UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): October 14, 1997

ROYALE INVESTMENTS, INC.
(Exact name of registrant as specified in its charter)

Minnesota	0-20047	41-1691930
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

One Logan Square, Suite 1105
Philadelphia, PA 19103
(Address of principal executive offices) (Zip Code)

(215) 567-1800
Registrant's telephone number, including area code)

Royale Investments, Inc.
3430 List Place
Minneapolis, MN 55416-4547
(Former name or former address, if changed since last report)

Item 1. Changes in Control of Registrant

On October 14, 1997, Royale Investments, Inc. ("Registrant"), H/SIC Corporation, a Delaware corporation ("H/SIC"), Strategic Facility Investors, Inc., a Delaware corporation ("Strategic"), the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership ("Blue Bell, L.P."), South Brunswick Investment Company, LLC, a New Jersey limited liability company ("SBIC"), a general partner of South Brunswick Investors, L.P., a Delaware limited partnership ("South Brunswick, L.P."), ComCourt Investment Corporation, a Pennsylvania corporation ("ComCourt Corporation"), the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership ("ComCourt, L.P."), and Gateway Shannon Development Corporation, a Pennsylvania corporation ("Gateway"), the sole general partner of 6385 Flank Drive, L.P., a Pennsylvania limited partnership ("Flank, L.P."), completed a number of transactions (collectively, the "Transactions") pursuant to the Formation/Contribution Agreement dated September 7, 1997, as amended by the Amendment thereto dated as of October 13, 1997 (collectively, the "Formation Agreement"). H/SIC, Strategic and ComCourt Corporation are each 50% owned by Jay H. Shidler ("Shidler") and Clay W. Hamlin, III ("Hamlin"). Gateway is owned by Mr. Hamlin. Although the Transactions involved a number of properties and partnerships and were effected by a series of intermediate steps, the Transactions were negotiated and effected as a unitary transaction in which one part would not have been done without the other and, in effect, constituted as described below the acquisition by Registrant of an interest in a Delaware limited partnership, FCO, L.P. ("FCO"), formed to acquire ("Acquisition") and hold the Mid-Atlantic suburban office operations of The Shidler Group, a national real estate investment firm.

Pursuant to the Transactions, Registrant became the sole general partner of FCO, and FCO acquired all of the limited partnership interests in Blue Bell, L.P., South Brunswick, L.P., ComCourt, L.P. and Flank, L.P. (collectively the "Properties Partnerships") except for an 11% limited partnership interest in Blue Bell, L.P. retained by Shidler Equities, L.P., a limited partnership in effect controlled by Mr. Shidler and his wife Wallette Shidler ("Equities L.P."), and 11% limited partnership interests in each of ComCourt, L.P. and

Flank, L.P. retained by Mr. Hamlin (collectively the "Retained Interests"). Immediately prior to the acquisition by FCO of such limited partnership interests, the general partnership interests in the respective Properties Partnerships held by Strategic, SBIC, ComCourt Corporation and Gateway were converted into

limited partnership interests, and FCO Holdings, Inc. ("Holdings"), a wholly-owned Delaware subsidiary of Registrant, was admitted as the sole general partner of each of the Properties Partnerships holding a .1% interest in each of them. Registrant has a 20.6946% Percentage Interest in FCO which it acquired as a result of the contribution by Registrant to FCO of certain limited partnership interests in various of the Properties Partnerships which had been assigned directly to Registrant in exchange for 600,000 shares of common stock of Registrant. In addition, until December 31, 2000, a portion of the Profits (as defined in the FCO Partnership Agreement) for each fiscal year is to be allocated 19.8% to Registrant as the General Partner and 80.2% to all Partners (including Registrant as the General Partner but not the Preferred Limited Partners holding Preferred Units).

The Retained Interests are required to be contributed by Equities L.P. and Hamlin to FCO in November 2000 in consideration for the issuance to them of an aggregate of 282,508 Limited Partner Interests and 186,455 Preferred Partnership Units of FCO.

FCO was formed as a Delaware limited partnership by Registrant on October 9, 1997 for the purpose of effecting the Transactions. On October 14, 1997 Registrant, as the sole General Partner of FCO, and the limited partners and preferred limited partners named therein entered into a Limited Partnership Agreement dated that day (the "FCO Partnership Agreement").

Each of the Properties Partnerships holds one or more suburban office buildings located in South Brunswick, New Jersey, Blue Bell, Pennsylvania and Harrisburg, Pennsylvania. The ten buildings held by the Properties Partnerships (the "Commercial Office Buildings") comprise an aggregate of approximately 1.5 million square feet and in the aggregate are currently 99.8% leased to major corporate tenants, including Unisys Corporation, IBM Corporation, Teleport Communications Group, Merck, Hershey Foods, Pitney-Bowes, Ernst & Young and McGraw-Hill. These leases expire in various years, commencing in September 1999 and running to June 2009. Six of these buildings are single tenant buildings. Registrant, through FCO and Holdings, intends to continue the business of the Properties Partnerships of owning and leasing commercial office buildings.

Immediately prior to the Acquisition, each of the Properties Partnerships jointly and severally entered into a $100 million principal amount mortgage

financing with Bankers Trust Company pursuant to a Senior Secured Credit Agreement dated as of October 14, 1997 ("Credit Facility"). Approximately $96.1 million of the proceeds of the Credit Facility was used by entities other than the Registrant and FCO to refinance indebtedness of or secured by the assets of the Properties Partnerships and to pay various costs in connection with the Transactions. Approximately $3.9 million of the proceeds of the Credit Facility were contributed to FCO in connection with the Transactions. FCO used approximately $2.9 million of these funds to pay various costs associated with the Transactions and retained approximately $1.0 million for working capital needs. FCO is a joint and several obligor in respect of the Credit Facility. Registrant and Holdings are not obligors with respect to the Credit Facility, but have pledged certain assets described below to secure repayment of the Credit Facility. The initial term of the Credit Facility is three years with the right given to the obligors to extend it, subject to the satisfaction of conditions precedent thereto, for two successive one year extensions. Substantially all of the assets of the Properties Partnerships and FCO's and Holdings' interests in the Properties Partnerships and Registrant's interests in Holdings and FCO have been pledged or mortgaged to secure the Properties Partnerships' and FCO's joint and several obligations in respect of the Credit Facility.

For the purposes of the Acquisition, the Properties Partnerships were treated as having a value of $170 million (before giving effect to the indebtedness represented by the Credit Facility). For purposes of determining the consideration to be given in respect of the acquisition by FCO of limited partnership interests in the Properties Partnerships, Limited Partner Interests were issued (and will be issued in November 2000 for Retained Interests) at the rate of one Unit for every $5.50 in exchange value and Preferred Partnership Units were issued (and will be issued in November 2000 for Retained Interests) at a rate of one Unit for every $25.00 in exchange value.

The aggregate consideration issued in the Transactions by Registrant and FCO on October 14, 1997 to the former general and limited partners of the Properties Partnerships consisted of (x) 600,000 shares of common stock of Registrant (issued at a price of $5.50 per share); (y) an aggregate of 2,899,310

Limited Partner Interests in FCO (including 600,000 issued to Registrant in consideration for limited partnership interests in the Properties Partnerships acquired by it for 600,000 shares of its common stock and subsequently

contributed by it to FCO); and (z) 1,913,545 Preferred Partnership Units in FCO.

Prior to the execution and delivery of the Formation/Contribution Agreement, there had not been any material relationship between the general and limited partners of the Properties Partnerships and Registrant or any of its affiliates.

The nature and amount of consideration given and received by Registrant in the Transactions was based on its judgment as to the fair market value of the Commercial Office Buildings and the shares of common stock of Royale at the time the Formation/Contribution Agreement was negotiated.

Preferred Partnership Units of FCO may be converted on or after October 1, 1999 into Limited Partner Interests of FCO on the basis of 3.5714 Units of Limited Partner Interest for each Preferred Partnership Unit being converted plus an amount in cash equal to the accrued Priority Return Amount (as defined in the FCO Partnership Agreement) in respect of such Preferred Partnership Units.

Subject to compliance with the FCO Partnership Agreement, beginning on September 1, 1998, each Limited Partner of FCO has the right to require FCO to redeem all or a portion of the Limited Partner Interests held by such Limited Partner. FCO (or Registrant as its General Partner) has the right, in its sole discretion, to deliver to such redeeming Limited Partner either one share of common stock of Registrant (subject to anti-dilution adjustment) or a cash payment equal to the then fair market value of such share (so adjusted) (based on the formula for determining such value set forth in the FCO Partnership Agreement). Such rights of redemption and conversion are immediately exercisable upon the happening of a Special Event (as defined in the FCO Partnership Agreement). The redemption of Limited Partner Interests for common stock of Registrant will have the effect of increasing Registrant's Percentage Interest in FCO.

