

Columbia Equity Trust, Inc.
Form 10-Q
August 14, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 159d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to
COMMISSION FILE NO. 001-32536
COLUMBIA EQUITY TRUST, INC.**

(Exact name of registrant as specified in its charter)

**Maryland
(State or other jurisdiction of
incorporation or organization)**

**20-1978579
(I.R.S. Employer
Identification Number)**

**1750 H Street, N.W.,
Suite 500, Washington, D.C.
(Address of principal executive office)**

**20006
(Zip code)**

(202) 303-3080

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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.

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 August 11, 2006, 13,863,334 shares of common stock, par value \$0.001, were outstanding.

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FORM 10-Q
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Columbia Equity Trust, Inc. (the Company) completed its initial public offering of common stock (the IPO) on July 5, 2005. The IPO resulted in the sale of 13,800,000 shares of common stock (including 1.8 million shares sold to the underwriters to cover over-allotments) at a price per share of \$15.00, generating gross proceeds to the Company of \$207 million. The aggregate proceeds to the Company, net of underwriters discounts, commissions, financial advisory fees and other offering costs were approximately \$188.5 million.

The financial statements included in this report as of December 31, 2005 and June 30, 2006, and for the three months and six months ended June 30, 2006 represent the results of operations and financial condition of the Company. The financial statements included in this report for the three months and six months ended June 30, 2005 represent the results of operations of Columbia Equity Trust, Inc. Predecessor (Columbia Predecessor) prior to the completion of the Company s IPO and various formation transactions. We do not believe that the comparison of the Company s results of operations to those of Columbia Predecessor, which do not reflect the Company s IPO and the formation transactions, is meaningful or indicative of our future operating results as a publicly-held company.

Columbia Predecessor ceased to exist as an entity for financial reporting purposes effective with the completion of the IPO and the formation transactions. Columbia Predecessor was not a legal entity but rather a combination of real estate entities under common ownership and management, as described in more detail in Note 1 to the financial statements.

**COLUMBIA EQUITY TRUST, INC.
CONSOLIDATED BALANCE SHEETS**

| | June 30, 2006 (Unaudited) | December 31, 2005 |
|--|--|------------------------------|
| Assets | | |
| Rental property | | |
| Land | \$ 27,087,572 | \$ 19,300,819 |
| Buildings | 147,901,486 | 120,509,954 |
| Tenant improvements | 31,492,146 | 24,377,997 |
| Furniture, fixtures and equipment | 1,098,705 | 1,088,989 |
| | 207,579,909 | 165,277,759 |
| Accumulated depreciation | (7,053,609) | (2,805,222) |
| Total rental property, net | 200,526,300 | 162,472,537 |
| Cash and cash equivalents | 8,387,651 | 8,149,634 |
| Restricted deposits | 562,234 | 256,356 |
| Accounts and other receivables, net of reserves for doubtful accounts of \$35,093 and \$39,401, respectively | 861,240 | 1,039,510 |
| Investments in unconsolidated real estate entities | 40,694,318 | 42,308,003 |
| Accrued straight-line rents | 1,504,403 | 524,258 |
| Deferred leasing costs, net | 749,245 | 490,609 |
| Deferred financing costs, net | 1,107,525 | 955,129 |
| Intangible assets | | |
| Above market leases, net | 4,404,617 | 3,610,453 |
| In-place leases, net | 18,534,256 | 15,813,098 |
| Tenant relationships, net | 7,133,283 | 6,387,594 |
| Prepaid expenses and other assets | 959,103 | 1,323,308 |
| Total assets | \$ 285,424,175 | \$ 243,330,489 |
| Liabilities and Stockholders Equity | | |
| Liabilities | | |
| Revolving loan payable | \$ 21,450,000 | \$ 22,000,000 |
| Mortgage notes payable | 74,096,914 | 27,358,998 |
| Accounts payable and accrued expenses | 2,669,903 | 2,252,575 |
| Security deposits | 1,220,555 | 945,158 |
| Dividends payable | 2,079,500 | 1,940,867 |
| Rent received in advance | 1,361,215 | 758,265 |
| Deferred credits Below market leases, net | 2,337,327 | 1,593,812 |
| Other liabilities | 95,179 | |
| Total liabilities | 105,310,593 | 56,849,675 |
| Commitments and contingencies | | |

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| | | |
|--|----------------|----------------|
| Minority interest | 14,107,493 | 14,205,638 |
| Stockholders' equity | | |
| Preferred stock, \$0.001 par value, 100,000,000 shares authorized in 2006 and 2005, no shares issued or outstanding in either period | | |
| Common stock, \$0.001 par value, 500,000,000 shares authorized and 13,863,334 shares issued and outstanding in 2006 and 2005 | 13,863 | 13,863 |
| Additional paid-in capital | 178,366,298 | 178,366,298 |
| Cumulative dividends in excess of net income | (12,374,072) | (6,104,985) |
| Total stockholders' equity | 166,006,089 | 172,275,176 |
| Total liabilities and stockholders' equity | \$ 285,424,175 | \$ 243,330,489 |

See accompanying notes to financial statements.

**COLUMBIA EQUITY TRUST, INC.
AND COLUMBIA EQUITY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**

| | Consolidated Columbia Equity Trust, Inc. for the Three Months Ended June 30, 2006 (Unaudited) | Combined Columbia Predecessor for the Three Months Ended June 30, 2005 (Unaudited) | Consolidated Columbia Equity Trust, Inc. for the Six Months Ended June 30, 2006 (Unaudited) | Combined Columbia Predecessor for the Six Months Ended June 30, 2005 (Unaudited) |
|--|--|---|--|---|
| Revenues | | | | |
| Base rents | \$ 6,510,618 | \$ | \$ 12,704,599 | \$ |
| Recoveries from tenants | 401,718 | | 711,016 | |
| Fee income, primarily from related parties | 263,973 | 815,997 | 668,321 | 1,438,356 |
| Parking and other income | 157,964 | | 294,173 | |
| Total revenues | 7,334,273 | 815,997 | 14,378,109 | 1,438,356 |
| Operating expenses | | | | |
| Property operating | 1,099,415 | | 2,240,608 | |
| Utilities | 597,659 | | 1,129,844 | |
| Real estate taxes and insurance | 620,465 | | 1,277,302 | |
| General and administrative, including share-based compensation cost of \$234,750, \$0, \$469,500 and \$0, respectively | 1,344,597 | 1,165,924 | 2,408,971 | 1,544,898 |
| Depreciation and amortization | 3,547,507 | 4,357 | 7,005,896 | 7,360 |
| Total operating expenses | 7,209,643 | 1,170,281 | 14,062,621 | 1,552,258 |
| Operating income (loss) | 124,630 | (354,284) | 315,488 | (113,902) |
| Other income and expense | | | | |
| Interest income | 72,418 | 14,546 | 115,753 | 19,878 |
| Interest expense | (1,409,609) | (2,250) | (2,561,582) | (4,500) |
| Loss before income taxes, equity in net income (loss) of unconsolidated real estate entities and minority interest | (1,212,561) | (341,988) | (2,130,341) | (98,524) |
| Equity in net income (loss) of unconsolidated real estate entities | 38,071 | 2,202,058 | (97,900) | 2,304,975 |
| Minority interest | 84,152 | | 159,654 | |
| (Loss) income before income taxes | (1,090,338) | 1,860,070 | (2,068,587) | 2,206,451 |
| Provision for income taxes | 8,000 | 197,823 | 41,500 | 231,884 |

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| | | | | | | | | | |
|---|-------|----|-------------|----|-----------|----|-------------|----|-----------|
| Net (loss) income | | \$ | (1,098,338) | \$ | 1,662,247 | \$ | (2,110,087) | \$ | 1,974,567 |
| Net loss per common share and diluted | Basic | \$ | (0.08) | | | \$ | (0.15) | | |
| Weighted average shares of common stock outstanding and diluted | Basic | | 13,863,334 | | | | 13,863,334 | | |

See accompanying notes to financial statements.

**COLUMBIA EQUITY TRUST, INC.
AND COLUMBIA EQUITY TRUST, INC. PREDECESSOR
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

| | Consolidated Columbia Equity Trust, Inc. for the Six Months Ended June 30, 2006 (Unaudited) | Combined Columbia Predecessor for the Six Months Ended June 30, 2005 (Unaudited) |
|---|--|---|
| Cash flows from operating activities | | |
| Net (loss) income | \$ (2,110,087) | \$ 1,974,567 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities | | |
| Minority interest | (159,654) | |
| Equity in net loss (income) of unconsolidated real estate entities | 97,900 | (2,304,975) |
| Compensation cost related to LTIP units | 382,500 | |
| Distributions received from earnings of unconsolidated real estate entities | 298,147 | 19,055 |
| Depreciation and amortization | 7,005,896 | 7,360 |
| Amortization of above and below market leases | 179,336 | |
| Amortization of deferred financing costs | 222,632 | |
| Provision for doubtful accounts | (4,308) | |
| Changes in assets and liabilities | | |
| Accounts and other receivables | 182,578 | (34,933) |
| Accrued straight-line rents | (980,145) | |
| Deferred leasing costs | (309,652) | |
| Deferred offering costs | | (2,693,176) |
| Prepaid expenses and other assets | (21,591) | (440,020) |
| Accounts payable and accrued expenses | 412,940 | 2,721,057 |
| Accrued interest payable to stockholders | | 4,500 |
| Rent received in advance | 448,741 | |
| Other liabilities | 4,623 | |
| Net cash provided by (used in) operating activities | 5,649,856 | (746,565) |
| Cash flows from investing activities | | |
| Purchases of interests in rental property and related net assets | (26,631,482) | |
| Deposit on pending purchase of interest in rental property | (200,000) | |
| Additions to rental properties | (2,139,938) | |
| Additions to rental property furniture, fixtures and equipment | (8,687) | (3,772) |
| Restricted deposits | (148,344) | |
| Distributions in excess of net income received from real estate entities | 1,217,640 | 2,707,753 |
| Contributions made to unconsolidated real estate entities | | (508,000) |

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| | | |
|---|---------------|--------------|
| Net cash (used in) provided by investing activities | (27,910,811) | 2,195,981 |
| Cash flows from financing activities | | |
| Borrowings under revolving credit line | 29,250,000 | |
| Repayment of revolving credit line borrowings | (29,800,000) | |
| Mortgage note borrowings | 27,685,985 | |
| Repayments of mortgage note | (65,595) | |
| Deferred financing costs | (192,502) | |
| Dividends | (4,020,367) | |
| Contributions | | 250,000 |
| Distributions to minority interest | (310,292) | (163,989) |
| Security deposits refunded, net | (48,257) | |
| Net cash provided by financing activities | 22,498,972 | 86,011 |
| Net increase in cash and cash equivalents | 238,017 | 1,535,427 |
| Cash and cash equivalents, beginning of period | 8,149,634 | 1,188,146 |
| Cash and cash equivalents, end of period | \$ 8,387,651 | \$ 2,723,573 |
| Supplemental disclosures | | |
| Cash paid for income taxes | \$ 8,000 | \$ |
| Cash paid for interest | \$ 1,991,501 | \$ |
| Debt assumed in purchases of interests in rental property | \$ 19,000,000 | \$ |
| Liability for asbestos remediation assumed as part of purchase of rental property | \$ 90,556 | \$ |
| Non-cash additions to rental properties | \$ 127,480 | \$ |

See accompanying notes to financial statements.

**COLUMBIA EQUITY TRUST, INC. AND
COLUMBIA EQUITY TRUST, INC. PREDECESSOR
NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

1. Organization and Description of Business

Columbia Equity Trust, Inc. (the "Company") was incorporated on September 23, 2004 in the State of Maryland. The Company completed its initial public offering of common stock (the "IPO") on July 5, 2005. The IPO resulted in the sale of 12,000,000 shares of common stock at a price per share of \$15.00, generating gross proceeds to the Company of \$180,000,000. The aggregate proceeds to the Company, net of underwriters' discounts, commissions, financial advisory fees and other offering costs were approximately \$163,347,000. On July 14, 2005, an additional 1,800,000 shares of common stock were sold at \$15.00 per share as a result of the underwriters exercising their over-allotment option. This resulted in additional net proceeds of \$25,110,000 to the Company.

The Company had no significant operations prior to the completion of the IPO and the formation transactions on July 5, 2005. On July 5, 2005, concurrent with the consummation of the IPO, the Company and its operating partnership, Columbia Equity, LP (the "Operating Partnership"), entered into certain formation transactions and acquired the office real estate investment properties and joint venture interests, management contracts and certain other assets of Columbia Equity Trust, Inc. Predecessor ("Columbia Predecessor") from its owners and other parties which held direct or indirect ownership interests in Columbia Predecessor's real estate properties. The Company primarily operates through its Operating Partnership, for which the Company is the sole general partner, and held a 92.83% partnership interest as of June 30, 2006 and December 31, 2005. The Company owns, manages and acquires investments in commercial office properties located primarily in the Greater Washington, D.C. area (defined as the District of Columbia, northern Virginia and suburban Maryland).

