT OF REVENUE AND CERTAIN EXPENSES  
FOR THE SIX MONTHS ENDED JUNE 30, 2001 (UNAUDITED)

---

Revenue	
Base rents	\$3,101,017
Tenant reimbursements	235,226
	-----
Total revenue	3,336,243
	-----
Certain expenses	
Property operating expenses	
Utilities	209,835
Property taxes	173,083
Cleaning	118,233
Management fees	78,616
Other operating expenses	111,058
	-----
Total property operating	690,825
Repairs and maintenance	243,828
	-----
Total certain expenses	934,653
	-----
Revenues in excess of certain expenses	\$2,401,590
	=====

The accompanying notes are an integral part of these financial statements.

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AIRPORT SQUARE PROPERTIES  
NOTES TO FINANCIAL STATEMENTS

---

1. BUSINESS

The accompanying statement of revenue and certain expenses relates to the operations of Airport Square Properties (the "Properties"), consisting of the revenue and certain expenses of six buildings totaling 411,755 square feet located in Linthicum, Maryland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying combined statement of revenue and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission in contemplation of Corporate Office Properties Trust acquiring the Properties. The statement is not representative of the actual operations of the Properties for the period presented nor indicative of future operations as certain expenses, primarily depreciation, amortization, and interest expense, which may not be comparable to the expenses expected to be incurred by Corporate Office Properties Trust in future operations of the Properties, have been excluded.



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### REVENUE AND EXPENSE RECOGNITION

Revenue is recognized on a straight-line basis over the terms of the relate lease. Expenses are recognized in the period in which they are incurred.

### USED OF ESTIMATES

The preparation of this historical statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

### MAJOR TENANTS

During 2000, 56% of the Properties' total rental revenue was earned from 3 major tenants, each of which amounted to over 10% of total rental revenue. Rental revenue earned from these 3 tenants for the year ended December 31, 2000 was approximately \$1,420,000, \$730,000 and \$508,000, respectively.

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### AIRPORT SQUARE PROPERTIES NOTES TO FINANCIAL STATEMENTS

---

#### 3. RENTALS

The Properties have entered into non-cancelable tenant leases, with expiration dates ranging from January 2000 to April 2011. Such leases provide that tenants will share in operating expenses and real estate taxes on a pro rata basis, as defined in the leases. Future minimum rentals as of December 31, 2000, to be received under these tenant leases are as follows:

2001	\$ 5,535,544
2002	5,305,256
2003	4,645,510
2004	4,595,415
2005	3,396,884
Thereafter	11,627,620
	-----
	\$35,106,229
	=====

Amounts in this schedule of future minimum rentals includes \$622,500 of future rents associated with a tenant that declared bankruptcy subsequent to the year ended December 31, 2000.

#### 4. UNAUDITED INTERIM STATEMENT

The statement of revenue and certain expenses for the six months ended June 30, 2001 is unaudited. As a result, this interim statement should be read in conjunction with the statement and notes included in the December 31, 2000 statement of revenue and certain expenses. The interim statement reflects all adjustments which we believe are necessary for the fair presentation of our statement of revenue and certain expenses for the

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interim period presented. These adjustments are of a normal recurring nature. The statement of revenue and certain expenses for such interim period is not necessarily indicative of the results for a full year.

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REPORT OF INDEPENDENT ACCOUNTANTS

To Gateway 63 Properties

We have audited the accompanying statement of revenue and certain expenses of the Gateway 63 Properties (the "Properties") as described in Note 1 for the year ended December 31, 2000. This historical statement is the responsibility of the Properties' management; our responsibility is to express an opinion on this historical statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the historical statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the historical statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the historical statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying historical statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion on Form 8-K of Corporate Office Properties Trust) as described in Note 2, and is not intended to be a complete presentation of the Properties' revenue and expenses.

In our opinion, the historical statement referred to above presents fairly, in all material respects, the revenue and certain expenses described in Note 2, of the Gateway 63 Properties for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
September 4, 2001

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GATEWAY 63 PROPERTIES  
STATEMENT OF REVENUE AND CERTAIN EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2000  
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Revenue	
Base rents	\$1,004,400
Tenant reimbursements	82,998
Miscellaneous income	--
	-----
Total revenue	1,087,398
	-----
Certain expenses	
Property operating expenses	
Property taxes	50,176
Management fees	24,808
Utilities	22,396
Other operating expenses	8,994
	-----
Total property operating	106,374
Repairs and maintenance	46,821
	-----
Total certain expenses	153,195
	-----
Revenue in excess of certain expenses	\$ 934,203
	=====

The accompanying notes are an integral part of these financial statements.

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GATEWAY 63 PROPERTIES  
STATEMENT OF REVENUE AND CERTAIN EXPENSES  
FOR THE SIX MONTHS ENDED JUNE 30, 2001 (UNAUDITED)

Revenue	
Base rents	\$1,583,799
Tenant reimbursements	196,231
Miscellaneous income	60
	-----
Total revenue	1,780,090
	-----
Certain expenses	
Property operating expenses	
Property taxes	106,066
Management fees	39,715
Utilities	30,750
Other operating expenses	3,572
	-----
Total property operating	180,103
Repairs and maintenance	73,341
	-----
Total certain expenses	253,444
	-----
Revenue in excess of certain expenses	\$1,526,646

The accompanying notes are an integral part of these financial statements.

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GATEWAY 63 PROPERTIES  
NOTES TO FINANCIAL STATEMENTS

-----

1. BUSINESS

The accompanying statement of revenue and certain expenses relates to the operations of Gateway 63 Properties (the "Properties"), consisting of the revenue and certain expenses of four buildings totaling 187,132 square feet located in Columbia, Maryland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying combined statement of revenue and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission in contemplation of Corporate Office Properties Trust acquiring the Properties. The statement is not representative of the actual operations of the Properties for the period presented nor indicative of future operations as certain expenses, primarily depreciation, amortization, and interest expense, which may not be comparable to the expenses expected to be incurred by Corporate Office Properties Trust in future operations of the Properties, have been excluded.

REVENUE AND EXPENSE RECOGNITION

Revenue is recognized on a straight-line basis over the terms of the relate lease. Expenses are recognized in the period in which they are incurred.

USED OF ESTIMATES

The preparation of this historical statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

MAJOR TENANTS

During 2000, 97% of the Properties' total rental revenue was earned from 2 major tenants, each of which amounted to over 10% of total rental revenue. Rental revenue earned from these 2 tenants for the year ended December 31, 2000 was approximately \$787,011 and \$183,478, respectively.

3. RENTALS

The Properties have entered into non-cancelable tenant leases, with expiration dates ranging from 2005 to 2011. Such leases provide that tenants will share in operating expenses and real estate taxes on a pro rata basis, as defined in the leases. Future minimum rentals as of December 31, 2000, to be received under these tenant leases are as

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follows:

2001	\$ 2,735,483
2002	3,030,145
2003	3,073,196
2004	3,153,316
2005	3,080,615
Thereafter	14,443,605
	-----
	\$29,516,360
	=====

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GATEWAY 63 PROPERTIES  
NOTES TO FINANCIAL STATEMENTS

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4. UNAUDITED INTERIM STATEMENT

The statement of revenue and certain expenses for the six months ended June 30, 2001 is unaudited. As a result, this interim statement should be read in conjunction with the statement and notes included in the December 31, 2000 statement of revenue and certain expenses. The interim statement reflects all adjustments which we believe are necessary for the fair presentation of our statement of revenue and certain expenses for the interim period presented. These adjustments are of a normal recurring nature. The statement of revenue and certain expenses for such interim period is not necessarily indicative of the results for a full year.

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