The right to receive common stock of Registrant upon exercise of such right of redemption is subject to compliance with a number of significant conditions precedent including compliance with Registrant's charter, all requirements under the Internal Revenue Code of 1986, as amended applicable to real estate investment trusts, compliance with the Minnesota Business Corporation Act or any

other law then in effect and any applicable rule or policy of any stock exchange or self-regulatory organization.

The following table sets forth the interests as of October 14, 1997 of the general and limited partners of FCO and the holders of Preferred Partnership Units in FCO (before giving effect to any contribution of Retained Interests):

<TABLE>
<CAPTION>

<S>	Units of Limited Partner Interests <C>	Percentage Interest <C>	Preferred Partnership Units <C>
General Partner			
Royale Investments, Inc.	600,000	20.6946%	
Limited Partners and Preferred Limited Partners			
Mr. Shidler	2,600	0.0897%	126,079
Shidler Equities, L.P.(1)	582,103	20.0773%	457,826
Mr. Hamlin	5,235	.1805%	115,334
LBCW Limited Partnership(2)	875,284	30.1894%	663,808
CHLB Partnership(3)	63,243	2.1813%	41,741
Robert L. Denton	129,549	4.4683%	85,502
James K. Davis	15,368	.5300%	10,142

</TABLE>

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1 A limited partnership controlled by Jay H. Shidler and his wife, Wallette Shidler.

2 A limited partnership controlled by Mr. Hamlin who is the sole general partner.

3 A Pennsylvania family partnership controlled by Mr. Hamlin and his wife, Lynn B. Hamlin, as the sole general partners.

<TABLE>
<CAPTION>

<S>	Units of Limited Partner Interests <C>	Percentage Interest <C>	Preferred Partnership Units <C>
John E. deB. Blockey, Trustee of the John E. deB. Blockey Living Trust dated 9/12/88	89,549	3.0886%	59,102
Henry D. Bullock	34,718	1.1975%	22,914
Frederick K. Ito	17,359	0.5987%	11,457
LGR Investment Fund, Ltd.	80,030	2.7603%	52,820
Tiger South Brunswick, L.L.C.	2,875	.0992%	1,898
Westbrook Real Estate Fund I, L.P.	336,121	11.5931%	221,840
Westbrook Real Estate Co. Investment Partnership I, L.P.	33,299	1.1485%	21,977
Denise J. Liszewski	10,227	0.3527%	6,750
Samuel Tang	6,818	0.2352%	4,500
David P. Hartsfield	9,091	0.3136%	6,000
Lawrence J. Taff	4,091	0.1411%	2,700
Kimberly F. Aquino	1,750	0.0604%	1,155
	2,899,310	100.0000%	1,913,545

</TABLE>

Pursuant to the Transactions, Messrs. Shidler and Hamlin each acquired 300,000 shares of common stock of Registrant in exchange for partnership interests in various of the Properties Partnerships. The right to acquire 147,818 of these shares (73,909 by each of Messrs. Shidler and Hamlin) was acquired by Mr. Shidler and Mr. Hamlin for cash payments aggregating $813,000 to the persons who contributed certain of these partnership interests to Registrant. The common stock issued to Mr. Shidler and Mr. Hamlin represents, in the aggregate, approximately 26% of the outstanding common stock of the Registrant immediately following the Transactions. The Properties Partnerships had prior to the Transactions in effect been controlled by Mr. Shidler and Mr. Hamlin.

Concurrently with the closing of the Transactions and pursuant to the Formation/Contribution Agreement, Registrant acquired for 273,729 shares of its common stock all of the assets of Crown Advisors, Inc. ("Crown") (including 27,646 shares of Registrant's common stock held by Crown and valued for this purpose at $5.50 per share). The shares of common stock of Registrant held by Crown were then retired. Crown had been the advisor to Registrant pursuant to a management contract. All of the outstanding capital stock of Crown was owned by Vernon R. Beck and John Parsinen, then directors and Chairman of the Board and Chief Executive Officer and Secretary, respectively, of Registrant. The management contract between Crown and Registrant was terminated and Registrant entered into a new management agreement with Glacier Realty, LLC, a Minnesota limited liability company all of the interests in which are owned by Vernon R. Beck and John Parsinen. Under this Management Agreement, Glacier will be responsible for the management of the retail properties of the Registrant.

Upon completion of the Transactions, Mr. Hamlin, Mr. Shidler, William H. Walton and Kenneth S. Sweet, Jr., nominees of the persons who previously directly or indirectly held the general and limited partnership interests in the Properties Partnerships, were elected directors of the Registrant and John

Parsinen, Orvin J. Hall and Kurt Schoenrock resigned from the Board of Directors of the Registrant. Messrs. Vernon R. Beck, Allen C. Gehrke and Kenneth D. Wethe continued as directors. The Board of Directors of Registrant consists of seven directors. All directors are elected to serve until they die or retire or until the next annual meeting of the shareholders of Registrant and their successors are elected and qualified. It is expected that Mr. Shidler will shortly be elected Chairman of the Board of Directors of Registrant as provided by the Formation/Contribution Agreement.

Upon completion of the Transactions, the following officers of the Registrant were appointed and the existing officers of the Registrant resigned:

Clay W. Hamlin, III	President and Chief Executive Officer
Vernon R. Beck	Vice President
James K. Davis	Chief Financial Officer
David P. Hartsfield	Chief Operating Officer
John Parsinen	Secretary
Denise Liszewski	Vice President and Assistant Secretary

Mr. Hamlin has entered into a two year, employment agreement with FCO which will be renewed automatically unless terminated by either party upon notice to the other.

Item 2. Acquisition or Disposition of Assets.

See response to Item 1.

Item 3. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired

To be filed by amendment.

(b) Pro Forma Financial Information

To be filed by amendment.

Exhibit Number	Description
2.1	Formation/Contribution Agreement dated September 7, 1997, as amended, by and among Royale Investments, Inc., H/SIC Corporation, a Delaware corporation, Strategic Facility Investors, Inc., a Delaware corporation, the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership, South Brunswick Investment Company, LLC, a New Jersey limited liability company, a general partner of South Brunswick Investors, L.P., a Delaware limited partnership, ComCourt Investment Corporation, a Pennsylvania corporation, the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership, and Gateway Shannon Development Corporation, a Pennsylvania corporation, the sole general partner of 6385 Flank Drive, L.P., a Pennsylvania limited partnership, with exhibits, as amended by the Amendment thereto dated October 13, 1997.
2.2	Agreement and Plan of Reorganization between the Registrant and Crown Advisors, Inc.
2.3	FCO, L.P. Partnership Agreement dated October 14, 1997.
2.4	Amended and Restated Partnership Agreement of Blue Bell Investment Company.
2.5	Amended and Restated Partnership Agreement of South Brunswick Investors, L.P.
2.6	Amended and Restated Partnership Agreement of ComCourt Investors, L.P.
2.7	Amended and Restated Partnership Agreement of 6385 Flank, L.P.
10.1	Clay W. Hamlin III Employment Agreement dated October 14, 1997 with FCO, L.P.
10.2	Registration Rights Agreement dated October 14, 1997 for the benefit of certain shareholders of the Registrant.

10.3	Management Agreement between Registrant and Glacier Realty, LLC.
10.4	Senior Secured Credit Agreement dated October 13, 1997 (Exhibits and Schedules have been omitted pursuant to Rule 6.01(b)(2) of Regulation S-K. Such Exhibits and Schedules are listed and described in the Credit Agreement. The Registrant hereby agrees to furnish to the Securities and Exchange Commission, upon its request, any or all such omitted Exhibits and Schedules.)
20.	Press Release dated October 14, 1997.

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 hereunto duly authorized.

Dated: October 28, 1997

ROYALE INVESTMENTS, INC.

By: /s/ Clay W. Hamlin, III

Name: Clay W. Hamlin, III
Title: President and Chief Executive Officer

EXHIBIT INDEX

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20.	Press Release dated October 14, 1997.

FORMATION/CONTRIBUTION AGREEMENT

THIS FORMATION/CONTRIBUTION AGREEMENT dated as of the 7th day of September 1997 by and among ROYALE INVESTMENTS, INC., a Minnesota corporation ("Royale"), H/SIC CORPORATION, a Delaware corporation ("H/SIC"), STRATEGIC FACILITY INVESTORS, INC., a Delaware corporation ("Strategic"), the sole general partner of BLUE BELL INVESTMENT COMPANY, L.P., a Delaware limited partnership ("Blue Bell, L.P."); SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company ("SBIC"), a general partner of SOUTH BRUNSWICK INVESTORS, L.P., a Delaware limited partnership ("Brunswick, L.P."), COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation ("ComCourt Corporation"), the sole general partner of COMCOURT INVESTORS, L.P., a Delaware limited partnership ("ComCourt Investors, L.P."), and GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation ("Gateway"), the sole general partner of 6385 FLANK DRIVE, L.P., a Pennsylvania limited partnership ("Flank, L.P.").