Columbia Predecessor was not a legal entity but rather a combination of real estate entities under common ownership and management. Prior to the completion of the IPO on July 5, 2005, Columbia Predecessor was the limited partner and/or general partner or managing member of the real estate entities that directly or indirectly owned certain properties. The ultimate owners of Columbia Predecessor were Carr Capital Corporation and its wholly-owned subsidiary, Carr Capital Real Estate Investments, LLC ("CCREI") (collectively "CCC"), The Oliver Carr Company and Carr Holdings, LLC, all of which are controlled by Oliver T. Carr, Jr. and Oliver T. Carr, III, acting as a common control group. Accounting Research Bulletin No. 51, "Consolidated Financial Statements", and Emerging Issues Task Force Issue No. 02-05, "Definition of Common Control in relation to FASB Statement No. 141", provide for the combination of separate entities into a single entity when such entities are controlled by immediate family members whose intent is to act in concert, as is the case with Columbia Predecessor.

The accompanying combined statements of operations and cash flows for Columbia Predecessor reflect the operating results of certain investments in real estate entities owned by CCC, The Oliver Carr Company, Carr Holdings, LLC or affiliates that were not acquired by the Operating Partnership. CCC provided asset management services to the real estate entities invested in by Columbia Predecessor and to certain unrelated parties.

2. Basis of Presentation and Summary of Significant Accounting Policies

a) Unaudited Interim Consolidated Financial Information

The accompanying interim financial statements are unaudited, but have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all the disclosures required by GAAP for complete financial statements.

In the opinion of management, all adjustments necessary for a fair presentation of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year.

b) Principles of Consolidation

The accompanying consolidated financial statements include all of the accounts of Columbia Equity Trust, Inc., the Operating Partnership and the subsidiaries of the Operating Partnership. All significant intercompany balances and transactions have been eliminated.

c) Cash and Cash Equivalents

The Company considers short-term investments with original maturities of three months or less when purchased to be cash equivalents.

d) Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, revolving loan notes and mortgage notes payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values due to their short-term maturities. The interest rate on borrowings under the Credit Facility (as defined in Note 7) is variable based on LIBOR, and as a result, the carrying value of those borrowings approximates fair value as of June 30, 2006. The carrying value of mortgage notes was \$74,016,914 as of June 30, 2006, compared to a fair value of \$71,195,560, a difference of \$2,821,354. The fair value of the mortgage notes was estimated by using a current market basis-point spread over the quoted prices of U.S. Treasury securities for the remaining terms of the mortgage loans.

e) Revenue Recognition

Income from rental operations is recognized on a straight-line basis over the term of the lease, including any periods of free rent (rent abatements), regardless of when payments are due. The lease agreements contain provisions that provide for additional recovery revenue based on reimbursement of the tenants' share of real estate taxes, insurance and certain common area maintenance costs. Additional recovery revenues are recorded as the associated expense is incurred. The lease term begins at the time the lessee takes physical possession of the space. Lease provisions governing any tenant improvements (TIs) granted to the lessee are reviewed to determine whether the TIs should be accounted for as lease incentives and deducted in calculating straight-line rent, or should be capitalized as building improvements. Lease provisions that would result in a decision to account for the TIs as lease incentives would be allowing a lessee to offset TIs against rent due or agreeing to reimburse a lessee for unused TI allowances. Factors generally considered in determining that TIs should be capitalized are the nature of the work, ownership upon lease termination, and the extent to which the Company maintains control over the construction process, including approval over, and management of, the scope of work, architectural plans and contractors.

Fee income consists of asset management fees, construction management fees, leasing advisory fees and transaction fees. Asset management fees are based on a percentage of revenues earned by a property under management and are recorded on a monthly basis as earned. Construction management fees are based on a negotiated percentage of the total value of the construction project to be managed and are recognized as revenue on a pro rata basis as the construction work is performed. Leasing advisory fees are based on a negotiated percentage of the value of the lease transaction on which the Company consults. Leasing advisory revenue is recorded as earned in accordance with the terms of the advisory agreements, which generally specify that half of the fee is earned at the time of lease execution, with the remainder being earned at the time the tenant takes possession of the space. Transaction fees are based on a percentage of the transaction value and are recorded at the closing date of the transaction.

f) Investments in Rental Property

Investments in rental property include land, buildings and tenant improvements. Land is recorded at acquisition cost. Buildings are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of its components, which range from 7.5 to 40 years. Tenant improvements are costs incurred to prepare tenant spaces for occupancy and are depreciated on a straight-line basis over the terms of the respective leases or the lives of the related assets, whichever is shorter.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company evaluates the recoverability of long-lived assets used in operations when indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying values. Management does not believe that impairment indicators are present, and accordingly, no such losses have been included in the accompanying financial statements.

In accordance with SFAS No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangible Assets , when a property is acquired, the Company also considers the existence of identifiable intangibles relating to above and below market leases, in-place lease value and tenant relationships. The purchase price of the acquired property is allocated based on the relative fair values of the land, building (determined on an as-if vacant basis) and these identifiable intangibles.

In accordance with FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations , in determining the fair value, in accordance with the requirements of SFAS No. 141, of properties acquired, the Company determines whether any obligations should be recorded related to the costs expected to be incurred upon the eventual disposition or retirement of the property, in particular for costs expected to be incurred for the remediation of asbestos. The calculation of the liability incorporates a risk-adjusted rate of return that takes into consideration when the remediation work is expected to be performed.

g) Investments in Unconsolidated Real Estate Entities

The Company uses the equity method to account for its investments in unconsolidated real estate entities because it has significant influence, but not control, over the investees' operating and financial decisions.

For purposes of applying the equity method, significant influence is deemed to exist if the Company actively manages the property, prepares the property operating budgets and participates with the other investors in the property in making major decisions affecting the property, including market positioning, leasing, renovating and selling or continuing to retain the property. None of the entities are considered variable interest entities, as defined in Financial Accounting Standards Board Interpretation No. 46(R), "Consolidation of Variable Interest Entities (FIN 46(R)). The accounting policies of the unconsolidated real estate entities are the same as those used by the Company.

Under the equity method of accounting, investments in partnerships and limited liability companies are recorded at cost, and the investment accounts are increased for the Company's contributions and its share of the entities' net income and decreased for the Company's share of the entities' net losses and distributions. For entities in which the Company is not a general partner and therefore has no risk other than its investment, once the investment account reaches zero, losses are no longer recognized, distributions received are recognized as income, and earnings from the entities are not recognized until such earnings exceed all unrecognized net losses plus the cash distributions received and previously recognized as income.

The excess of the purchase price of interests in unconsolidated real estate entities over the pro rata share of the underlying assets acquired is recognized as depreciation and amortization over the remaining useful lives of the underlying assets and included in equity in net income (loss) of unconsolidated real estate entities.

h) Minority Interest

Minority interest relates to the interests in the Operating Partnership that are not owned by the Company, which, as of June 30, 2006 and December 31, 2005, amounted to approximately 7.17% (excluding outstanding LTIP Units, discussed below) and consisted of 1,069,973 units of limited partnership interest in the Operating Partnership (OP Units). In conjunction with the formation of the Company, certain persons and entities contributing interests in the properties to the Operating Partnership received OP Units in exchange for those interests.

The minority interest in the Operating Partnership is: (i) increased or decreased by the limited partners' pro-rata share of the Operating Partnership's net income or net loss, (ii) decreased by distributions; (iii) decreased by redemption of OP units for cash or the Company's common stock and (iv) adjusted to equal the net equity of the Operating Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of OP Units and/or the Company's common stock through an adjustment to additional paid-in capital. Net income or net loss is allocated to the minority interest in the Operating Partnership based on the weighted average percentage ownership throughout the period.

Holders of OP Units have certain redemption rights, which enable them to cause the Operating Partnership to redeem their units in exchange for shares of the Company's common stock on a one-for-one basis or, at the Company's option, cash per OP Unit equal to the market price of the Company's common stock at the time of redemption. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or stockholders. As a matter of Company policy, each OP and LTIP Unit holder receives distributions per Unit equal to dividends paid per share of common stock.

As of June 30, 2006, the Company had issued 290,000 LTIP Units, of which 35,000 are vested. LTIP Units are a special class of partnership interest in the Operating Partnership, which have been issued under the Company's 2005 Equity Compensation Plan. LTIP Units were granted by the Company at the IPO to the non-employee members of the Company's Board of Directors, certain consultants to the Company and certain employees of the Company. Once the LTIP Units achieve full parity with the OP Units and are fully vested, LTIP Units may be converted into OP Units which may be redeemed by the holder for cash or, in the Company's sole and absolute discretion, exchanged for shares of the Company's common stock. It is the Company's intention that all LTIP Units converted to OP Units be redeemed for shares of the Company's common stock. The value of LTIP Units that has been recognized as an expense is included in minority interest.

i) Tenant Leasing Costs

The fees and initial direct costs incurred in the negotiation of completed leases are deferred and amortized over the terms of the respective leases.

j) Deferred Financing Costs

Fees and costs incurred in securing debt financing are deferred and amortized to interest expense on a straight-line basis, which approximates the effective interest method, over the terms of the respective financing agreements.

k) Share Based Compensation

The Company accounts for the award of equity instruments to employees in accordance with SFAS No. 123 (revised 2004), Share-Based Payment, which requires an entity to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

l) New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 is not expected to have a material effect on the Company's financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The Interpretation 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. The Interpretation will be effective beginning with the Company's 2007 interim financial statements. Interpretation No. 48 is not expected to have a material effect on the Company's financial statements.

m) Income Taxes

The Company expects to qualify as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As a REIT, the Company will be permitted to deduct distributions paid to its stockholders, eliminating the Federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax (including any alternative minimum tax) on its taxable income at regular corporate tax rates. The Company is subject to Federal and state income taxes on the taxable income of its taxable REIT subsidiary (TRS) and for Federal excise tax on any taxable REIT income in excess of 85% of dividends paid.

As part of the formation transactions, on July 15, 2005, the Company acquired a 40% interest in a limited liability company that owns The Barlow Corporation, which in turn owns the Barlow Building. The Barlow Corporation will elect to be taxed as a REIT. If The Barlow Corporation fails to qualify as a REIT, the Company would in turn, if deemed to not be entitled to certain relief provisions, not qualify as a REIT.

n) Management's Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o) Segment Disclosure

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, established standards for disclosure about operating segments and related disclosures about products and services, geographic areas and major customers. The Company presently operates in only one business segment, that of acquisition, ownership and investment management of commercial real estate. The Company's primary geographic area is the Greater Washington, D.C. area.

p) Concentration of Credit Risk

The Company maintains ownership interests in commercial office properties that are primarily located in the Greater Washington, D.C. area. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social climate affecting the communities in which the tenants operate. No single tenant accounts for more than 10% of rental revenues.

Financial instruments that subject the Company to credit risk consist primarily of cash and accounts receivable. The Company maintains its cash and cash equivalents on deposit with high quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. Although balances in an individual institution may exceed this amount, management does not anticipate losses from failure of such institutions.

q) Comprehensive Income

Because the Company has no items of other comprehensive income, its net income is equal to its comprehensive income for all periods presented.

3. Earnings Per Share

Earnings per share (EPS) has been computed pursuant to the provisions of SFAS No. 128, Earnings per Share . The following table shows the calculation of basic and diluted EPS, which are calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. The Company has adopted EITF Issue Number 03-6, Participating Securities and the Two-Class Method under FASB 128 (Issue 03-6), which provides further guidance on the definition of participating securities. Pursuant to Issue 03-6, the Company's OP Units and LTIP Units are considered participating securities and, if dilutive, are included in the computation of the Company's basic EPS. For purposes of calculating diluted EPS, unvested LTIP Units also are considered to be participating securities and are included in the calculation of diluted EPS, if doing so would be dilutive. For the three months and six months ended June 30, 2006, LTIP Units have been excluded from the basic and diluted EPS calculations because including these securities would be anti-dilutive. The OP Units have been excluded from the calculation of both primary and diluted EPS because their conversion to shares of common stock would not impact EPS, as the minority share of loss would be added back to the net loss. The calculations of primary and diluted net loss per share for the Company for the three months and six months ended June 30, 2006 are set forth below.

| | For the Three Months Ended June 30, 2006 | For the Six Months Ended June 30, 2006 |
|-------------------------------------|---|---|
| Net loss | \$ (1,098,338) | \$ (2,110,087) |
| Weighted average shares outstanding | 13,863,334 | 13,863,334 |
| Basic and diluted loss per share | \$ (0.08) | \$ (0.15) |

EPS information is not presented for the three months and six months ended June 30, 2005 because the capital structure of Columbia Predecessor was not comparable to the Company's current capital structure.

4. Office Property Acquisitions

On January 12, 2006, the Company acquired a 114,801 square foot office building (1025 Vermont) located in the central business district of Washington, D.C. for \$34,050,000, before closing costs. The purchase price included the assumption of a \$19,000,000 non-recourse first mortgage loan on the property, bearing a fixed rate of interest of 4.91%, due January 2010.