1. Definitions:

All terms not otherwise defined in this Formation/Contribution Agreement shall have the meanings set forth in this Section 1.

"Advisory Agreement" means the existing Amended and Restated REIT Advisory Agreement dated as of November 22, 1995 between Royale and Crown, attached hereto as Exhibit "Advisory Agreement".

"Agreement" shall mean this Formation/Contribution Agreement.

"Blue Bell, L.P." shall mean Blue Bell Investment Company, L.P., a Delaware limited partnership.

"Brunswick, L.P." shall mean South Brunswick Investors, L.P., a Delaware limited partnership.

"Closing" shall mean the closing of the Transactions.

"Closing Date" shall mean a date which occurs on or before one hundred twenty (120) days after the date of this Agreement, and shall be the earliest date at which the conditions precedent to Closing can or have been satisfied.

"Code" shall mean the Internal Revenue Code of 1986 as amended.

"ComCourt Corporation" shall mean ComCourt Investment Corporation, a Pennsylvania corporation, the sole general partner of ComCourt Investors.

"ComCourt Investors, L.P." shall mean ComCourt Investors, L.P., a Delaware limited partnership.

"Common Units" shall mean 3,181,818 common partnership units in the UPREIT in the aggregate (which, together with the Preferred Units, shall be the aggregate consideration for the Contributed Interests, Retained Interests, and H/SIC Assets). The Common Units will have a distribution yield equal to the dividend yield of Royale Common Stock and will be convertible into Royale Common Stock initially on a one for one basis (subject to the anti-dilution adjustments) and otherwise will have the terms and conditions set forth in the UPREIT Agreement.

"Contributed Interests" shall mean 89% of the H/SIC Partnership Interests (including, without limitation, the H/SIC Partnerships Interests of the H/SIC General Partners) in each of Blue Bell, ComCourt Investors, L.P. and Flank, and 100% of the H/SIC Partnerships Interests in Brunswick, L.P. to be contributed to the UPREIT at Closing in exchange for Common Units and Preferred Units.

"Contributors" shall mean the H/SIC Partners.

"Coopers" shall mean Coopers & Lybrand, L.L.P.

"Crown" shall mean Crown Advisors, Inc., a Minnesota corporation.

"Flank, L.P." shall mean 6385 Flank Drive, L.P., a Pennsylvania limited partnership.

"Gateway" shall mean Gateway Shannon Development Corporation, a Pennsylvania corporation, the sole general partner of Flank, L.P. and Central Pennsylvania, L.P.

"H/SIC" shall mean H/SIC Corporation, a Delaware corporation owned equally by Jay H. Shidler and Clay W. Hamlin, III.

"H/SIC Assets" shall mean H/SIC's furniture, fixtures, equipment, proprietary assets, and rights to compensation for services performed after Closing under H/SIC's management contracts.

"H/SIC General Partners" shall mean Strategic, Gateway, SBIC, and ComCourt Corporation.

"H/SIC Limited Partners" shall mean the limited partners of the H/SIC Partnerships, as such limited partners are more particularly identified on Exhibit "H/SIC Partners".

"H/SIC Partners" shall mean all of the general and limited partners of the H/SIC Partnerships, as more particularly identified, with each of their respective partnership interests, on "Exhibit H/SIC Partners".

"H/SIC Partnerships" shall mean, collectively, Blue Bell, L.P., Brunswick, L.P., ComCourt Investors, L.P., and Flank, L.P. "H/SIC Partnership" shall mean any one (1) of the H/SIC Partnerships.

"H/SIC Partnership Agreements shall mean collectively, the limited partnership agreements of Blue Bell, L.P., Brunswick, L.P., ComCourt Investors, L.P. and Flank, L.P. "H/SIC Partnership Agreement" shall mean any one (1) of the H/SIC Partnership Agreements.

"H/SIC Partnership Interests" shall mean all of the partnership interests of the H/SIC Partners in the H/SIC Partnerships.

"H/SIC Properties" shall mean, collectively, the nine (9) office properties totalling approximately 1,480,436 net rentable square feet owned by the H/SIC Partnerships, as more fully identified on Exhibit "H/SIC Properties". "H/SIC Property" shall mean any one (1) of the H/SIC Properties.

"H/SIC Properties Indebtedness" shall mean approximately $99,000,000 of mortgage debt secured by the H/SIC Properties at the time of Closing. The H/SIC Properties Indebtedness will be prepayable and will bear interest at a fixed rate of 7.5% per year and will be on other terms acceptable to the H/SIC General Partners and Royale. The general terms of the "H/SIC Properties Indebtedness" are set forth on Exhibit "H/SIC Properties Indebtedness".

"H/SIC Corporation Shareholders" shall mean Jay H. Shidler and Clay W. Hamlin, III, the owners of common stock of H/SIC.

"Management Agreement" means the agreement to be entered into at Closing between Royale and Newco, a to be formed corporation owned by Vernon Beck and John Parsinen, pursuant to which Newco will manage all of Royale's net leased retail proper ties. The Management Agreement is set forth in Exhibit "Management Agreement".

"Pennsylvania H/SIC Partnerships" shall mean Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Limited Partners" shall mean the limited partners of Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Partnership Agreements" shall mean the limited partnership agreements of Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Properties" shall mean the real estate owned by Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Preferred Units" shall mean convertible preferred partnership units of the UPREIT with an aggregate face value of $52,500,000.00 and a distribution yield of 6.5% per year (which, together with the Common Units, shall be the aggregate consideration for the Contributed Interests, Retained Interests, and H/SIC Assets). Preferred Units will be convertible into Common Units or Royale Common Stock at an initial conversion price of $7.00 per Common Unit or share of Royale Common Stock (subject to anti dilution adjustments), and will otherwise have the terms and conditions set forth in the UPREIT Agreement. Preferred Units issued at Closing may not be converted prior to the second anniversary of the Closing.

"Registration Rights Agreement" shall mean an agreement between Royale and the H/SIC Partners pursuant to which Royale shall give the H/SIC Partners certain registration rights (commonly known as demand, shelf, and piggyback registration rights) with respect to Royale Common Stock to induce the H/SIC Partners to contribute the H/SIC Partnership Interests.

"Retained Interests Closing" shall mean the second closing which will take place on the date which is three (3) years and one (1) month after the Closing Date at which second closing the Retained Interests shall be contributed to the UPREIT in exchange for Common Units and Preferred Units.

"Retained Interests" shall mean 11% of the H/SIC Partnership Interests held by Pennsylvania H/SIC Limited Partners not contributed in exchange for Units and Preferred Units at Closing, but contributed at the Retained Interests Closing in consideration for Common Units and Preferred Units.

"Royale" shall mean Royale Investments, Inc., a Minnesota corporation which qualifies as a real estate investment trust pursuant to Section 856 of the Code. Royale shall be an internally managed and advised real estate investment trust.

"Royale Acquisition Facility" shall mean the financing to be arranged by H/SIC for Royale for acquisitions of additional properties after the Closing, which financing is more particularly described on Exhibit "Royale Acquisition Facility".

"Royale Common Stock" shall mean the common stock of Royale. Royale Common Stock is publicly traded.

"Royale Properties" shall mean all of the net leased retail properties owned by Royale as of the date of this Agreement as more particularly described on Exhibit "Royale Properties."

"Royale Properties Indebtedness" shall mean the mortgage debt secured by the Royale Properties and more particularly described on Exhibit "Royale Properties Indebtedness."

"Strategic" shall mean Strategic Facility Investors, Inc., a Delaware corporation in the sole general partner of Blue Bell.

"SBIC" shall mean South Brunswick Investment Company, LLC, a New Jersey limited liability company a general partner of Brunswick, L.P.

"Transactions" shall mean collectively all of the transactions contemplated by this Agreement.

"UPREIT" shall mean First Commercial, L.P., a Delaware limited partnership whose one percent (1%) sole general

partner shall be Royale and which will be the operating partnership or umbrella partnership in Royale's umbrella partnership real estate investment trust structure. UPREIT shall also include (a) any entity or entities (limited partnerships, corporations, or limited liability companies) controlled by the UPREIT or Royale and designated by the UPREIT to acquire any of the H/SIC Partnership Interests contributed by the H/SIC Partners in exchange for Common Units and Preferred Units, and (b) any directly or indirectly wholly owned subsidiary entities of First Commercial, L.P. designated by First Commercial, L.P. to enter into agreements relating to real estate or to own real estate for and on behalf of First Commercial, L.P.

"UPREIT Agreement" shall mean the limited partnership agreement of the UPREIT which shall provide that Royale shall be the one percent (1%) sole general partner and whose provisions shall be the customary provisions typically found in the limited partnership agreements of operating partnerships in an umbrella partnership real estate investment trust structure, with such changes that may be necessary or desirable to reflect the specific terms of the Transactions and shall otherwise be in form and substance reasonably satisfactory to the H/SIC Partners and Royale. Certain general terms of the UPREIT Agreement are set forth on Exhibit "UPREIT Agreement Terms."