On May 23, 2006, the Company acquired a 41,358 square foot office building (Chubb Building) located in Reston, Virginia for \$11,500,000, before closing and debt repayment costs.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the acquisitions of 1025 Vermont and Chubb Building. The Company is in the process of obtaining third party valuations, which may affect the allocation of purchase price to the assets acquired and liabilities assumed. Additional adjustments, which are not expected to be material, may result when estimates made at the time of closing are finalized.

| | |
|---------------------------|---------------|
| Rental property | \$ 40,364,000 |
| Intangible assets | 7,405,000 |
| Other assets | 305,000 |
| Total assets acquired | 48,074,000 |
| | |
| Mortgage note payable | 19,000,000 |
| Deferred credits | 1,001,000 |
| Other liabilities | 774,000 |
| Total liabilities assumed | 20,775,000 |
| | |
| Net assets acquired | \$ 27,299,000 |

The following table summarizes, on a pro forma basis, the Company's results of operations for the three months and six months ended June 30, 2006 as if the acquisitions of 1025 Vermont and Chubb Building had occurred on January 1, 2006. This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of future operations that would have been achieved had the acquisition taken place on January 1, 2006. Similar pro forma results of operations information has not been provided for the three months and six months ended June 30, 2005 because the Company had no material operations prior to July 5, 2005 and was essentially a shell entity with no prior operating history.

| | Pro Forma For the Three Months Ended June 30, 2006 | As Reported For the Three Months Ended June 30, 2006 |
|---|---|---|
| Revenues | \$ 7,509,000 | \$ 7,334,273 |
| | | |
| Net loss | \$ (1,137,000) | \$ (1,098,338) |
| | | |
| Net loss per share | \$ (0.08) | \$ (0.08) |
| | | |
| Weighted average number of shares outstanding | 13,863,334 | 13,863,334 |

| | Pro Forma For the Six Months Ended June 30, 2006 | As Reported For the Six Months Ended June 30, 2006 |
|---|---|---|
| Revenues | \$ 14,955,000 | \$ 14,378,109 |
| Net loss | \$ (2,269,000) | \$ (2,110,087) |
| Net loss per share | \$ (0.16) | \$ (0.15) |
| Weighted average number of shares outstanding | 13,863,334 | 13,863,334 |

5. Investments in Unconsolidated Real Estate Entities

The Company's interests in unconsolidated real estate entities are summarized in the following table.

| Property | Location | Square Feet | Percent Owned |
|------------------------|-------------------|------------------------|--------------------------|
| 1575 Eye Street | Washington, D.C. | 210,372 | 9.18% |
| Atrium | Alexandria, Va. | 138,507 | 37.00% |
| Barlow Building | Chevy Chase, Md. | 270,490 | 40.00% |
| Independence Center I | Chantilly, Va. | 275,002 | 14.74% |
| Independence Center II | Chantilly, Va. | (1) | 8.10% |
| King Street | Alexandria, Va. | 149,080 | 50.00% |
| Madison Place | Alexandria, Va. | 107,960 | 50.00% |
| Suffolk Building | Falls Church, Va. | 257,425 | 36.50% |
| Victory Point | Chantilly, Va. | 147,743 | 10.00% |

(1) A 115,368 square foot office building is currently under construction.

The combined condensed balance sheets of the unconsolidated real estate entities as of June 30, 2006 and December 31, 2005 are as follows.

| | 2006 | 2005 |
|-------------------------------------|-----------------------|-----------------------|
| Assets Investments in real estate | \$ 313,301,208 | \$ 306,193,345 |
| Receivables and deferred rents | 9,220,438 | 9,458,009 |
| Other assets | 48,687,421 | 51,513,600 |
| Total assets | \$ 371,209,067 | \$ 367,164,954 |
| | | |
| Liabilities and Equity | | |
| Mortgage loans | \$ 264,382,370 | \$ 255,897,580 |
| Other liabilities | 16,295,944 | 16,515,825 |
| Equity Columbia Equity Trust, Inc. | 33,819,989 | 35,176,959 |
| Equity Other owners | 56,710,764 | 59,574,590 |
| Total liabilities and equity | \$ 371,209,067 | \$ 367,164,954 |

The following table reconciles the total of the investment in unconsolidated real estate entities to the equity in the underlying real estate entities as of June 30, 2006 and December 31, 2005.

| | 2006 | 2005 |
|---|----------------------|----------------------|
| Equity in underlying real estate entities, above | \$ 33,819,989 | \$ 35,176,959 |
| Excess of purchase price over underlying assets acquired by Columbia Equity Trust, Inc. | 7,314,565 | 7,314,565 |
| Additional investment by Columbia Equity Trust, Inc. | 12,283 | 12,283 |
| Less additional depreciation and amortization of underlying assets of unconsolidated real estate entities | (391,608) | (195,804) |
| Elimination of intercompany transactions | (60,911) | |
| Investments in unconsolidated real estate entities | \$ 40,694,318 | \$ 42,308,003 |

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The combined condensed statements of operations for the unconsolidated real estate entities for the three months and six months ended June 30, 2006 and 2005 are as follows.

| | For the Three Months Ended June 30, 2006 | For the Three Months Ended June 30, 2005 |
|--|---|---|
| Revenues | \$ 11,754,637 | \$ 10,285,293 |
| Operating and other expenses | 4,073,059 | 4,134,430 |
| Depreciation | 3,926,811 | 3,460,727 |
| Interest expense | 3,362,989 | 3,788,657 |
| Total expenses | 11,362,859 | 11,383,814 |
| Net income (loss) | \$ 391,778 | \$ (1,098,521) |
| Company and Columbia Predecessor share of net income (loss), respectively, net | \$ 92,634 | \$ (115,269) |
| Less additional depreciation and amortization of underlying assets of unconsolidated real estate entities | (97,902) | |
| Equity in net income of real estate entities not contributed by Columbia Predecessor at the Initial Public Offering | | 2,317,327 |
| Elimination of intercompany revenues and expenses | 43,339 | |
| Equity in net income of unconsolidated real estate entities | \$ 38,071 | \$ 2,202,058 |

| | For the Six Months Ended June 30, 2006 | For the Six Months Ended June 30, 2005 |
|--|---|---|
| Revenues | \$ 23,118,550 | \$ 19,289,048 |
| Operating and other expenses | 8,322,752 | 7,555,843 |
| Depreciation | 7,806,382 | 6,113,170 |
| Interest expense | 6,686,312 | 6,841,186 |
| Total expenses | 22,815,446 | 20,510,199 |
| Net income (loss) | \$ 303,104 | \$ (1,221,151) |
| Company and Columbia Predecessor share of net income (loss), respectively, net | \$ 12,357 | \$ (108,595) |
| Less additional depreciation and amortization of underlying assets of unconsolidated real estate entities | (195,804) | |
| Equity in net income of real estate entities not contributed by Columbia Predecessor at the Initial Public Offering | | 2,413,570 |
| Elimination of intercompany revenues and expenses | 85,547 | |
| Equity in net (loss) income of unconsolidated real estate entities | \$ (97,900) | \$ 2,304,975 |

6. Intangible Assets

The following tables summarize the intangible in-place lease assets and liabilities for acquired leases as of June 30, 2006 and December 31, 2005.

| | June 30, 2006 | December 31, 2005 |
|--------------------------|--------------------------|------------------------------|
| Intangible Assets | | |
| Above market leases | \$ 5,124,125 | \$ 3,892,695 |
| Accumulated amortization | (719,508) | (282,242) |
| | \$ 4,404,617 | \$ 3,610,453 |
| | | |
| In-Place leases | \$ 21,632,398 | \$ 16,980,485 |
| Accumulated amortization | (3,098,142) | (1,167,387) |
| | \$ 18,534,256 | \$ 15,813,098 |
| | | |
| Tenant relationships | \$ 8,412,743 | \$ 6,891,313 |
| Accumulated amortization | (1,279,460) | (503,719) |
| | \$ 7,133,283 | \$ 6,387,594 |
| | | |
| Deferred Credits | | |
| Below market leases | \$ 2,712,404 | \$ 1,710,959 |
| Accumulated amortization | (375,077) | (117,147) |
| | \$ 2,337,327 | \$ 1,593,812 |

The amortization of acquired above and below market in-place leases, included as a net decrease in rental revenues, totaled \$90,303 and \$179,338 for the three months and six months ended June 30, 2006, respectively.

The amortization of acquired in-place leases and tenant relationships, included in depreciation and amortization expense, totaled \$1,360,872 and \$2,706,496 for the three months and six months ended June 30, 2006.

7. Debt Agreements

As of June 30, 2006, the Company had the following debt outstanding.

| Type/ Issuer | Rate | Maturity | Note Principal | Fair Value Adjustment | Total |
|-------------------------|-------------|-----------------|---------------------------|--------------------------------------|---------------|
| Credit Facility | 6.36% | 11/28/2007 | \$ 21,450,000 | \$ | \$ 21,450,000 |
| 1025 Vermont | 5.11% | 1/1/2010 | 22,500,000 | | 22,500,000 |
| Meadows IV | 4.95% | 11/1/2011 | 19,000,000 | | 19,000,000 |
| Park Plaza II | 5.53% | 2/1/2016 | 24,290,000 | | 24,290,000 |
| Patrick Henry | 5.02% | 4/1/2009 | 8,380,048 | (73,134) | 8,306,914 |
| | | | \$ 95,620,048 | \$ (73,134) | \$ 95,546,914 |

As of December 31, 2005, the Company had the following debt outstanding.

| Type/ Issuer | Rate | Maturity | Note Principal | Fair Value Adjustment | Total |
|-------------------------|-------------|-----------------|---------------------------|--------------------------------------|---------------|
| Credit Facility | 5.55% | 11/28/2007 | \$ 22,000,000 | \$ | \$ 22,000,000 |
| Meadows IV | 4.95% | 11/1/2011 | 19,000,000 | | 19,000,000 |
| Patrick Henry | 5.02% | 4/1/2009 | 8,445,643 | (86,645) | 8,358,998 |
| | | | \$ 49,445,643 | \$ (86,645) | \$ 49,358,998 |

On November 28, 2005, the Company entered into a \$75,000,000 secured revolving credit facility (the Credit Facility) that bears interest at the London Interbank Offered Rate (LIBOR) plus 110 to 135 basis points. The exact rate of interest payable varies based on the ratio of total indebtedness to total asset value as measured on a quarterly basis. At June 30, 2006, the interest rate was 6.36%. The Credit Facility has a two year term with a one year extension option. Availability under the Credit Facility is based on the value of assets pledged as collateral. Through December 31, 2005, the Fair Oaks, Greenbriar, Loudoun Gateway IV and Sherwood Plaza properties with a total carrying value of \$63,106,953 had been pledged as security for borrowings under the Credit Facility. In April 2006, the Oakton property, with a carrying value of \$14,075,434 was also pledged to support the Credit Facility. The 1025 Vermont, Meadows IV, Park Plaza II and Patrick Henry properties are pledged to secure the respective mortgages listed above. The Credit Facility contains certain restrictions and covenants, which, among other things, limit the payment of dividends and distributions. Except to enable the Company to continue to qualify as a REIT for federal income tax purposes, the Company may not pay any dividends or make any distributions during any four consecutive quarters that, in the aggregate, exceed 95% of funds from operations, as defined in the Credit Facility. The Credit Facility also requires compliance with various financial ratios relating to

minimum amounts of net worth, fixed charge coverage, cash flow coverage and maximum amount of indebtedness and places certain limitations on investments. Management believes that the Company was in compliance with all such restrictions and covenants as of June 30, 2006.

On January 12, 2006, in connection with the purchase of the 1025 Vermont property, the Company assumed a \$19,000,000 first mortgage loan, bearing interest at fixed rate of 4.91% and maturing in January 2010.

On February 10, 2006, the Company amended the terms of the mortgage on 1025 Vermont, borrowing an additional \$3,500,000 against the property. The proceeds were used to pay down borrowings outstanding under the Credit Facility. The new loan balance bore interest at a fixed rate of 6.21% through April 1, 2006, whereupon the interest rate on the original and new borrowings was reset to equal a fixed rate of 5.11%, which is the combined weighted average of the interest rates in the original and amended loan agreements. Total interest due on the loan did not change. The maturity date for the borrowings under this loan is January 2010.

On February 16, 2006, the Company's Park Plaza II subsidiary borrowed \$24,290,000, secured by the Park Plaza II property. The indebtedness matures in March 2016 and requires monthly payments of interest-only at a fixed rate of 5.53% through March 2012 and monthly payments of principal and interest from April 2012 through February 2016, based on a fixed interest rate of 5.53%, on a 360 month amortization schedule. The proceeds were used to repay a portion of the borrowings outstanding under the Company's Credit Facility.