2. General: Intention of the Parties.

Royale, H/SIC, Strategic, SBIC, Gateway, and ComCourt Corporation are entering into this Agreement for the purpose of setting forth the terms of the Transactions pursuant to which the parties shall create an UPREIT. The UPREIT shall acquire the H/SIC Partnership Interests contributed by the H/SIC Partners in exchange for Common Units and Preferred Units.

3. Structure.

Royale and the H/SIC General Partners shall form the UPREIT prior to Closing. Pursuant to the terms of this Formation/Contribution Agreement,

(a) The UPREIT will acquire the H/SIC Partnership Interests (including, without limitation, the H/SIC Partnership Interests of the H/SIC General Partners).

(b) H/SIC will transfer the H/SIC Assets to Royale in accordance with Exhibit "H/SIC Management Transfer".

The UPREIT, through the H/SIC Partnerships, will have controlling ownership of the H/SIC Properties, and will focus on acquiring and operating commercial real

estate properties.

4. Board of Directors: Senior Management.

(a) As a part of the Transactions. the Board of Directors of Royale will, at Closing, be expanded to seven (7) members. Four (4) of the Directors will be Directors nominated by the H/SIC General Partners; two (2) of the Directors nominated by the H/SIC General Partners shall be Independent Directors (as defined in Royale's bylaws). Three of the Directors shall be Directors nominated by the Board of Directors of Royale as constituted before Closing; two (2) of the Directors nominated by the Board of Directors of Royale as constituted before Closing shall be Independent Directors. Jay H. Shidler shall be the Chairman of the Board of Directors of Royale, and Vernon Beck shall be the Vice Chairman of the Board of Directors of Royale.

(b) At Closing, the officers of Royale shall be the Officers set forth on Exhibit "Senior Management." At Closing, Royale and Clay W. Hamlin, III will enter into an employment agreement, in the form set forth in Exhibit "Senior Management." The powers, duties and responsibilities of the officers of Royale shall be as set forth in the bylaws of Royale or as established by the Board of Directors of Royale.

5. Royale Offices.

From and after the Closing Date, Royale will maintain offices at 3430 List Place, Minneapolis, Minnesota 55416 and One Logan Square, Suite 1105, Philadelphia, Pennsylvania 19103 (or, with respect to the Philadelphia office, at such location in the Philadelphia, Pennsylvania vicinity as Royale shall select).

6. Advisory Agreement; Crown; Management Agreement.

(a) At Closing, Crown shall transfer and assign to Royale, free and clear of all liens and encumbrances (other than the National City debt to be assumed by Royale), all of Crown's assets, including without limitation, the Advisory Agreement and all Royale Common Stock owned by Crown, and Royale shall purchase such assets and terminate the Advisory Agreement effective as of Closing. At Closing, Royale shall pay to Crown all accrued and unpaid fees due under the Advisory Agreement through Closing. In consideration for such transfer

and assignment and for Crown relinquishing all of its rights (if any) for present and future compensation under the Advisory Agreement, including, without limitation, any other compensation in connection with the Transactions, Crown shall be paid at Closing an amount equal to One Million Three Hundred Fifty Thousand Dollars ($1,350,000) plus the value. (computed at $5.50 per share) of any Royale Common Stock transferred by Crown to Royale less Crown's National City debt in the amount of approximately $240,000 to be assumed by Royale. The net amount determined by the immediately preceding sentence shall be paid by Royale to Crown at Closing by the delivery of the number of shares of Royale Common Stock determined by dividing such net amount by $5.50 per share. Crown shall have piggyback registration rights with respect to such shares on terms mutually acceptable to Crown and Royale.

(b) At Closing, Royale shall cause the Management Agreement to be executed and delivered.

7. Consideration for Contribution of H/SIC Partnership Interests and Transfer of H/SIC Assets; Retained Interests.

(a) (1) Royale, the H/SIC General Partners, and H/SIC have agreed that the net equity value of each of the H/SIC Properties, after deducting the amount of the H/SIC Properties Indebtedness, is as set forth on Exhibit "H/SIC Properties." and the value attributable to the H/SIC Assets is as set forth on Exhibit "H/SIC Management Transfer".

(2) As consideration for the contribution of the H/SIC Partnership Interests to the UPREIT and the transfer of H/SIC Assets to Royale, the H/SIC Partners and H/SIC shall receive at the times specified in Section 7(b) and Section 7(c), in the aggregate (A) 3,181,818 Common Units and (B) Preferred Units with a face value of $52,500.000. Royale, the H/SIC General Partners and H/SIC agree that the aggregate number of Common Units and the aggregate face value of the Preferred Units are to be divided among the H/SIC Partnerships and H/SIC as set forth on Exhibit "H/SIC Properties," and Exhibit "H/SIC Management Transfer" based on the net equity value of the H/SIC Properly owned by a specific H/SIC Partnership and on the value attributed to the H/SIC Assets in each case as shown on such Exhibits.

(b) (1) In consideration for the contribution of the Contributed Interests at Closing, the H/SIC Partners in each H/SIC Partnership shall receive at Closing Common Units and Preferred Units (divided among the H/SIC Partnerships in

accordance with Exhibit "H/SIC Properties") distributed to each of the H/SIC Partners in accordance with "Exhibit "H/SIC Partners Unit Consideration." In consideration for the transfer of H/SIC Assets to Royale at Closing, H/SIC shall receive Common Units and Preferred Units at Closing in accordance with Exhibit "H/SIC Management Transfer"; H/SIC shall have registration rights with respect to Royale Common Stock on terms mutually acceptable to H/SIC and Royale.

(2) Upon the contribution of the Contributed Interests to the UPREIT at the Closing, the Contributors holding the Retained Interests (the "Retained Partners") and the UPREIT shall enter into an amended and restated limited partnership agreement (the "Amended Pennsylvania H/SIC Partnership H/SIC Partnership Agreement") for the Pennsylvania H/SIC Partnerships containing such terms and conditions as are mutually agreeable to the UPREIT and the Retained Partners. The Amended Pennsylvania H/SIC Partnership Agreements shall provide, among other terms, that (A) the UPREIT (or its designee) is the general partner of the Pennsylvania H/SIC Partnerships and shall have exclusive authority to manage the Pennsylvania H/SIC Properties and the Pennsylvania H/SIC Partnerships, including without limitation the expenditure of funds and the distribution of cash flow, (B) the Retained Partners shall be limited partners and shall have no personal liability for any debts, obligations or claims of the Pennsylvania H/SIC Partnerships, and (C) the Retained Partners shall, in the aggregate, have a capital interest in the Pennsylvania H/SIC Partnerships equal to 11% of the aggregate capital of the Partnership. The Retained Partners shall retain full right, title and interest in and to the Retained Interests until the Retained Interests Closing.

(c) (1) In consideration for the contribution of the Retained Interests by the Retained Partners at the Retained Interests Closing, the Retained Partners will receive Common Units and Preferred Units at the Retained Interests Closing distributed among the Retained Partners in accordance with Exhibit "H/SIC Partners Unit Consideration".

(2) At the Retained Interests Closing, the Retained Partners shall (A) execute, acknowledge and deliver to the UPREIT substantially the same documents set forth in Section 20(b) and 20(c) with respect to the Retained Interests, each dated as of the date of the Retained Interests Closing and (B) execute an affidavit setting forth that all of the representations and warranties set forth in Section 9 (including, without limitation, subsection 9(d) relating to securities law matters) relating to the Retained Interests are true and cor-

rect in all material respects on the date of the Retained Interests Closing.

(d) At Closing, the Contributed Interests shall be contributed to the UPREIT with the H/SIC Properties then being subject to the H/SIC Properties Indebtedness.

(e) The contribution of the H/SIC Partnership Interests pursuant to this Agreement shall constitute a capital contribution under the UPREIT Agreement and is intended, except as otherwise required under Section 707 of the Code, to be governed by Section 721(a) of the Code, and the UPREIT, the H/SIC Partnerships, and Royale will report such contribution consistently with this Section. Because the contribution of the Contributed Interests will terminate the H/SIC Partnerships for federal income tax purposes, the parties to this Agreement agree that the H/SIC General Partners shall have the right and obligation to file final tax returns for the H/SIC Partnerships. The H/SIC Partnerships shall not terminate for any other purpose and shall continue to exist after Closing, each H/SIC Partnership continuing to own the H/SIC Property owned by such H/SIC Partnership.

(f) Subject to compliance with applicable federal and state securities law requirements and Code requirements applicable to real estate investment trusts, the H/SIC Partners and H/SIC may elect to receive Royale Common Stock in lieu of Common Units by giving the H/SIC General Partners notice of such election at least ten (10) days before Closing or, as to the Retained Interests, at least ten (10) days before the Retained Interests Closing.

8. Closing.

Closing will take place on the Closing Date, commencing on 10:00 a.m. on the Closing Date at the offices of Saul, Ewing, Remick & Saul, Three Westlakes, Suite 150, 1055 Westlakes Drive, Berwyn, PA 19312, or at such other place as Royale and the H/SIC General Partners shall agree.