Debt maturities as of June 30, 2006 are as follows.

| | |
|------------|----------------------|
| 2006 | \$ 66,096 |
| 2007 | 21,588,533 |
| 2008 | 144,590 |
| 2009 | 8,030,829 |
| 2010 | 22,500,000 |
| 2011 | 19,000,000 |
| Thereafter | 24,290,000 |
| | \$ 95,620,048 |

8. Income and Other Taxes

As discussed in Note 2, the Company will elect to be taxed, and expects to qualify, as a REIT. As a result, the Company is not subject to Federal income taxes on income it distributes to stockholders. The Company is subject to Federal and state income taxes and local franchise tax on taxable income of its TRS and for Federal excise tax on any taxable REIT income in excess of 85% of dividends paid. Columbia Predecessor was taxed as a Subchapter S corporation and was not subject to Federal or state income tax, but was subject to a local District of Columbia franchise tax. The Company's tax provision for the three months and six months ended June 30, 2006 was \$8,000 and \$41,500, respectively, primarily for District of Columbia franchise tax on the REIT and the TRS. Columbia Predecessor's tax provision for the three months and six months ended June 30, 2005 was \$197,823 and \$231,884, respectively, primarily for District of Columbia franchise tax. There are no significant differences between the financial reporting and tax bases of assets and liabilities.

9. Equity Compensation Plan

The Company accounts for compensation expense related to grants of stock options and other share based incentive awards in accordance with SFAS No. 123(R), "Share-Based Payment". On July 5, 2005, the Company awarded LTIP Units to directors, consultants and employees, as set forth below. Once the LTIP Units achieve full parity with the OP Units with respect to liquidating distributions and are fully vested, LTIP Units may be converted into OP Units which may, in the Company's sole and absolute discretion, be redeemed by the Company for cash or exchanged for shares of the Company's common stock. It is the Company's intention that only Company stock be exchanged for OP Units that are being redeemed. The LTIP Units granted to directors and consultants vested immediately and the fair value of the LTIP Units as of date of grant has been recognized as an expense of the Operating Partnership. The LTIP Units granted to employees vest ratably over a five year period from date of grant, and the fair value of the LTIP Units as of date of grant is being ratably recognized as an expense of the Operating Partnership over the five-year vesting period. The aggregate value of the LTIP Units has not been reflected as unearned compensation within stockholders' equity because the LTIP Units relate only to the Operating Partnership and, consequently, have been reflected as Minority Interest in the Company's consolidated balance sheets. As of June 30, 2006, \$3,060,000 of the fair value of the LTIP Units granted to employees of the Company remains to be recognized as expense.

| Recipient Class | As of June 30, 2006 | | Minority Interest and Compensation Expense Recognized for the Three Months Ended June 30, 2006 | Minority Interest and Compensation Expense Recognized for the Six Months Ended June 30, 2006 |
|-----------------|--------------------------|-------------------------|--|--|
| | LTIP Units Granted | LTIP Units Vested | | |
| Directors | 20,000 | 20,000 | \$ | \$ |
| Consultants | 15,000 | 15,000 | | |
| Employees | 255,000 | | 191,250 | 382,500 |
| | 290,000 | 35,000 | \$ 191,250 | \$ 382,500 |

10. Minimum Future Rentals

The Company leases office space to tenants under various noncancelable operating leases. Leases on space in the office buildings provide for future minimum rentals plus provisions for escalations in the event of increased operating costs and real estate taxes (additional recovery revenue).

Minimum future rentals on noncancelable operating leases with original maturities which extend for more than one year as of June 30, 2006 are as follows.

Year Ending

December 31,

| | |
|-------------------|----------------|
| 2006 (six months) | \$ 12,782,559 |
| 2007 | 25,382,996 |
| 2008 | 24,638,427 |
| 2009 | 22,855,604 |
| 2010 | 18,234,061 |
| 2011 | 14,792,634 |
| Thereafter | 25,294,297 |
| | \$ 143,980,578 |

11. Related Party Transactions

The Company and Columbia Predecessor conduct business with the unconsolidated real estate entities in which they invest. Additionally, as discussed below, the Company has engaged in transactions with companies for which two of the Company's directors serve as executive officers. The amounts of fees attributable to the percentage of the unconsolidated real estate entities owned by the Company and Columbia Predecessor are intercompany transactions and have been eliminated from the accompanying consolidated financial statements and in the tables below.

Descriptions of the types of transactions between the Company, Columbia Predecessor, related parties, affiliates and unconsolidated real estate entities are set forth below.

Transactions Reflected in the Consolidated and Combined Financial Statements

The Company and Columbia Predecessor receive asset management and construction management fees from unconsolidated and affiliated real estate entities and from the unconsolidated real estate entities reflected as investments in the accompanying consolidated and combined financial statements. Asset management fees range from 1 to 2 percent of gross rents collected. Construction management fees range from 1 to 5 percent of construction costs under management.

The Company and CCC receive transaction advisory fees in connection with the purchase, sale or debt placement for certain properties that they managed or advised, including amounts earned from the uncombined real estate entities and from affiliates.

The Company leases 7,199 square feet of office space in one of its wholly owned properties to an affiliate of Alliance Bankshares Corporation, a company for which a director of the Company serves as Chief Executive Officer. The lease term is five years and began on March 1, 2005 and ends on February 28, 2010.

The Company and Columbia Predecessor rent office space from an affiliate and also pay monthly fees to an affiliate for office support services.

The following table sets forth the transactions between the Company and Columbia Predecessor and affiliates that are reflected in the consolidated and combined financial statements.

| Service | For the Three Months Ended June 30, 2006 | For the Three Months Ended June 30, 2005 | For the Six Months Ended June 30, 2006 | For the Six Months Ended June 30, 2005 |
|-------------------------|---|---|--|--|
| Revenues | | | | |
| Asset management | \$ 88,163 | \$ 348,463 | \$ 164,947 | \$ 701,194 |
| Construction management | 41,486 | | 72,743 | |
| Transaction advisory | | 467,534 | | 737,162 |
| Rental revenues | 40,167 | 41,837 | 86,403 | 55,783 |
| Expenses | | | | |
| Office space | 62,866 | 51,837 | 126,351 | 89,391 |
| Administrative services | 14,923 | 22,500 | 32,791 | 45,000 |
| | | | As of June 30, 2006 | As of December 31, 2005 |
| Receivables | | | | |
| Asset management | | | \$ 88,138 | \$ 166,850 |
| Construction management | | | 37,654 | 40,242 |
| Rental revenues | | | 6,202 | 13,999 |

Transactions Reflected in the Unconsolidated Real Estate Entities

On December 23, 2005, a property, in which the Company holds a 10% interest, leased to Alliance Bankshares Corporation 25,645 square feet of office space with a 127 month lease term beginning in July 2006. On a straight line basis, rent for the space will be \$734,570 per year over the term of the lease.

Affiliates of Clark Enterprises, Inc. (Clark), a company for which another director of the Company serves as Senior Vice President and General Counsel, remain as co-investors in two of the Company's unconsolidated real estate entities from which Clark received distributions of \$75,248, \$9,000, \$156,915 and \$21,060 in the three months and six months ended June 30, 2006 and 2005, respectively. Clark also provides construction services to two of the Company's other unconsolidated real estate entities for which Clark was paid \$4,361,272, \$0, \$7,025,498 and \$0 in the three months and six months ended June 30, 2006 and 2005, respectively.

The Company leases 21,798 square feet of office space at one of its joint venture properties to a company controlled by the father of the Company's Chief Executive Officer. The lease commenced on August 1, 2004 and expires July 31, 2014. The property recorded revenues of \$190,372, \$186,208, \$376,836 and \$372,404 in the three months and six months ended June 30, 2006 and 2005, respectively, from this lease.

The joint venture entities that own the King Street and 1575 Eye Street properties have purchased services from affiliates of CarrAmerica Realty Corporation, a company whose Chief Executive Officer is a sibling of the Company's Chief Executive Officer. CarrAmerica provided construction management and leasing services to King Street and provided property management and leasing services to 1575 Eye Street. CarrAmerica also provided construction management to the joint ventures that own the Madison Place, Victory Point and Independence Center I properties and serves as co-developer of the Independence Center II property.

For these services, the joint venture properties paid CarrAmerica \$157,462, \$138,311, \$298,589 and \$376,856 in the three months and six months ended June 30, 2006 and 2005, respectively.

The Company recorded revenue of \$0, \$0, \$188,493 and \$0 in the three months and six months ended June 30, 2006 and 2005, respectively, for leasing advisory services provided to the 1575 Eye Street and Madison place properties.

12. Commitments

During the third quarter of 2005 the Independence Center I joint venture, in which the Company owns a 14.74% interest, commenced development of Independence Center II (Center II) which will be a 115,368 net rentable square foot office building located in Chantilly, Virginia. The total cost of the development is expected to be approximately \$24,500,000, including land costs and estimated tenant improvements. Effective October 1, 2005, the Company contributed an 8.1% interest in the excess land of Independence Center I to a new joint venture that will own and develop Center II. In October 2005, Center II closed on a \$15,700,000 construction loan maturing on September 10, 2009 and bearing interest at a fixed rate of 6.02%. The Company has provided a limited guarantee of the outstanding loan balance. As of June 30, 2006, the Company has guaranteed up to \$737,000 of the loan. The amount guaranteed will be reduced or terminated based on the project achieving certain leasing and cash flow performance targets. In addition to the loan guarantee, the Company has also provided a completion guarantee for the project. The completion guarantee is limited to the Company's percentage ownership in the project. As of June 30, 2006, approximately \$14,379,000 or 58.69%, of the total anticipated project costs had been incurred.

On December 7, 2005, the Company entered into a definitive agreement with a third party to acquire a five-story, approximately 151,400 square foot, office building (Georgetown Plaza) located in Washington, D.C. for \$23,500,000 before transaction costs, including the assumption of a \$16,100,000 mortgage loan, bearing interest at a fixed rate of 5.78% and maturing in June 2013. The property is subject to a ground lease that expires in December 2058.

Subsequent to completion of due diligence on April 20, 2006, the contract price was renegotiated to \$23,000,000 million. We currently intend to acquire the property in a joint venture with an institutional partner in which we would maintain a 40% ownership interest. The investment is expected to be funded through additional borrowings under the Credit Facility. The purchase of the Georgetown Plaza is subject to the usual and customary closing conditions, including the assumption of the existing mortgage.

On April 25, 2006, the Company entered into a definitive agreement with a third party to acquire a three-story, approximately 102,400 square foot, multi-tenant office building (101 Orchard Ridge) located in Gaithersburg, Maryland for approximately \$27,400,000, before transaction costs. Subsequent to completion of due diligence, the contract price was renegotiated to \$26.7 million. A \$15,500,000 mortgage loan on the property that bears interest at a fixed rate of 6.06% and matures in May 2014 will be assumed as part of the purchase. The acquisition is expected to be funded through additional borrowings under the Credit Facility. The purchase of 101 Orchard Ridge is subject to the usual and customary closing conditions, including the assumption of the existing mortgage.

As of June 30, 2006, the Company was committed to paying approximately \$1,268,000 in the aggregate for tenant improvements and leasing commissions at certain of its wholly owned properties.

The Company's Park Plaza II property is subject to a ground lease which, after giving effect to 14 automatic five-year renewals, expires in August 2076. The Company may cancel the lease at the end of any renewal term by providing at least six months' advance notice. The base rent of \$332,069 per year will increase every 10 years, beginning in August 2010, by the percentage increase in the Consumer Price Index from the base month of August 2000. Property taxes on the land are paid by the Company.

The Company is not currently involved in any legal proceedings, other than routine litigation incidental to the Company's business, nor are any such proceedings known to be contemplated.

13. Subsequent Events

On July 5, 2006, the Company entered into an \$8,100,000 non-recourse mortgage loan secured by the Company's interest in the Chubb Building. The mortgage loan bears interest at a fixed rate of 6.11% with interest-only payments required on a monthly basis until the loan matures on July 1, 2011, when the entire principal balance is due. The proceeds of the loan were used to repay outstanding borrowings under the Credit Facility.

On July 27, 2006, the Company entered into separate definitive agreements to acquire four, two-story, multi-tenant office buildings located in Stafford, Virginia containing an aggregate of approximately 149,200 square feet (the Stafford Portfolio) for a combined purchase price of \$30,200,000.

As part of the acquisition of the Stafford Portfolio, the Company will also receive options to acquire three additional office properties which are currently in various stages of development. The Company may exercise its purchase options for a period of three years from the effective date of the particular option agreement, subject to certain terms and conditions.

The Stafford Portfolio is being acquired subject to existing mortgage loans on each of the properties with a combined principal balance outstanding of approximately \$17,200,000. The Company expects to fund the transaction with proceeds from its revolving line of credit and either the assumption of the existing mortgage financing or with new mortgage financing. The sale and closing of any of the four properties is conditioned upon the Company concurrently acquiring all four properties. The purchase of the Stafford Portfolio is subject to customary closing conditions, including the assumption of the existing mortgages and the satisfactory completion of a due diligence review during the inspection period.

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

The following discussion and analysis of the financial condition and results of operations of Columbia Equity Trust, Inc. (the Company) and Columbia Equity Trust, Inc. Predecessor (Columbia Predecessor) should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Form 10-Q.

Columbia Predecessor is not a legal entity but rather a combination of real estate entities and asset management operations under common ownership and management as described further below. References to we, us, and our refer to Columbia Equity Trust, Inc. and its consolidated subsidiaries or Columbia Predecessor, as applicable.

Forward Looking Statements

When used, the words believe, estimate, expect, intend, may, might, plan, project, result, should, similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. Any projection of revenues, earnings or losses, capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement. Any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based upon management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us at the time that we make such statements. Should one or more of these risks, uncertainties or events materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected by the forward-looking statements. Accordingly, investors should not place undue reliance on these forward-looking statements.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

general risks affecting the commercial office property industry;

risks associated with the availability and terms of financing and the use of debt, equity or other types of financings;

failure to manage effectively (i) our growth and (ii) our transition from a privately held to a publicly held company;

risks and uncertainties affecting property development and construction;

risks associated with downturns in the national and local economies, increases in interest rates and volatility in the securities markets;

risks associated with actual and threatened terrorist attacks;

costs of compliance with the Americans with Disabilities Act and other similar laws and potential liability for uninsured losses and environmental contamination;

risks associated with the potential failure to qualify as a REIT; and

the other risk factors identified in Part I, Item 1A Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

The risks set forth above and those contained in our Annual Report on Form 10-K, as well as those risk factors described in other documents that we file from time to time with the Securities and Exchange Commission, are not exhaustive. New risk factors may emerge from time to time and it is not possible for management to predict all risk factors, nor can it assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

Overview and Recent Developments

We are a self-advised and self-managed real estate company. We primarily focus on the acquisition, development, renovation, repositioning, ownership, management and operation of commercial office properties located predominantly in the Greater Washington, D.C. area, which we define as the District of Columbia, northern Virginia and suburban Maryland.

Columbia Equity Trust, Inc. commenced operations on July 5, 2005. During the periods presented prior to the completion of its initial public offering (the IPO) on July 5, 2005 in the accompanying combined financial statements, Columbia Predecessor was the limited partner and/or general partner or managing member of the real estate entities that directly or indirectly owned certain of our initial properties. The ultimate owners of Columbia Predecessor are Carr Capital Corporation (Carr Capital) and its wholly-owned subsidiary, Carr Capital Real Estate Investments, LLC (CCREI) and together with Carr Capital, CCC), The Oliver Carr Company and Carr Holdings, LLC, all of which are controlled by Oliver T. Carr, Jr. and Oliver T. Carr, III, acting as a common control group.

As of June 30, 2006, we:

- owned interests in 19 commercial office properties consisting of approximately 2.7 million square feet and one development property, including:

 - 100% fee simple ownership in ten properties totaling approximately 987,000 square feet of net rentable area;

 - a 100% leasehold interest in an approximately 126,000 square foot office building in North Rockville, Maryland (the property is subject to a ground lease with a remaining term, including extension options, of approximately 70 years);

 - partial interests ranging from 9% to 50% in eight office properties totaling approximately 1.6 million square feet of net rentable area; and

 - an 8.1% joint venture interest in a development adjacent to our Independence Center I property that will be comprised of an approximately 115,000 square foot office building.

- provided asset management services to related parties for three office buildings containing approximately 690,000 net rentable square feet and two hotel properties containing approximately 610 rooms.

During the first six months of 2006, we completed the following significant transactions:

- On January 12, 2006, we completed the acquisition of 1025 Vermont Avenue in Washington, D.C. for a purchase price of approximately \$34.1 million, net of transaction costs. The transaction was funded with borrowings under our credit facility and the assumption of a \$19.0 million mortgage loan which bears interest at 4.91% and matures in January 2010. Subsequent to the closing of the acquisition, the lender for the mortgage loan advanced an additional \$3.5 million in loan proceeds resulting in an outstanding balance of \$22.5 million. Concurrent with the increase in loan proceeds, the interest rate was re-set to a fixed rate of 5.11%. The additional loan proceeds were used to repay amounts outstanding under our credit facility. The property contains approximately 115,000 net rentable square feet of space and was 97% leased to 27 tenants at the time of acquisition.

On February 16, 2006, we completed a \$24.3 million, ten-year mortgage financing at a rate of 5.53% per annum that matures in March 2016. The financing requires monthly payments of interest-only at a fixed interest rate of 5.53% through March 2012 and monthly payments of principal and interest from April 2012 through February 2016 based on a fixed interest rate of 5.53% and a 360 month amortization schedule. The financing is secured by our leasehold interest in Park Plaza II.

On May 23, 2006 we completed the acquisition of 1741 Business Center Drive in Reston, Virginia (the Chubb Building, as defined in note 4 to the financial statements) for a purchase price of approximately \$11.5 million, net of transaction costs. The purchase price excludes approximately \$950,000 of costs associated with the defeasance of existing property level financing at the time of closing. The transaction was initially funded with borrowings under our credit facility. Subsequently, on July 5, 2006, we completed an \$8.1 million, five-year debt financing that matures in August 2011 and is secured by a mortgage deed of trust on the property. The financing requires monthly payments of interest-only at a fixed rate interest rate of 6.11%. The property contains approximately 41,400 net rentable square feet of space and was 100% leased to a single tenant at the time of acquisition.

In addition to the transactions described, on December 7, 2005, we entered into a material definitive agreement (the Georgetown Plaza Purchase Agreement) with Unicorn Wisconsin, LLC (Unicorn) to acquire a five-story, approximately 151,000 square foot multi-tenant office and retail building (Georgetown Plaza) located at 2233 Wisconsin Avenue in Washington, D.C. for \$23,500,000. The ownership of Georgetown Plaza is currently subject to a ground lease which expires in December 2058. Subsequent to completion of due diligence on April 20, 2006, the contract price was renegotiated to \$23.0 million and the ground lease expiration date was modified to 99 years from the date that the transaction closes. We currently intend to acquire the property in a joint venture with an institutional partner in which we would maintain a 40% ownership interest. We expect to fund our portion of the investment with proceeds from our credit facility. The joint venture intends to assume an approximately \$16.1 million mortgage loan which bears interest at 5.78% and matures in June 2013. The purchase of Georgetown Plaza is subject to customary closing conditions, including the assumption of the existing mortgage.

In April 2006, with the approval of the property's majority owner, we initiated a search for a buyer for the property owned by our Victory Point joint venture. While no prospective buyers have been identified as yet and an eventual sale is not assured, we expect to close on the sale prior to December 31, 2006.

On April 25, 2006, we entered into a material definitive agreement to acquire a three-story, approximately 102,400 square foot multi-tenant office building (101 Orchard Ridge) located in Gaithersburg, Maryland for approximately \$27.4 million before transaction costs. Subsequent to completion of due diligence, the contract price was renegotiated to \$26.7 million. We expect to fund the transaction with proceeds from our credit facility. Concurrent with the acquisition, we will assume a \$15.5 million mortgage loan which bears interest at 6.06% and matures in May 2014. The purchase of 101 Orchard Ridge is subject to customary closing conditions, including the assumption of the existing mortgage.

On May 22, 2006, we entered into a 99 year ground lease (the Duke Street Ground Lease) with Duke 8401 L.P. (the Landowner), for the purpose of developing and owning a class A commercial office building which we expect will include approximately 110,000 square feet of rentable area together with an underground parking facility. The project is located in Alexandria, Virginia. The term of the ground lease together with initial rent payments will commence upon our receipt of a building permit from the City of Alexandria which is anticipated in approximately 12 to 18 months and is conditioned upon receipt of all necessary zoning and planning approvals. Upon receipt of the requisite approvals, the construction period is estimated at an additional 12- 14 months. The site includes approximately 0.84 acres of land and is located in a commercial corridor approximately two blocks from the King Street metro station and is located directly across Duke Street from the United States Patent and Trade Office.

Initial payments under the ground lease are based on the level of leasing at the project and commence upon the issuance of a building permit from the City of Alexandria. The annual payment will increase to \$303,100 upon achievement of certain leasing milestones. The payment increases by 2% per annum during the term of the ground lease subject to a revaluation of the land and resulting ground rent recalculation every 10 years from the commencement of payments. Prior to the commencement of ground rent payments, the ground lease may be terminated by us based on market conditions and the timing and results of the government approval process. While preliminary, we anticipate that total development costs will be approximately \$30 million to \$35 million. We expect to fund the development costs with proceeds from our credit facility or with new construction financing. In addition, we are considering financing a portion of the project costs by creating an equity joint venture.

Subsequent Events

On July 5, 2006, we entered into an \$8,100,000 non-recourse mortgage loan secured by our interest in the Chubb Building. The mortgage loan bears interest at a fixed rate of 6.11% with interest-only payments required on a monthly basis until the loan matures on July 1, 2011, when the entire principal balance is due. The proceeds of the loan were used to repay borrowing outstanding under our credit facility.

On July 27, 2006, we entered into separate definitive agreements to acquire four, two-story, multi-tenant office buildings located in Stafford, Virginia containing an aggregate of approximately 149,200 square feet (the Stafford Portfolio or the Stafford Properties) for a combined purchase price of \$30.2 million. The Stafford Portfolio is being acquired subject to existing mortgage loans on each of the Stafford Properties with a combined principal balance outstanding of approximately \$17.2 million. As part of the acquisition of the Stafford Portfolio, we will also receive options to acquire three additional office properties which are currently in various stages of development and are projected to comprise approximately 110,000 square feet upon completion.

The Stafford Portfolio is approximately 98% leased and the majority of its tenants are defense contractors serving clients located at the Marine Corps Base in Quantico, Virginia, which is located less than one mile from the Stafford Properties. The sale and closing of any one of the four properties is conditioned upon acquiring all four properties. The completion of the Stafford Portfolio acquisition is subject to the usual and customary closing conditions, including satisfactory completion by us of a due diligence review during the inspection period and the assumption of the existing mortgage debt.

Our Business Strategy

Our goal is to generate attractive, long-term risk-adjusted investment returns for our stockholders through:

Investing in Small-to-Medium Size Office Buildings. We invest principally in small-to-medium size office properties with an initial cost between \$10 and \$60 million as we believe these properties present opportunities for attractive, risk-adjusted returns due to the lower degree of institutional focus on this segment of the office market.

Selective and Strategic Geographic Focus. We focus primarily on the Greater Washington, D.C. commercial office property market to take advantage of the strong economic and demographic characteristics of that market, leverage our local market expertise and relationships and create economies of scale through the clustering of properties.

Intensive and Efficient Asset Management. We intensively manage each of our properties through active property leasing and targeted capital improvements, which may include re-positioning or redeveloping certain properties, while maintaining efficiency through the outsourcing of non-strategic property functions.

Strategic Joint Ventures. We selectively enter into joint ventures where appropriate to leverage our equity returns through fees and disproportionate cash flow distributions, as well as manage the risks associated with certain properties that may be inappropriate to wholly own due to size or vacancy levels.

Recycling Capital. We evaluate individual properties in our portfolio to assess their future potential growth against current market values. If we believe that we have maximized a property's value potential, we will look to sell or recapitalize the property and reinvest the profit generated from the sale or recapitalization into new investments that offer improved earnings potential for our stockholders.

Maintain Investment Flexibility. When the market for new acquisitions remains competitive, we will consider allocating additional capital into development and alternative investment structures, including equity joint ventures and mezzanine debt, which may offer investment yields above those provided through wholly owned property acquisitions. In addition, we will consider investments in contiguous markets, as well as investments in mixed-use properties, that provide an appropriate investment yield premium.

Office Market Commentary

The results of our operations are significantly influenced by real estate and economic market conditions throughout the Greater Washington, D.C. area.

During the second quarter of 2006, economic and real estate fundamentals in the Greater Washington, D.C. area remained solid and were characterized by steady job growth, positive absorption of space and increasing rental rates. According to the CoStar Group, as of June 30, 2006:

Market-wide office vacancy levels remained low increasing slightly to 9.3% at June 30, 2006. This compares to vacancy rates of 9.0% at March 31, 2006; 9.2% at December 31, 2005; 9.7% at September 30, 2005; and 10.0% at June 30, 2005.

Vacancy levels by region at June 30, 2006 stood at 7.6% for the District of Columbia; 9.7% for suburban Maryland; and 10.3% for northern Virginia.

The average quoted asking rental rate for all classes of available office space was \$31.51 at June 30, 2006, representing a 4.6% increase in quoted rental rates from \$30.14 at June 30, 2005.

There was approximately 16.2 million square feet of office space under construction at March 31, 2006, represented by 6.5 million square feet in the District of Columbia, 8.3 million square feet in northern Virginia and 1.4 million square feet in suburban Maryland. This compares to a total of 12.2 million square feet of office space under construction at March 31, 2005.

Sales activity of office buildings remained brisk during the quarter ended March 31, 2006, the most recent time period for which this information is available, with total volume amounting to approximately \$2.2 billion compared to \$2.7 billion during the quarter ended December 31, 2005. The first quarter is frequently the lowest volume quarter of the year.

The unemployment rate for the Greater Washington, D.C. area as of June 30, 2006 was 3.3%, one of the lowest in the United States among major metropolitan areas. Job growth also remained among the highest within major metropolitan areas posting an increase of approximately 76,800 in non-farm payrolls for the twelve months ended June 30, 2006.

According to CoStar Group, net absorption, defined as the net change in occupied office space during a specific measurement of time, was a positive 2.0 million square feet for the Greater Washington, D.C. area during the quarter ending June 30, 2006. This compares to a positive 2.0 million of net absorption during the quarter ending March 31, 2006; a positive 2.7 million in the quarter ending December 31, 2005; and a positive 2.3 million in the quarter ending September 30, 2006.