9. H/SIC Partners Authorization: Representations and Warranties of Contributors.

Attached hereto as Exhibit "H/SIC Partners Authorization Agreement" are brief summaries of agreements (the "H/SIC Partners Authorization Agreements") of the H/SIC Partners authorizing the Transactions and authorizing the H/SIC General Partners to proceed with the implementation and consummation of

the Transactions. As part of the H/SIC Partners Authorization Agreements, each Contributor, for himself, herself, or itself, shall make the following representations and warranties to Royale and the H/SIC General Partners for such Contributor only and for no other Contributor, all of which shall survive Closing:

(a) Authority. Such Contributor has the right, power and authority to enter into this Agreement and to contribute such Contributor's H/SIC Partnership Interests in accordance with the terms and conditions of this Agreement. This Agreement is the valid and binding obligation of such Contributor, enforceable against such Contributor in accordance with its terms.

(b) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) conflict with or result in a breach of, the terms, conditions, or provisions of or constitute a default under any agreement or instrument to which such Contributor is a party or by which such Contributor is bound, (ii) subject to any approval required under the H/SIC Properties Indebtedness, violate any restriction, requirement, covenant or condition to which such Contributor is subject or by which such Contributor is bound or (iii) constitute in violation of any code, resolution, law, statute regulation, ordinance, rule, judgment, decree or order to which such Contributor is subject or by which such Contributor is bound.

(c) Ownership of Interests. Such Contributor owns the H/SIC Partnership Interests owned by such Contributor, as set forth on Exhibit "H/SIC Partners" hereto, free and clear of all liens, charges, encumbrances, restrictive agreements and assessments, other than restrictions on transfers and other similar provisions as set forth in the relevant H/SIC Partnership Agreement. Upon the contribution of such Contributor's H/SIC Partnership interest (or a portion thereof) to the UPREIT (or its designee(s)), the UPREIT will receive good and absolute title thereto, free from all liens, charges, encumbrances, restrictive agreements and assessments, whatsoever, other than restrictions on transfers and other similar provisions as set forth in the relevant H/SIC Partnership Agreement. Such Contributor hereby waives, with respect to the contribution contemplated by this Agreement, any "right of refusal" or other restriction on transfer set forth in the H/SIC Partnership Agreement of any H/SIC Partnership of which such

Contributor is a partner. There are no outstanding options, contracts, calls, commitments or demands of any nature relating to the H/SIC Partnership Interests of such Contributor.

(d) Securities Law Matters.

(1) Such Contributor is an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act of 1933, as amended (the "Securities Act");

(2) Such Contributor's primary residence or principal place of business is in the state set forth on Exhibit "H/SIC Partners";

(3) Such Contributor is acquiring the Common Units and Preferred Units or Royale Common Stock for such Contributor's account for investment purposes only and not with a present view to distribution;

(4) Taking into account the information and resources such Contributor can practically bring to bear on the acquisition of the Common Units and Preferred Units in the UPREIT or Royale Common Stock contemplated hereby, such Contributor is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in securities presenting an investment decision like that involved in the acquisition of the Common Units and Preferred Units or Royale Common Stock, including investments in securities issued by the UPREIT or Royale, and has requested, received, reviewed and considered all information such Contributor deems relevant in making an informed decision to acquire the Common Units and the Preferred Units, or Royale Common Stock;

(5) Such Contributor will not, directly or indirectly, voluntarily offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Common Units and Preferred Units or Royale Common Stock except in compliance with the Securities Act and the rules and regulation promulgated thereunder and with the terms and conditions of this Contribution Agreement;

(6) Such Contributor acknowledges that the Common Units and Preferred Units or Royale Common Stock to be

issued must be held and may not be sold unless they are subject to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, unless exemptions from such registrations are available at the time of resale;

(7) Prior to the issuance of the Common Units and Preferred Units or Royale Common Stock, such Contributor will execute all such other documents and instruments as may be reasonably necessary to allow, the UPREIT, Royale and the H/SIC General Partners to comply with federal and state securities law requirements with respect to the issuance of the Common Units and Preferred Units or Royale Common Stock and to comply with the terms of this Agreement;

(8) As required by the Pennsylvania Securities Act of 1972, if such Contributor is a resident of, or has his, her or its principal place of business in the Commonwealth of Pennsylvania, such Contributor shall not resell his, her or its Common Units or Preferred Units or Royale Common Stock for a period of twelve (12) months from and after the date of their issuance to such Contributor other than in accordance with such Act;

(9) Except as otherwise provided in Section 7(f), such Contributor acknowledges and agrees that (A) the Common Units to be issued hereunder (whether at Closing or the Retained Interests Closing) shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of issuance to such Contributor, (B) Preferred Units to be issued at Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of twenty five (25) months from and after the Closing Date, and (C) Preferred Units to be issued at the Retained Interests Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of the Retained Interests Closing.

10. Representations and Warranties of the H/SIC General Partners.

Unless otherwise specifically set forth in this Section 10, the representations, warranties and covenants set forth in this Section 10 shall, as to each H/SIC General Partner be applicable only to (i) the H/SIC Partnership of which such H/SIC General Partner is a General Partner, and (ii) only

as to the H/SIC Property owned by the H/SIC Partnership of which such H/SIC General Partner is a general partner.

Each H/SIC General Partner represents and warrants to Royale, and covenants with Royale, which representations, warranties and covenants are true and correct on the date hereof, shall be materially true and correct at Closing, and shall survive Closing, as follows:

(a) Authority. The H/SIC Partnership is a limited partnership duly organized and in good standing under the laws of the State of Delaware (Pennsylvania for Flank), and is authorized to do business in the Commonwealth of Pennsylvania or the State of New Jersey, to the extent such authorization is required under the laws of such states. The copy of the H/SIC Partnership's Partnership. Agreement and all Amendments thereto (collectively, the "H/SIC Partnership Agreement") including all certificates of limited partnership and all amendments thereto delivered, or to be delivered, to Royale and the list of all of the H/SIC Partners along with their individual H/SIC Partnership Interests, attached hereto an Exhibit "H/SIC Partners", are true, correct and complete copies thereof as of the date delivered.

(b) Title. The H/SIC Partnership is the sole owner of fee simple title to the H/SIC Property.

(c) Compliance with Existing Laws. To H/SIC General Partner's knowledge and, except as set forth on Exhibit "H/SIC Properties Violations", attached hereto, (i) the H/SIC Partnership is not in violation, in any material respect, of any material building, zoning, environmental or other ordinances, statutes or regulations of any governmental agency, in respect to the ownership, use, maintenance, condition and operation of the H/SIC Property or any part thereof, and (ii) the H/SIC Partnership possesses all material licenses, certificates, permits and authorizations necessary for the use and operation of the H/SIC Property in the manner in which it is currently being operated by the H/SIC Partnership, and the requisite certificates of the fire marshals or board of fire underwriters have been issued for the Property.

(d) Leases. True, correct and complete copies of all of the leases of the H/SIC Property and any amendments thereto (collectively, the "H/SIC Leases"), have been, or will be, delivered to Royale. Attached hereto as Exhibit

"H/SIC Leases" is a description of all of the H/SIC Leases and a current rent schedule ("H/SIC Rent Schedule") covering the H/SIC Leases, which is true and correct in all material respects. There are no leases or tenancies of any space in the H/SIC Property other than those set forth in Exhibit "H/SIC Leases" or, to the H/SIC General Partner's knowledge, any subleases or subtenancies unless otherwise noted therein. Except as otherwise set forth in Exhibit "H/SIC Leases" or elsewhere in this Agreement:

(1) The H/SIC Leases are in full force and effect and constitute a legal, valid and binding obligation of the respective tenants;

(2) No tenant has an option to purchase the H/SIC Property or any portion thereof;

(3) No renewal or expansion options have been granted to the tenants, except as provided in the H/SIC Leases;

(4) To the H/SIC General Partner's knowledge, the H/SIC Partnership is not in material default under any of the H/SIC Leases;

(5) The rents set forth on the H/SIC Rent Schedule are being collected on a current basis and there are no arrearages in excess of one month, except as indicated in Exhibit "H/SIC Leases" hereto, nor has any tenant paid any rent, additional rent or other charge of any nature for a period of more than thirty (30) days in advance;

(6) The H/SIC Partnership has not sent written notice to any tenant claiming that such tenant is in default, which default remains uncured, and the General Partner's knowledge, no tenant is in default under its Lease, except as indicated in Exhibit "H/SIC Leases" hereto;

(7) No action or proceeding instituted against the H/SIC Partnership by any tenant is presently pending in any court; and

(8) There are no security deposits other than those set forth in Exhibit "H/SIC Leases".

(e) Service Contracts. Attached hereto as Exhibit "H/SIC Properties Service Contracts" is a complete and correct list of all contracts or agreements relating to the management, leasing, operation, maintenance or repair of the H/SIC Property (the "H/SIC Service Contracts"). True and correct copies of all of the H/SIC Service Contracts have been delivered to Royale. Except in the case of a default by the vendor under a specific Service Contract, no H/SIC Contract will be terminated, or materially amended or modified prior to the Closing Date without Royale's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed.

(f) Tax Bills. The H/SIC General Partner has delivered to Royale true and correct copies of tax bills issued by any applicable federal, state or local governmental authority and received by the H/SIC General Partner with respect to the H/SIC Property for the most recent past and current tax years, and any new assessment received with respect to a current or future tax year.

(g) Insurance. Attached hereto as Exhibit "H/SIC Properties Insurance" is a list of all hazard, liability and other insurance policies presently affording coverage with respect to the H/SIC Property. The General Partners shall maintain in fall force and effect all such or equivalent policies until the Closing Date.

(h) Tenant Estoppels. The H/SIC General Partner represents and warrants that it shall use reasonable good faith efforts (without cost or liability to the H/SIC Partners or the H/SIC Partnerships) to obtain and deliver to Royale a tenant estoppel letter from each tenant in the general form required by real estate investment trust purchasers of leased real estate (or in such form or containing such information as may be required by the lease of such tenant) from each of the tenants of the H/SIC Property confirming the information set forth in the H/SIC Rent Schedule.

(i) Condemnation Proceedings. No condemnation or eminent domain proceedings are pending or, to the best of the H/SIC General Partner's knowledge, threatened against the H/SIC Property or any part thereof, and neither the H/SIC Partnership nor the H/SIC General Partner has made any commitments to or received any notice, oral or written, of the desire of any public authority or other entity to take or use the H/SIC Property or any part thereof

whether temporarily or permanently, for easements, right-of-way, or other public or quasi public purposes, except as set forth in the Permitted

Exceptions.

(j) Litigation. Except as set forth on Exhibit "H/SIC Litigation" hereto, no litigation is pending or, to the best of the H/SIC General Partner's knowledge, threatened, including administrative actions or orders relating to governmental regulations, against the Partnership or affecting the use, operation or ownership of the H/SIC Property or any part thereof as contemplated herein.

(k) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) subject to any approval that may be required under the H/SIC Properties Indebtedness or any H/SIC Partnership Agreement, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the H/SIC Partnership is a party or by which the H/SIC Partnership or the H/SIC Property is bound, (ii) subject to any approval required under the H/SIC Properties Indebtedness or any H/SIC Partnership Agreement, violate any restriction, requirement, covenant or condition to which the H/SIC Partnership is subject or by which the H/SIC Partnership or the H/SIC Property is bound, (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order applicable to the H/SIC Partnership, or (iv) result in the cancellation of any contract or lease pertaining to the H/SIC Property.

(l) Environmental Matters. Except as set forth on Exhibit "H/SIC Environmental Matters", the H/SIC General Partners have no knowledge of any material release, discharge, spillage, uncontrolled loss, seepage or filtration of oil, petroleum or chemical liquids or solids, liquid or gaseous products or any hazardous waste or hazardous substance (as those terms are used in the Comprehensive Environmental Response, Compensation and Liability Act of 1986, as amended, the Resource Conservation and Recovery Act of 1976, as amended, or in any other applicable federal, state or local laws, ordinances, rules or regulations relating to protection of public health, safety or the environment, as such laws may be amended from time to time) at, upon, under or within the H/SIC Property. Except as set forth on Exhibit "H/SIC Environmental Matters", to the General Partner's knowledge, there is no

proceeding or action pending or threatened by any person or governmental agency regarding the environmental condition of the H/SIC Property.

(m) Certificates of Occupancy. The H/SIC Partnership will not amend in any material manner any certificates of occupancy for the H/SIC Property and will maintain them in fall force and effect to the extent that the H/SIC Partnership is responsible for them.

(n) Personal Property. Attached hereto as Exhibit "H/SIC Personal Property" and complete inventory of all personal property ('H/SIC Personal Property"), if any, used in the management, maintenance and operation of the H/SIC Property (other than trade fixtures or personal property of tenants).

(o) Leasing Commissions. There are, and at Closing shall be, no outstanding or contingent leasing commissions or fees payable with respect to the H/SIC Property.

(p) Partnership Liabilities. Except for (i) the obligations and liabilities of the H/SIC Partnership which the UPREIT is taking the H/SIC Partnership Interests subject to under Section 7(d) above, and (ii) any accrued liabilities and obligations of the H/SIC Partnership which are being adjusted at Closing pursuant to Section 22(d) of this Agreement, the H/SIC Partnership shall not have any liabilities or obligations, either accrued, absolute or contingent or otherwise, which will not be paid or discharged on or before the Closing Date. In addition, except for the claims and liabilities described in the preceding sentence or otherwise described or disclosed in this Agreement (including the Exhibits hereto), the H/SIC Partnership has not received notice of any, and to the knowledge of the H/SIC General Partner, there is, as of the date of execution of this Agreement, no basis for any, claim against (or liability of) the Partnership arising from the business done, transactions entered into or other events occurring prior to the Closing Date which will not be discharged by the H/SIC Partnership before the Closing Date.

(q) Partnership for Tax Purposes. The H/SIC Partnership is, and at all times has been, properly treated as a partnership for federal income tax purposes, and not as an "association" or "publicly traded partnership" taxable as a corporation.

(r) Taxes. Each of the H/SIC Partnership and any predecessor of the H/SIC Partnership has timely filed with the appropriate taxing authorities

all returns (including without limitation information returns and other material information) in respect of Federal, State and local taxes (collectively "Taxes") required to be filed through the date hereof and will timely file any such returns required to be filed on or prior to the Closing Date. The returns and other information filed (or to be filed) are complete and accurate in all material respects. All Taxes of the H/SIC Partnership in respect of periods beginning before the Closing Date have been timely paid, or will be timely paid prior to the Closing Date, and the H/SIC Partnership has no material liability for Taxes in excess of the amounts so paid. All Taxes that the H/SIC Partnership has been required to collect or withhold have been duly collected or withheld and, to the extent required when due, have been or will be (prior to Closing Date) duly paid to the proper taxing authority. No audits of any of the H/SIC Partnership's federal, state or local returns for Taxes by the relevant taxing authorities have occurred, and no material deficiencies for Taxes of the H/SIC Partnership have been claimed, proposed or assessed by any taxing or other governmental authority against the H/SIC Partnership. There are no pending or, to the best of knowledge of the H/SIC General Partner, threatened audits, investigations or claims for or relating to any material additional liability to the H/SIC Partnership in respect of Taxes, and there are no matters under discussion with any governmental authorities with respect to Taxes that in reasonable judgment of the H/SIC General Partner or its counsel, is likely to result in a material additional liability for Taxes. To the knowledge of the H/SIC General Partner there are no liens for Taxes (other than for current taxes not yet due and payable) on any of the assets of the H/SIC Partnership. No Contributor is a person other than a United States person within the meaning of the Code. The transaction contemplated herein is not subject to the tax withholding provisions of Section 3406 of the Code, or Subchapter A of Chapter 3 of the Code or of any other provision of law.

(s) Disclosure. No representation or warranty made by the H/SIC General Partners in this Agreement or in any documents delivered or to be delivered by the H/SIC General Partners contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein not misleading,

or necessary in order to provide adequate information as to the H/SIC Partnerships and the H/SIC Properties and their management, operation, maintenance and repair. All items delivered or to be delivered by the H/SIC General Partners pursuant to the terms of this Agreement are true, correct and complete in all material respects, and fairly present the information set forth therein in a manner that is not misleading.

11. Obligations of General Partners Pending Closing. From and after the date of this Agreement through the Closing Date, each H/SIC General Partner, only with respect to the H/SIC Partnership of which such H/SIC General Partner is a general partner and the H/SIC Property owned by the H/SIC Partnership of which such H/SIC General Partner is a general partner, covenants and agrees as follows:

(a) Maintenance and Operation of Property. The H/SIC General Partner will cause the H/SIC Property to be maintained in its present order and condition, normal wear and tear, and damage by fire or other casualty (subject to Section 16) excepted and will cause the continuation of the normal operation thereof, including the purchase and replacement of fixtures and equipment, and the continuation of the normal practice with respect to maintenance and repairs so that the H/SIC Property will, except for normal wear and tear and damage by fire or other casualty (subject to Section 16), be in substantially the same condition on the Closing Date as on the date hereof.

(b) Compliance with Governmental Requirements. The H/SIC General Partner shall use its commercially reasonable efforts to cause the Property to be in material compliance with governmental requirements.

(c) Changes in Representations. The H/SIC General Partner shall notify Royale promptly, and Royale shall notify the H/SIC General Partner promptly, if either becomes aware of any occurrence prior to the Closing Date which would make any of its representations, warranties or covenants contained herein not true in any material respect.