While net absorption of space remains positive, certain sub-markets, especially in northern Virginia have experienced a slowing pace of leasing as tenants take longer to negotiate and execute leasing decisions. This would include the northern Virginia sub-market known as Westfields where we maintain 100% ownership interests in two properties (Meadows IV and 14700 Lee Road). Each of these assets was 100% leased as of June 30, 2006. We also maintain joint venture interests in three properties in the Westfields sub-market. We maintain a 14.7% interest in Independence Center I which was 92% leased as of June 30, 2006 and a 10% ownership interest in the Victory Point property which was 17% leased as of June 30, 2006. We also have an 8.1% joint venture interest in a development adjacent to our Independence Center I property that will be comprised of an approximately 115,000 square foot office building. The building is expected to be completed in September 2006. The building has not been pre-leased to any tenants as of June 30, 2006.

Against this backdrop of economic fundamentals, we continue to experience competitive acquisition and leasing markets in the region and the overall level of office property development has increased in recent quarters. Based on information provided by CoStar Group, the total square footage of office buildings under construction within the Greater Washington, D.C. area was approximately 16.5 million at June 30, 2006 compared to approximately 14.4 million at June 30, 2005.

With respect to the leasing environment, the tightening of office space markets through a trend of declining vacancy rates has provided landlords the ability to increase rental rates in many sub-markets throughout the region. Tenant improvements remain high, however.

Although we believe the Greater Washington, D.C. area is one of the best markets in the country for our focused office investment and development strategy, the strength of the investment market has increased the level of competition that we face and impacted the number of attractive yield opportunities. We have responded to these competitive pressures by remaining patient, maintaining our underwriting discipline and vigorously pursuing only those investments that meet our investment return thresholds.

You should be aware that when you read our financial statements and the information included below, office markets, in general, and our operations, in particular, are significantly affected by both macro and micro economic factors, including actual and perceived trends in various national and economic conditions that affect commercial real estate. Periods of economic slowdown or recession, rising interest rates, declining demand for real estate, or the public perception that any of these events may occur can adversely affect our business. Such conditions could lead to a decline in property values.

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The following table sets forth information related to the properties we owned or in which we had an ownership interest, at June 30, 2006:

| Property (1) | Ownership | | Market | Year | | Net Rentable Area (Square Feet) | Occupancy at June 30, 2006 | Total Annualized Rent (2) | Our Pro Rata Share of Total Annualized Rent as a % of our Total Annualized Rent (3) |
|-------------------------|-----------|------------------|-------------------|---|--------------------------|--|--|---------------------------------|---|
| | Interest | Tenancy | | Acquired by Columbia or Predecessor | Year Built/ Renovated | | | | |
| 1025 Vermont Avenue | 100% | Multitenant | Washington, D.C. | 2006 | 1964 - 2003 | 114,801 | 97% | \$ 3,654,060 | 9.6% |
| 1741 Business Cntr. Dr. | 100% | Single tenant | Northern Virginia | 2006 | 2000 | 41,358 | 100% | 957,204 | 2.5% |
| 14700 Lee Road | 100% | Single tenant | Northern Virginia | 2005 | 2000 | 84,652 | 100% | 2,126,280 | 5.6% |
| Fair Oaks | 100% | Multitenant | Northern Virginia | 2001 | 1985 | 126,949 | 91% | 2,536,356 | 6.7% |
| Greenbriar | 100% | Multitenant | Northern Virginia | 2001 | 1985 - 1998 | 111,721 | 88% | 2,126,520 | 5.6% |
| Loudoun Gateway IV | 100% | Single tenant | Northern Virginia | 2005 | 2002 | 102,987 | 100% | 1,563,096 | 4.1% |
| Meadows IV | 100% | Multitenant | Northern Virginia | 2004 | 1988 - 1997 | 148,160 | 100% | 3,315,216 | 8.7% |
| Oakton | 100% | Multitenant | Northern Virginia | 2005 | 1985 | 64,648 | 100% | 1,710,924 | 4.5% |
| Park Plaza II (4) | 100% | Multitenant | Suburban Maryland | 2005 | 2001 | 126,228 | 100% | 3,820,104 | 10.1% |
| Patrick Henry | 100% | Multitenant | Newport News, VA | 2005 | 1989 | 98,883 | 94% | 1,810,296 | 4.8% |
| Sherwood Plaza | 100% | Multitenant | Northern Virginia | 2000 | 1984 | 92,960 | 100% | 2,061,312 | 5.4% |

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| | | | | | | | | |
|--------------------------|---------------|-------------------|------|-------------|-----------|------|---------------|------|
| King Street | Multi-tenant | Northern Virginia | 1999 | 1984 - 2004 | 149,080 | 85% | 3,814,644 | 5.0% |
| Madison Place | Multi-tenant | Northern Virginia | 2003 | 1989 | 108,252 | 83% | 2,485,884 | 3.3% |
| Barlow Building | Multi-tenant | Suburban Maryland | 2005 | 1966 - 2001 | 270,562 | 95% | 9,125,868 | 9.6% |
| Atrium Building | Multi-tenant | Northern Virginia | 2004 | 1978 - 1999 | 138,507 | 100% | 4,027,872 | 3.9% |
| Suffolk Building | Single tenant | Northern Virginia | 2005 | 1964 - 2003 | 257,425 | 100% | 6,381,528 | 6.1% |
| Independence Center | Multi-tenant | Northern Virginia | 2002 | 1999 | 275,002 | 92% | 5,797,932 | 2.3% |
| 1575 Eye Street | Multi-tenant | Washington, D.C. | 2002 | 1979 | 210,372 | 98% | 7,817,724 | 2.0% |
| Victory Point | Multi-tenant | Northern Virginia | 2005 | 1989 - 2005 | 147,966 | 17% | 673,181 | 0.2% |
| Total / Weighted Average | | | | | 2,670,513 | 91% | \$ 65,806,001 | 100% |

(1) Information set forth in this table excludes our 8.1% ownership interest in the joint venture that owns the Independence Center II development property.

(2) Annualized rent is calculated by multiplying by a factor of twelve the actual contractual monthly base rent at June 30, 2006 for each tenant. Total

annualized rent includes our joint venture partners pro rata share of contractual base rent.

- (3) Represents the percentage of our pro rata share of annualized rent (which is based upon our percentage ownership interest in each property) divided by our total pro rata share of annualized rent of our portfolio.

- (4) The property is subject to a ground lease with a remaining term, including extension options, of approximately 70 years.

Summary of Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. Our significant accounting policies are described in the

notes to our financial statements. The preparation of these financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates, judgments and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, as described below.

The following are certain critical accounting policies and estimates which impact us. These policies have not changed during 2006.

Revenue Recognition and Allowance for Doubtful Accounts Receivable

Rental income with scheduled rent increases is recognized using the straight-line method over the term of the leases. Our leases generally contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes incurred by us. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants.

We must make estimates related to the collectibility of our accounts receivable generated by minimum rent, deferred rent, tenant reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts receivable. These estimates have a direct impact on our net income, because a higher bad debt allowance would result in lower net income.

Investments in Real Estate

When accounting for investments in real estate, we first determine the consideration to be paid, whether cash, our common stock, operating partnership units or a combination of the three.

Purchases of real estate are recorded at original cost. Pre-acquisition costs, including legal and professional fees and other third-party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. If the purchase is made using our common stock or operating partnership units, then the fair value of the stock or units issued is used to determine the purchase price. Pre-acquisition costs, including legal and professional fees and other third-party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. If the purchase is made using our common stock or operating partnership units, then the fair value of the stock or units issued is used to determine the purchase price. We allocate the purchase price to the net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the property and other market data. We also consider information obtained about each property as a result of our due diligence, marketing and leasing activities. The allocation of purchase price and determination of the useful lives of the resulting asset and liabilities involves significant judgments and impacts our results of operations in subsequent periods.

We allocate a portion of the purchase price to above-market and below-market in-place lease values based on the present value, using an interest rate which reflects the risks associated with the leases acquired, of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of the fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. The above-market lease values are recorded as intangible assets and are

amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The below-market lease values are recorded as deferred credits and are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases. If a tenant terminates a lease early, then any remaining unamortized lease value is charged or credited to rental revenue.

We also allocate a portion of the purchase price to the value of leases acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. We use our own estimates, or independent appraisals, if available, to determine the respective in-place lease values. Factors we consider in our analysis include an estimate of carrying costs during the expected lease-up period considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses. We also estimate costs to execute similar leases which primarily include leasing commissions and costs of providing tenant improvements.

The values of in-place leases and customer relationships are recorded as intangible assets and amortized to expense over the remaining weighted average non-cancelable terms of the respective leases. Should a tenant terminate its lease early, the remaining unamortized portion of the related intangible asset is recorded as expense.

Investments in Unconsolidated Real Estate Entities

For investments in real estate entities that we will not wholly own, we determine whether our investment is a variable interest in a variable interest entity as defined in FASB Interpretation ("FIN 46(R)") No. 46(R), "Consolidation of Variable Interest Entities." If the underlying entity is a variable interest entity, or VIE, as defined under FIN 46(R), the venture partner that absorbs a majority of the expected losses, expected gains, or both, of the VIE is deemed to be the primary beneficiary and must consolidate the VIE. If the entity is not a VIE, the entity is evaluated for consolidation based on controlling interests. If we have the ability to control operations and where no approval, veto or other important rights have been granted to other holders, the entity would be consolidated. We are not the primary beneficiary of any VIEs nor do we have controlling interests in any joint ventures. Therefore, we account for joint ventures under the equity method of accounting. Under the equity method, the investments are recorded initially at our cost and subsequently adjusted for our net equity in income and cash contributions and distributions.

Depreciation, Amortization and Impairment of Long-Lived Assets

We depreciate the values allocated to buildings and building improvements on a straight-line basis using lives ranging from 7.5 to 40 years and tenant improvements on a straight-line basis using the same life as the minimum lease term of the related tenant. The values of above-market and below-market leases are amortized over the remaining life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental revenue. We amortize the values of other intangible assets over their estimated useful lives. Changes in these estimates would directly impact our results of operations.

We are required to make subjective assessments as to whether there are impairments of our properties. We periodically evaluate each property for impairment and to determine if it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. If we determine that an impairment has occurred, we record a write-down to reduce the carrying amount of the property to its estimated fair value, if lower, which would have a direct impact on our results of operations because the recording of an impairment loss would result in an immediate negative adjustment to net income.

Results of Operations

The following is a comparison, for the three and six months ended June 30, 2006 and 2005 of the consolidated operating results of Columbia Equity Trust, Inc. and the operating results of Columbia Predecessor, our predecessor. The results of operations set forth in the following discussion for the three and six months ended June 30, 2005 contain the results of operations of Columbia Predecessor that occurred prior to the completion of our IPO and various formation transactions. Due to the timing of the IPO and the formation transactions, we do not believe that the results of operations discussed are necessarily indicative of our future operating results.

Comparison of Three Months Ended June 30, 2006 to Three Months Ended June 30, 2005

Base Rents

Base rental revenue is comprised of contractual rent, including the impacts of straight-line revenue and above and below market rental revenue from our wholly owned properties. Base rent revenues were \$6,510,618 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005. The increase in revenues was due to the inclusion of rental revenues for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties, and as a result did not record any base rental revenue.

Recoveries from Tenants

Recoveries from tenants includes operating and common area maintenance costs reimbursed by our tenants from our wholly owned properties. Recoveries from tenants were \$401,718 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005. The increase was due to the inclusion of tenant recoveries for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any tenant recoveries.

Fee Income

Fee income consists of: (1) transaction fees received by us from third parties and related parties relating to services provided in connection with property acquisitions or debt financing and (2) asset management and construction management fees received by us from third parties and related parties in connection with the oversight of property level accounting, risk management (insurance), lease administration, tenant improvements and physical maintenance and repairs. Fee income decreased by \$552,024, or 67.7%, to \$263,973 for the three months ended June 30, 2006 compared to the three months ended June 30, 2005. The decrease in 2006 was due primarily to: (1) higher transaction fee volume recorded in 2005 that resulted primarily from the financing of the Suffolk Building property in 2005 and (2) higher asset management fees recorded in 2005 associated with a residential condominium conversion project in which Columbia Predecessor maintained an ownership interest and which was not contributed to our Company. We expect to receive less fee income in the future from transaction fees as we place a greater emphasis on rental income generated by our ownership interest in commercial office properties.

Property Operating Expenses

Property operating expenses consist primarily of expenses incurred by our wholly owned properties for property management services and salaries, cleaning, security, and repairs and maintenance costs. Property operating expenses were \$1,099,415 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005. The increase was due to the inclusion of property operating expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any property operating expenses.

Utility Expenses

Utility expenses were \$597,659 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005. The increase was due to the inclusion of utility expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any utility expenses.

Real Estate Taxes and Insurance Expenses

Real estate taxes and insurance expenses were \$620,465 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005. The increase was due to the inclusion of real estate taxes and insurance expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any real estate taxes and insurance expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate level expenses not associated directly with our properties. This includes, but is not limited to, personnel compensation and benefits, accounting and legal fees, rent expense for our corporate headquarters, share-based compensation costs and other public company costs. General and administrative expenses increased by \$178,673, or 15.2%, to \$1,344,597 for the three months ended June 30, 2006 compared to \$1,165,924 for the three months ended June 30, 2005. The increase was primarily due to \$234,750 of share-based compensation costs incurred in 2006. On July 5, 2005, we awarded LTIP Units to directors, consultants and employees. LTIP Units may be converted into OP Units which may, in our sole and absolute discretion, be redeemed by us for cash or exchanged for shares of our common stock. The LTIP Units granted to directors and consultants vested immediately and the fair value of the LTIP Units as of date of grant has been recognized as an expense of the Operating Partnership. The LTIP Units granted to employees vest ratably over a five year period from date of grant, and the fair value of the LTIP Units as of date of grant is being ratably recognized as an expense of the Operating Partnership over the five-year vesting period.

Depreciation and Amortization Expenses

Depreciation and amortization expenses include depreciation of real estate assets, amortization of intangible assets and external leasing commissions. Depreciation and amortization expenses were \$3,547,507 during the three months ended June 30, 2006 compared to \$4,357 for the three months ended June 30, 2005. The increase was due primarily to the inclusion of real estate depreciation for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result incurred minimal depreciation costs.

Interest Income

Interest income increased by \$57,872, or 398%, to \$72,418 for the three months ended June 30, 2006 compared to \$14,546 for the three months ended June 30, 2005. The increase is primarily due to higher levels of cash balances in 2006.

Interest Expense

Interest expense increased by \$1,407,359 to \$1,409,609 for the three months ended June 30, 2006 compared to \$2,250 for the three months ended June 30, 2005. The increase was primarily due to increased levels of debt associated with the financing of properties acquired since the completion of our IPO. Prior to our IPO in July of 2005, we did not maintain majority control of any office properties and as a result incurred minimal financing costs associated with the ownership of our assets.

Equity in Net Income of Unconsolidated Real Estate Entities

Equity in net income of unconsolidated real estate entities decreased by \$2,163,987, or 98.3%, to \$38,071 for the three months ended June 30, 2006 compared to \$2,202,058 for the three months ended June 30, 2005. The decrease was primarily due to: (1) increased ownership interests in seven of our joint venture properties acquired in connection with our IPO resulting in additional equity in net losses; and (2) approximately \$2.3 million related to equity in net income recorded in 2005 that was generated by entities that were not contributed to us by Columbia Predecessor in our formation transactions, primarily its interest in a condominium conversion project.

Minority Interest

Minority interest increased to \$84,152 for the three months ended June 30, 2006 from \$0 for the three months ended June 30, 2005. The increase represents our minority partners' interests in the net loss for the first quarter of 2006. These minority interests were created in connection with our IPO and related formation transactions.

Net Income

The Company's net income decreased by approximately \$2,760,585, or 166%, to a net loss of approximately \$(1,098,338) for the three months ended June 30, 2006, as compared to approximately \$1,662,247 for the three months ended June 30, 2005. The decrease between the two periods is primarily due to the impact of our formation transactions from the IPO and subsequent acquisitions which substantially increased our ownership of commercial office properties and the collective net loss generated by these properties.

Comparison of Six Months Ended June 30, 2006 to Six Months Ended June 30, 2005

Base Rents

Base rental revenue is comprised of contractual rent, including the impacts of straight-line revenue and above and below market rental revenue from our wholly owned properties. Base rent revenues were \$12,704,599 for the six months ended June 30, 2006 compared to \$0 for the six months ended June 30, 2005. The increase in revenues was due to the inclusion of rental revenues for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties, and as a result did not record any base rental revenue.

Recoveries from Tenants

Recoveries from tenants includes operating and common area maintenance costs reimbursed by our tenants from our wholly owned properties. Recoveries from tenants were \$711,016 for the six months ended June 30, 2006 compared to \$0 for the six months ended June 30, 2005. The increase was due to the inclusion of tenant recoveries for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any tenant recoveries.

Fee Income

Fee income consists of: (1) transaction fees received by us from third parties and related parties relating to services provided in connection with property acquisitions or debt financing and (2) asset management and construction management fees received by us from third parties and related parties in connection with the oversight of property level accounting, risk management (insurance), lease administration, tenant improvements and physical maintenance and repairs. Fee income decreased by \$770,035, or 53.5%, to \$668,321 for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The decrease was due primarily to: (1) higher transaction fee volume recorded in 2005 that resulted primarily from the financings of the Suffolk Building and Victory Point properties in the first six months of 2005 and (2) higher asset management fees recorded in 2005 associated with a residential condominium conversion project in which Columbia Predecessor maintained an ownership interest and which was not contributed to us. We expect to receive less fee income in the future from transaction fees as we place a greater emphasis on rental income generated by our ownership interest in commercial office properties.

Property Operating Expenses

Property operating expenses consist primarily of expenses incurred by our wholly owned properties for property management fees and salaries, cleaning, security, and repairs and maintenance costs. Property operating expenses were \$2,240,608 for the six months ended June 30, 2006 compared to \$0 for the six months ended June 30, 2005. The increase was due to the inclusion of property operating expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any property operating expenses.

Utility Expenses

Utility expenses were \$1,129,844 for the six months ended June 30, 2006 compared to \$0 for the six months ended June 30, 2005. The increase was due to the inclusion of utility expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any utility expenses.

Real Estate Taxes and Insurance Expenses

Real estate taxes and insurance expenses were \$1,277,302 for the six months ended June 30, 2006 compared to \$0 for the six months ended June 30, 2005. The increase was due to the inclusion of real estate taxes and insurance expenses for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result did not record any real estate taxes and insurance expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate level expenses not associated directly with our properties. This includes, but is not limited to, personnel compensation and benefits, accounting and legal fees, rent expense for our corporate headquarters, share-based compensation costs and other public company costs. General and administrative expenses increased by \$864,073, or 55.9%, to \$2,408,971 for the six months ended June 30, 2006 compared to \$1,544,898 for the six months ended June 30, 2005. The increase was primarily due to additional on-going general and administrative expense costs

attributable to operations as a public company and share-based compensation costs of \$469,500 incurred in 2006. On July 5, 2005, we awarded LTIP Units to directors, consultants and employees. LTIP Units may be converted into OP Units which may, in our sole and absolute discretion, be redeemed by us for cash or exchanged for shares of our common stock. The LTIP Units granted to directors and consultants vested immediately and the fair value of the LTIP Units as of date of grant has been recognized as an expense of the Operating Partnership. The LTIP Units granted to employees vest ratably over a five year period from date of grant, and the fair value of the LTIP Units as of date of grant is being ratably recognized as an expense of the Operating Partnership over the five-year vesting period.

Depreciation and Amortization Expenses

Depreciation and amortization expenses include depreciation of real estate assets, amortization of intangible assets and external leasing commissions. Depreciation and amortization expenses were \$7,005,896 during the six months ended June 30, 2006 compared to \$7,360 for the six months ended June 30, 2005. The increase was due primarily to the inclusion of real estate depreciation for five properties in which we acquired a 100% interest in connection with our IPO and the acquisition of six additional wholly owned properties subsequent to completion of our IPO. Prior to our IPO in July 2005, we did not maintain majority control of any office properties and as a result incurred minimal depreciation costs.

Interest Income

Interest income increased by \$95,875, or 482%, to \$115,753 for the six months ended June 30, 2006 compared to \$19,878 for the six months ended June 30, 2005. The increase is primarily due to higher levels of cash balances.

Interest Expense

Interest expense increased by \$2,557,082 to \$2,561,582 for the six months ended June 30, 2006 compared to \$4,500 for the six months ended June 30, 2005. The increase was primarily due to increased levels of debt associated with the financing of properties acquired since the completion of our IPO.

Equity in Net Income (Loss) of Unconsolidated Real Estate Entities

Equity in net income (loss) of unconsolidated real estate entities decreased by \$2,402,875, or 104%, to \$(97,900) for the six months ended June 30, 2006 compared to \$2,304,975 for the six months ended June 30, 2005. The decrease was primarily due to: (1) increased ownership interests in seven of our joint venture properties acquired in connection with our IPO resulting in additional equity in net losses; and (2) a decrease of approximately \$2.3 million related to equity in net income of entities that were not contributed to our Company by Columbia Predecessor, primarily its interest in a condominium conversion project.

Minority Interest

Minority interest increased to \$159,654 for the six months ended June 30, 2006 from \$0 for the six months ended June 30, 2005. The increase represents our minority partners' interests in the net loss for the first quarter of 2006. These minority interests were created in connection with our IPO and related formation transactions.

Net Income

The Company's net income decreased by \$4,084,654, or 207%, to a net loss of \$2,110,087 for the six months ended June 30, 2006, as compared to \$1,974,567 for the six months ended June 30, 2005. The decrease between the two periods is primarily due to the effects of the impact of our formation transactions from the IPO and subsequent acquisitions which substantially increased our ownership in commercial office properties and the collective net loss generated by these properties.

Consolidated Cash Flows

Net cash provided by operating activities increased to \$5,649,856 for the six months ended June 30, 2006 compared to \$(746,565) for the six months ended June 30, 2005. The increase was primarily due to operating cash flows generated by the wholly owned commercial office properties, joint venture interests and management contracts, that we acquired from Columbia Predecessor and other parties at our IPO and related formation transactions as well as the acquisition of office real estate investments in subsequent acquisitions.

Net cash provided by investing activities decreased to \$(27,910,811) for the six months ended June 30, 2006 compared to \$2,195,981 for the six months ended June 30, 2005. The decrease was primarily due to \$26,631,482 paid to acquire interests in 1025 Vermont and the Chubb Building and related intangible assets.

Net cash provided by financing activities increased to \$22,498,972 for the six months ended June 30, 2006 compared to \$86,011 for the six months ended June 30, 2005. The increase was primarily due to the net proceeds received from the mortgage financing of our Park Plaza II and 1025 Vermont properties.

Liquidity and Capital Resources

We utilized the net proceeds from our IPO in July 2005 to acquire ownership interests in 16 commercial office properties for approximately \$148.1 million and repay approximately \$40.7 million of indebtedness associated with several of the properties. Our total market capitalization at June 30, 2006 was approximately \$407.4 million based on the closing price on the New York Stock Exchange of our common stock at June 30, 2006 of \$15.36 per share (assuming the conversion of 1,359,973 operating partnership and LTIP units into common stock) and debt outstanding of approximately \$173.6 million (exclusive of accounts payable and accrued expenses but including our pro rata share of joint venture debt). As a result, our debt to total market capitalization ratio was approximately 43% at June 30, 2006. As of June 30, 2006, our pro rata share of joint venture debt totaled approximately \$78.0 million. With the exception of a limited guarantee in the amount of approximately \$737,000, our pro rata share of joint venture debt is non-recourse to us and is collateralized by the real estate properties held by the joint ventures. We do not have a policy limiting the amount of debt that we may incur, although we have established 55% - 60% as the target range for our total debt-to-market capitalization, including our pro rata share of joint venture debt. Accordingly, we have discretion to increase the amount of our outstanding debt at any time without approval by our stockholders.

Short-term Liquidity

Our short-term liquidity requirements consist primarily of funds necessary to pay operating expenses including:

- recurring maintenance, repairs and other operating expenses necessary to properly maintain our properties;
- property taxes and insurance expenses;
- interest expense and scheduled principal payments on outstanding indebtedness;
- capital expenditures incurred to facilitate the leasing of space at our properties, including tenant improvements and leasing commissions;

general and administrative expenses; and

distributions to our stockholders and operating partnership unit holders.

We expect to meet our short-term liquidity requirements generally through cash provided from operations, our working capital, and by drawing upon our credit facility.

Long-term Liquidity

Our long-term liquidity requirements consist primarily of funds necessary to pay for scheduled debt maturities, renovations, expansions and other capital expenditures that need to be made periodically to our properties, and the costs associated with acquisitions of properties that we pursue. We expect to meet our long-term liquidity requirements for the funding of property acquisitions and other capital improvements through cash provided from operations, long-term secured and unsecured indebtedness, the issuance of equity and debt securities and other financing alternatives. Our ability to raise capital through the issuance of debt and equity securities is dependent upon market conditions. We also intend to fund property acquisitions and other capital improvements using borrowings, by potentially refinancing properties in connection with their acquisition, selectively disposing of assets, as well as by potentially raising equity capital through joint ventures. We may also issue units of limited partnership interest in our operating partnership (OP Units) to fund a portion of the purchase price for some of our future property acquisitions. On November 28, 2005, we entered into a \$75.0 million secured revolving credit facility with Wells Fargo Bank, National Association serving as the Administrative Agent. The credit facility has a two year term with a one year extension option. Availability under the credit facility is based on the value of the assets that we pledge as collateral. The credit facility is currently secured by first mortgages on the Fair Oaks, Greenbriar, Loudoun Gateway IV, Oakton and Sherwood Plaza properties. Borrowings under the credit facility bear interest at the London Interbank Offered Rate (LIBOR) plus 1.10% to 1.35%. Three month LIBOR was 5.48% as of June 30, 2006. The exact interest payable under the credit facility depends upon the ratio of our total indebtedness to total asset value as measured on a quarterly basis. Pursuant to the terms of the credit facility, this ratio cannot exceed 75%. At June 30, 2006, the interest rate on our credit facility was 6.36%.