(d) Obligations as to H/SIC Leases. The H/SIC General Partner shall not, without Royale's prior written consent (which consent shall not be unreasonably withheld conditioned or delayed), amend, modify, renew or extend any H/SIC Lease in any material respect unless required bylaw, or enter into new leases or approve any assignment

of leases or subletting of leased space, or terminate any Lease.

(e) Obligations as to H/SIC Properties Indebtedness. The H/SIC General

Partner shall make, or cause the H/SIC Partnership to make, all payments required to be made under the H/SIC Properties Indebtedness when due; shall perform, or cause the H/SIC Partnership to perform, all obligations under the H/SIC Properties Indebtedness and shall keep, and cause the H/SIC Partnership to keep, the H/SIC Properties Indebtedness free from default.

(f) No Other Indebtedness. Subject to the H/SIC Properties Indebtedness, the H/SIC General Partner shall not incur any indebtedness, other than current accounts payable in the day-to-day operation of the H/SIC Properties.

(g) No Solicitation. The H/SIC General Partner will not solicit or undertake any recapitalization, business combination or other transaction, or engage in any discussions or negotiations with respect thereto, or furnish information (other than as required by law or this Agreement) that would be inconsistent with the Transactions.

12. Representations and Warranties of Royale. Royale represents and warrants to the H/SIC Partners, and covenants with the H/SIC Partners which representations, warranties and covenants are true and correct on the date hereof, shall be true and correct at Closing and shall survive Closing, as follows:

(a) Authority of Royale. Royale is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and is duly authorized to do business and own properties in all jurisdictions in which it does business and owns properties. Royale has all necessary power and authority to execute, deliver and perform this Agreement and consummate all of the Transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and the Transactions have been approved and duly authorized by all necessary action of Royale. This Agreement is the valid and binding obligation of Royale, enforceable against Royale in accordance with its terms.

(b) No Defaults. Neither the execution of this Agreement nor the consummation of the Transactions contem-

plated hereby will: (i) subject to any approval required under the Royale Properties Indebtedness, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which Royale is a party, (ii) subject to any approval required under the Royale Properties Indebtedness, violate any restriction, requirement, covenant or condition to which the Royale is subject, or (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order. Royale has made all filings required to be made under the Securities Exchange Act of 1934, as amended (the "1934 Act") and all such 1934 Act filings are true, correct and complete.

(c) Royale Common Stock. All shares of Royale Common Stock exchangeable for Common Units issued in connection with the Transactions will be duly authorized, validly issued, fully paid and non assessable. All issued and outstanding shares of Royale Common Stock were issued in compliance with, or in transactions exempt from, the registration requirements of applicable federal and state securities laws. Royale has an authorized capitalization consisting of 50,000,000 shares of stock, of which 30,000,000 shares are classified as Royale Common Stock, $.01 par value per share, and 20,000,000 shares are unclassified. There are issued and outstanding 1,420,000 shares of Royale Common Stock. All such outstanding shares have been nonassessable. There are no outstanding options, warrants, rights, calls, commitments, conversion rights, rights of exchange, plans or other agreements of any character providing for the purchase, issuance or sale of any shares of the capital stock of Royale, other than the Directors' Stock Option Plan as described in the 1996 Form 10-KSB filed by Royale pursuant to the 1934 Act.

(d) Litigation. Except as set forth on Exhibit "Royale Litigation", there is no action or proceeding pending or, to the knowledge of Royale, threatened against Royale or any subsidiary before any court or administrative agency which would result in any material adverse change in the business or financial condition of Royale.

(e) Corporate Documents. The copies of the articles of incorporation of Royale and bylaws of Royale, the copy of the Advisory Agreement, and the copies of all other books and records of Royale delivered, or to be delivered to the H/SIC General Partners, are true, correct and com-

plete copies thereof as of the date delivered. There are no employment agreements, consulting agreements, advisory agreements or similar agreements, other than the Advisory Agreement.

(f) Title; Royale Properties Indebtedness. Royale is the sole owner of fee simple title to the Royale Properties. Royale is not in default under the Royale Properties Indebtedness. Royale has delivered, or shall deliver, copies of the Royale Properties Indebtedness documents to the H/SIC General Partners.

(g) Compliance with Existing Laws. To Royale's knowledge and except as set forth on Exhibit "Royale Violations" attached hereto, (i) Royale is not in violation, in any material respect, of any material building, zoning, environmental or other ordinances, statutes or regulations of any governmental agency, in respect to the ownership, use, maintenance, condition and operation of the Royale Properties or any part thereof, and (ii) Royale possesses all material licenses, certificates, permits and authorizations necessary for the use and operation of the Royale Properties in the manner in which they are currently being operated by Royale, and the requisite certificates of the fire marshals or board of fire underwriters have been issued for the Royale Properties.

(h) Leases. True, correct and complete copies of all of the leases of the Royale Properties and any amendments thereto (collectively, the "Royale Leases"), have been delivered to the H/SIC General Partners. Attached hereto as Exhibit "Royale Leases" is a description of all of the Royale Leases and a current rent schedule ("Royale Rent Schedule") covering the Leases, which is true and correct in all material respects. There are no leases or tenancies of any space in the Property other than those set forth in Exhibit "Royale Leases" or, to Royale's knowledge, any subleases or subtenancies unless otherwise noted therein. Except as otherwise set forth in Exhibit "Royale Leases" or elsewhere in this Agreement:

(i) The Royale Leases are in full force and effect and constitute a legal, valid and binding obligation of the respective tenants;

(ii) No tenant has an option to purchase the Royale Properties or any portion thereof,

except as otherwise set forth in Exhibit "Royale Purchase Options";

(iii) No renewal or expansion options have been granted to the tenants, except as provided in the Royale Leases;

(iv) To Royale's knowledge, Royale is not in material default under any of the Leases;

(v) The rents set forth on the Royale Rent Schedule are being collected on a current basis and there are no arrearages in excess of one month, except as indicated in Exhibit "Royale Leases" hereto, nor has any tenant paid any rent, additional rent or other charge of any nature for a period of more than thirty (30) days in advance;

(vi) Royale has not sent written notice to any tenant claiming that such tenant is in default, which default remains uncured, and to Royale's knowledge, no tenant is in default under its Lease, except as indicated in Exhibit "Royale Leases";

(vii) No action or proceeding instituted against Royale by any tenant is presently pending in any court; and

(viii) There are no security deposits other than those set forth in Exhibit "Royale Leases".

(i) Service Contracts. Attached hereto as Exhibit "Royale Service Contracts" is a complete and correct list of all contracts or agreements relating to the management, leasing, operation, maintenance or repair of the Royale Properties (the "Royale Service Contracts"). True and correct copies of all of the Royale Service Contracts have been delivered to H/SIC General Partners. Except in the case of a default by the vendor under a specific Royale Service Contract, no Royale Service Contract will be terminated, or materially amended or modified prior to the Closing Date without H/SIC's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed.

(j) Tax Bills. Royale has delivered to the H/SIC General Partners true and correct copies of tax bills issued by any applicable federal, state or local governmental authority and received by Royale with respect to the Royale Properties for the most recent past and current tax years, and any new assessment received with respect to a current or future tax year.

(k) Insurance. Attached hereto as Exhibit "Royale Properties Insurance" is a list of all hazard, liability and other insurance policies presently affording coverage with respect to the Royale Properties. Royale shall maintain in full force and effect all such (or equivalent) policies

until the Closing Date.

(l) Tenant Estoppels. Royale represents and warrants that it shall use reasonable good faith efforts (without cost or liability to Royale) to obtain and deliver to H/SIC General Partners a tenant estoppel letter from each tenant in the general form required by real estate investment trust purchasers of leased real estate (or in such form or containing such information as may be required by the lease of such tenant) from each of the tenants of the Royale Properties confirming the information set forth in the Royale Rent Schedule.

(m) Condemnation Proceedings. No condemnation or eminent domain proceedings are pending or, to the best of the Royale's knowledge, threatened against the Royale Properties or any part thereof, and Royale has not made any commitments to or received any notice, oral or written, of the desire of any public authority or other entity to take or use the Property or any part thereof whether temporarily or permanently, for easements, rights-of-way, or other public or quasi-public purposes, except as set forth in the Permitted Exceptions.

(n) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) subject to any approval required under the Royale Properties Indebtedness, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which Royale is a party or by which the Royale or the Royale Properties are bound, (ii) subject to any approval required under the Royale Properties Indebtedness, violate any restriction, requirement, covenant or condition to which Royale is subject or by which Royale or

the Royale Properties are bound, (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order applicable to Royale, or (iv) result in the cancellation of any contract or lease pertaining to the Royale Properties.