The terms of the credit facility include certain restrictions and covenants, which limit, among other things, the payment of dividends. The terms also require compliance with financial ratios relating to the minimum amounts of net worth, fixed charge coverage, cash flow coverage, the maximum amount of indebtedness and certain investment limitations. The dividend restriction referred to above provides that, except to enable us to continue to qualify as a REIT for federal income tax purposes, we will not during any four consecutive quarters make distributions with respect to our common stock or any other equity interest in an aggregate amount that exceeds 95% of funds from operations, as defined, for such period, subject to other adjustments. Management believes that we were in compliance with all of the restrictions and covenants as of June 30, 2006.

In addition, the credit facility contains customary events of default, including among others, nonpayment of principal, interest, fees or other amounts; material inaccuracy of representations; violation of covenants; and certain bankruptcy events. If an event of default occurs and is continuing under the credit facility, the entire outstanding balance under the credit facility may become immediately due and payable.

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The following table sets forth certain information with respect to consolidated and unconsolidated indebtedness outstanding as of June 30, 2006:

| | Interest Rate | Maturity Date | Principal Balance as of June 30, 2006 | Pro Rata Share of Principal Balance as of June 30, 2006 (1) |
|--------------------------------|----------------------|---------------|---------------------------------------|---|
| Consolidated Debt (2) | | | | |
| Fixed Rate | | | | |
| Patrick Henry | 5.02% | 4/1/2009 | \$ 8,306,914 | \$ 8,306,914 |
| Meadows IV | 4.95% | 11/1/2011 | 19,000,000 | 19,000,000 |
| Park Plaza II | 5.53% | 3/4/2016 | 24,290,000 | 24,290,000 |
| 1025 Vermont Avenue | 5.11% | 1/1/2010 | 22,500,000 | 22,500,000 |
| Floating Rate | | | | |
| Credit Facility | LIBOR + 1.10 - 1.35% | 11/28/2007 | 21,450,000 | 21,450,000 |
| Subtotal | | | 95,546,914 | 95,546,914 |
| Unconsolidated Debt (2) | | | | |
| Fixed Rate | | | | |
| King Street | 5.06% | 3/1/2008 | 21,392,574 | 10,696,287 |
| Madison Place | 4.49% | 8/1/2008 | 15,185,385 | 7,592,693 |
| 1575 Eye Street | 6.82% | 3/1/2009 | 42,454,939 | 3,893,118 |
| Independence Center I | 5.04% | 9/10/2009 | 30,685,373 | 4,523,024 |
| Independence Center II | 6.02% | 9/10/2009 | 9,113,969 | 738,231 |
| Barlow Building | 5.04% | 8/1/2012 | 61,750,000 | 24,700,000 |
| Atrium Loan # 1 | 8.43% | 9/1/2012 | 17,870,692 | 6,612,156 |
| Atrium Loan # 2 | 6.21% | 9/1/2012 | 5,776,907 | 2,137,456 |
| Suffolk | 5.10% | 5/4/2015 | 42,000,000 | 15,330,000 |
| Floating Rate | | | | |
| Victory Point | LIBOR + 2.95% | 3/31/2008 | 18,152,530 | 1,815,253 |
| Subtotal | | | 264,382,369 | 78,038,218 |
| Total | | | \$ 359,929,283 | \$ 173,585,132 |

(1) Principal amount multiplied by our percentage

interest in the joint venture entity that owns the property.

- (2) With the exception of a limited guarantee in the amount of approximately \$737,000 for the debt at our Independence Center II property, our pro rata share of unconsolidated debt is non-recourse to us and is collateralized by the real estate properties held by the joint venture entities.

There are a number of factors that could adversely affect our cash flow. An economic downturn in our markets may impede the ability of our tenants to make lease payments and may impact our ability to renew leases or re-lease space as leases expire. In addition, an economic downturn or recession could also lead to an increase in tenant bankruptcies or insolvencies, increases in our overall vacancy rates or declines in rental rates on new leases. We also may be required to make distributions in future periods in order to meet the requirements to be taxed as a REIT. In all of these cases, our cash flow would be adversely affected.

Unconsolidated Investments and Joint Ventures

We have investments in real estate joint ventures in which we hold 8%-50% interests. These investments are accounted for using the equity method, and therefore the assets and liabilities of the joint ventures are not included in our consolidated financial statements. Most of our real estate joint ventures own and operate office buildings financed by non-recourse debt obligations that are secured only by the real estate and other assets of the joint ventures. In these instances, we have no obligation to repay this debt and the lenders have no recourse to our other assets.

As of June 30, 2006, we provided a limited guarantee for obligations owed under a \$15.7 million construction financing loan for our Independence Center II joint venture development project. Under the terms of the financing, we have guaranteed up to \$737,000 of the loan plus the lender's costs and expenses required to collect amounts due under the guarantee and any accrued and unpaid interest. The amount of the guarantee is reduced or terminated based on the project achieving certain leasing and cash flow performance targets. We also provide a limited completion guarantee for the project for which total costs are anticipated to be \$23.0 million, exclusive of land costs. We are liable for up to 14.74% of the guaranteed amounts, or approximately \$3.4 million.

Our investments in these joint ventures are subject to risks not inherent in our majority owned properties, including:

- Absence of exclusive control over the development, financing, leasing, management and other aspects of the project; and

- Possibility that our co-venturer or partner might:

 - become bankrupt;

 - have interests or goals that are inconsistent with ours;

 - take action contrary to our instructions, requests or interests (including those related to our qualification as a REIT for tax purposes); or

 - otherwise impede our objectives; and

- Possibility that we may elect to fund losses of the joint venture.

Off Balance Sheet Arrangements

We use the equity method to account for our investments in unconsolidated real estate entities because we have significant influence, but not control, over the investees' operating and financial decisions. For purposes of applying the equity method, significant influence is deemed to exist if we actively manage the property, prepare the property operating budgets and participate with the other investors in the property in making major decisions affecting the property, including market positioning, leasing, renovating and selling or continuing to retain the property.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses the consolidation of variable interest entities in which the equity investors lack one or more of the essential characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. In December 2003, the FASB issued a revised Interpretation No. 46 which modified and clarified various aspects of the original Interpretation. The adoption of the revised Interpretation No. 46 had no effect on our financial statements as we concluded that we are not required to consolidate any of our unconsolidated real estate ventures that we have accounted for using the equity method.

We do not have any off-balance sheet arrangements, other than those disclosed as contractual obligations or as a guarantee, with any unconsolidated investments or joint ventures that we believe have, or are reasonably likely to have, a future material effect on our financial condition, changes in our financial condition, our revenue or expenses, our results of operations, our liquidity, our capital expenditures or our capital resources. See Note 12 for a further discussion regarding our contractual obligations and guarantee.

Cash Distribution Policy

We will elect to be taxed as a REIT under the Internal Revenue Code commencing with our short taxable year ended on December 31, 2005, upon filing our federal income tax return for that year. To qualify as a REIT, we must meet a number of organizational and operational requirements, including the requirement that we distribute currently at least 90% of our taxable income to our stockholders, determined without regard to the dividends paid deduction and excluding any net capital gains. It is our intention to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal, state or local income taxes on taxable income we distribute currently (in accordance with the Internal Revenue Code and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal, state and local income taxes at regular corporate rates and may not be able to qualify as a REIT for subsequent tax years. Even if we qualify for federal taxation as a REIT, we may be subject to certain state and local taxes on our income and to federal income and excise taxes on our undistributed taxable income, i.e., taxable income not distributed in the amounts and in the time frames prescribed by the Code and applicable regulations thereunder. Our taxable REIT subsidiaries, including Columbia TRS Corporation, are subject to federal, state and local taxes. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Internal Revenue Code, and we may be required to borrow money or sell assets to pay out enough money to satisfy the distribution requirements

Inflation

Most of our leases contain provisions designed to mitigate the adverse impact of inflation by requiring tenants to pay their share of increases in operating expenses, including common area maintenance, real estate taxes and insurance as defined in the individual lease agreements. This reduces our exposure to increases in costs and operating expenses resulting from inflation. To the extent tenants are not required to pay operating expenses, we may be adversely impacted by inflation.

Geographic Concentration

The properties in which we maintain an ownership interest are located in Washington, D.C., Virginia and Maryland. We may make selected acquisitions or develop properties outside our focus market of the Greater Washington, D.C. area from time to time as appropriate opportunities arise, as evidenced by our acquisition of the Patrick Henry Corporate Center in Newport News, Virginia in December 2005.

Funds From Operations

As defined by the National Association of Real Estate Investment Trusts, or NAREIT, funds from operations, or FFO, represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back (deducted) from net income (loss) as part of reconciling net income (loss) to FFO. We present FFO because we believe it facilitates an understanding of the operating performance of our Company without giving effect to real estate depreciation and amortization, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations

from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition or that interpret the NAREIT definition differently than we do. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (loss) (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including cash distributions to stockholders, principal payments on debt and capital expenditures.

The following table provides the calculation of our FFO and reconciliation to net loss for the period from April 1, 2006 through June 30, 2006 and the period January 1, 2006 through June 30, 2006:

| | Three months ended June 30, 2006 | Six months ended June 30, 2006 |
|---|---|---|
| Net loss | \$ (1,098,338) | \$ (2,110,087) |
| Adjustments | | |
| Minority interests | (84,152) | (159,654) |
| Depreciation and amortization consolidated entities | 3,542,235 | 6,995,436 |
| Depreciation and amortization unconsolidated entities | 1,431,860 | 2,855,536 |
| Funds from operations | \$ 3,791,605 | \$ 7,581,231 |

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market interest rates. We use derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors. We have no interest rate protection, swaps or cap agreements in place as of the date of this filing.

Including our pro rata share of debt at unconsolidated real estate entities, we had \$23.3 million in variable rate debt, or 13%, of the total \$173.6 million that represents our pro rata share of debt outstanding as of June 30, 2006.

For fixed rate debt, changes in interest rates generally affect the fair value of debt but not our earnings or cash flow.

Including our pro rata share of debt at unconsolidated real estate entities, we estimate our pro rata share of the fair value of fixed rate debt outstanding at June 30, 2006 to be \$144.5 million compared to the \$150.3 million carrying value at that date.

If the market rates of interest on our variable rate debt increase by 1.0%, our annual interest expense would increase by approximately \$233,000. This assumes the amount outstanding under our variable rate debt facilities remains at \$23.3 million, which was our balance at June 30, 2006. The book value of our variable rate facilities approximates market value at June 30, 2006.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management timely. As of June 30, 2006, we performed an evaluation under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ending June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**Item 1A. Risk Factors**

The discussion of the Company's business and operations should be read together with the risk factors contained in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect the Company's business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. As of June 30, 2006, there have been no material changes to the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Submission of Matters to a Vote of Security Holders.

On May 12, 2006, the Annual Meeting of Stockholders was held and the following matters were submitted to the common stockholders for a vote. There were 13,310,822 shares of common stock either present or evidenced by proxy. Set forth below are the results of the vote for the election of directors, which was the only matter voted on at our Annual Meeting.

| Name | Votes For | Votes Against or Withheld | Total |
|----------------------|------------|------------------------------|------------|
| Oliver T. Carr, III | 13,151,303 | 159,519 | 13,310,822 |
| Bruce M. Johnson | 13,068,230 | 242,592 | 13,310,822 |
| Robert J. McGovern | 13,243,622 | 67,200 | 13,310,822 |
| Rebecca L. Owen | 13,301,912 | 8,910 | 13,310,822 |
| John A. Schissel | 13,243,622 | 67,200 | 13,310,822 |
| Hal A. Vasvari | 13,133,630 | 177,192 | 13,310,822 |
| Thomas A. Young, Jr. | 12,925,466 | 385,356 | 13,310,822 |

Item 6. Exhibits.

- 3.1 Articles of Amendment and Restatement of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11/A (Registration No. 333-122644) filed on June 28, 2005).
- 3.2 Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11/A (Registration No. 333-122644) filed on June 28, 2005).
- 4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2005).
- 4.2 Amended and Restated Agreement of Limited Partnership of Columbia Equity, LP (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-11/A (Registration No. 333-122644) filed on June 28, 2005).
- 10.1 Agreement of Purchase and Sale, by and between Foulger Land Limited Partnership, Argo Orchard Ridge Manager, Inc., Argo Investment Company and Columbia Equity Trust, Inc., dated April 25, 2006 (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed on May 15, 2006).
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer and Chief Financial Officer.

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SIGNATURES

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 thereunto duly authorized.

COLUMBIA EQUITY TRUST, INC.

Date: August 14, 2006

By: /s/ Oliver T. Carr, III
Oliver T. Carr, III
President and Chief Executive Officer

Date: August 14, 2006

By: /s/ John A. Schissel
John A. Schissel
Executive Vice President and Chief
Financial Officer

EXHIBIT INDEX

| No. | Description |
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