(o) Environmental Matters. Except as set forth on Exhibit "Royale Environmental Matters", Royale has no knowledge of any discharge, spillage, uncontrolled loss, seepage or filtration of oil, petroleum or chemical liquids or solids, liquid or gaseous products or any hazardous waste or hazardous substance (as those terms are used in the Comprehensive Environmental Response, Compensation and Liability Act of 1986, as amended, the Resource Conservation and Recovery Act of 1976, as amended, or in any other applicable federal, state or local laws, ordinances, rules or regulations relating to protection of public health, safety or the environment, as such laws may be amended from time to time) at, upon, under or within the Land or any contiguous real estate. Except as set forth on Exhibit "Royale Environmental Matters" to Royale's knowledge, there is no proceeding or action pending or threatened by any person or governmental agency regarding the environmental condition of the Property. To Royale's knowledge, the Royale Properties are free of friable asbestos requiring remediation.

(p) Certificates of Occupancy. Royale will not amend any certificates of occupancy for the Royale Properties and will maintain them in full force and effect to the extent that Royale is responsible for them.

(q) Personal Property. Attached hereto as Exhibit "Royale Personal Property" is a true, correct and complete inventory of all personal property ("Royale Personal Property"), if any, used in the management, maintenance and operation of the Royale Properties (other than trade fixtures or personal property of tenants).

(r) Leasing Commissions. There are, and at Closing shall be, no outstanding or contingent leasing commissions or fees payable with respect to the Royale Properties.

(s) Real Estate Investment Trust for Tax Purposes. Subject to information provided by Royale to Coopers & Lybrand, Royale (1) is complying and, at all times has complied with, all requirements applicable to real estate investment trusts under Section 856 of the Code, and (2) is,

and at all times has been, property treated as a real estate investment trust under Section 856 of the Code for federal income tax purposes.

(t) Taxes. Royale and any predecessor of Royale have timely filed with the appropriate taxing authorities all returns (including without limitation information returns and other material information) in respect of Taxes required to be filed through the date hereof and will timely file any such returns required to be filed on or prior to the Closing Date. The returns and other information filed (or to be filed) are complete and

accurate in all material respects. All Taxes of Royale in respect of periods beginning before the Closing Date have been timely paid, or will be timely paid prior to the Closing Date, and the Royale has no material liability for Taxes in excess of the amounts so paid. All Taxes that Royale has been required to collect or withhold have been duly collected or withheld and, to the extent required when due, have been or will be (prior to Closing Date) duly paid to the proper taxing authority. No audits of any of Royale's federal, state or local returns for Taxes by the relevant taxing authorities have occurred, and no material deficiencies for Taxes of Royale have been claimed, proposed or assessed by any taxing or other governmental authority against Royale. There are no pending or, to the best of knowledge of Royale, threatened audits, investigations or claims for or relating to any material additional liability to the Partnership in respect of Taxes, and there are no matters under discussion with any governmental authorities with respect to Taxes that in reasonable judgment of Royale or its counsel, is likely to result in a material additional liability for Taxes. To the knowledge of Royale, there are no liens for Taxes (other than for current taxes not yet due and payable) on any of the assets of Royale.

(u) Fairness Opinion. Royale has received a satisfactory "fairness opinion" from a reputable Financial advisor selected by Royale's Board of Directors with respect to the Transactions.

(v) Disclosure. No representation or warranty made by Royale in this Agreement or in any documents delivered or to be delivered by Royale contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein not misleading or necessary in order to provide adequate

information as to Royale and the Royale Properties and its and their management, operation, maintenance and repair. All items delivered or to be delivered by Royale pursuant to this Agreement are true, correct and complete in all material respects, and fairly present the information set forth therein in a manner that is not misleading.

13. Obligations of Royale Pending Closing. From and after the date of this Agreement through the Closing Date, Royale covenants and agrees as follows:

(a) Maintenance and Operation of Royale Properties and Royale Business. Royale shall continue to own the properties owned by it and to operate its business as a real estate investment trust as Royale's business is currently operated. Royale will cause the Royale Properties to be maintained in their present order and condition, normal wear and tear, and damage by fire or other casualty (subject to Section 16) excepted and will cause the continuation of the normal operation thereof, including the purchase and replacement of fixtures and equipment, and the continuation of the normal practice with respect to maintenance and repairs so that the Royale Properties will, except for normal wear and tear and damage by fire or other casualty (subject to Section 16), be in substantially the same condition on the Closing Date as on the date hereof.

(b) Government Requirements. Royale shall use its commercially reasonable efforts to comply with governmental requirements applicable to Royale.

(c) Changes in Representations. Royale shall notify the H/SIC General Partners promptly, and the H/SIC General Partners shall notify Royale promptly, if either becomes aware of any occurrence prior to the Closing Date which would make any of its representations, warranties or covenants contained herein not true in any material respect.

(d) Obligations as to Royale Leases and Other Documents. Royale shall not, without H/SIC's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), amend, modify, renew or extend any Royale Lease in any material respect unless required by law, or enter into new leases or approve any assignment of leases or subletting of leased space, or terminate any Royale Leases. Royale shall not, without H/SIC's prior written consent, amend the articles of incorporation or

bylaws of Royale, or the Advisory Agreement, or enter into any employment, consulting, advisory or similar agreements.

(e) Obligations as to Royale Properties Indebtedness. Royale shall not, without H/SIC's prior written consent, (i) prepay the Royale Properties Indebtedness, or (ii) modify or amend, or permit any of the documents evidencing or securing the Royale Properties Indebtedness or otherwise entered into in connection with the Royale Properties Indebtedness to be amended or modified. Royale shall make all payments required to be made under the Royale Properties Indebtedness when due, shall perform all obligations under the Royale Properties Indebtedness and

shall keep the Royale Properties Indebtedness free from default.

(f) No Other Indebtedness. Royale shall not incur any indebtedness, other than current accounts payable in the day-to-day operation of the Royale Properties.

(g) No Solicitation. Royale will not solicit or undertake any recapitalization, business combination or other transaction or engage in any discussions or negotiations with respect thereto, or furnish information (other than as required by law or this Agreement) that would be inconsistent with the Transactions.

14. Title; H/SIC Properties.

(a) At Closing, the H/SIC Properties shall be free and clear of all liens, covenants, restrictions, easements, encumbrances, and other title exceptions or objections excepting, however, the "H/SIC Permitted Exceptions" (hereinafter defined). Title to the H/SIC Properties at Closing shall be good and marketable and such as will be insured by Commonwealth Land Title Insurance Company at regular rates for regular risks, with such endorsements as the H/SIC General Partners shall reasonably require.

(b) As to each H/SIC Property, the "H/SIC Permitted Exceptions" are:

(i) real estate taxes and assessments not yet due and payable;

(ii) covenants, restrictions, easements and other similar agreements, provided that the

same are not violated by existing improvements or the current use and operation of an H/SIC Property, or if so violated that the same do not materially impair the value of the H/SIC Property and that the violation of the same will not result in a forfeiture or reversion of title;

(iii) zoning laws, ordinances and regulations, building codes and other governmental laws, regulations, rules and orders affecting such H/SIC Property, provided that the same are not violated by existing improvements or the current use and operation of the H/SIC Property, or if so violated that the same do not materially impair the value of the H/SIC Property or that such violation will not result in a forfeiture or reversion of title;

(iv) any minor imperfection of title which (1) does not affect the current use, operation or enjoyment of an H/SIC Property, (2) does not render title to such H/SIC Property unmarketable or uninsurable, and (3) does not materially impair the value of the H/SIC Property;

(v) the H/SIC Properties Indebtedness encumbering such H/SIC Property;

(vi) the H/SIC Leases with respect to such H/SIC Property.

(c) From and after the date of this Agreement, the H/SIC General Partners shall not take any action, or fail to take any action, that would cause title to the H/SIC Properties to be subject to any title exceptions or objections, other than the H/SIC Permitted Exceptions.

15. Title; Royale Properties.

(a) At Closing, the Royale Properties shall be free and clear of all liens, covenants, restrictions, easements, encumbrances, and other title exceptions or objections excepting, however, the "Royale Permitted Exceptions" (hereinafter defined). Title to the Royale Properties at Closing shall be good and marketable and such as will be insured by Commonwealth Land Title Insurance Company at regular rates for regular risks, with such en-

dorsements as the H/SIC General Partners shall reasonably require.

(b) As to each Royale Property, the "Royale Permitted Exceptions" are:

(i) real estate taxes and assessments not yet due and payable;

(ii) covenants, restrictions, easements and other similar agreements, provided that the same are not violated by existing improvements or the current use and operation of an Royale Property, or if so violated that the same do not materially impair the value of the Royale Property and that the violation of the same will not result in a forfeiture or reversion of title;

(iii) zoning laws, ordinances and regulations, building codes and other governmental laws, regulations, rules and orders affecting such Royale Property, provided that the same are not violated by existing improvements or the current use and operation of an Royale Property, or if so violated that the same do not materially impair the value of the Royale Property or that such violation will not result in a forfeiture or reversion of title;

(iv) any minor imperfection of title which (1) does not affect the current use, operation or enjoyment of an Royale Property, (2) does not render title to such Royale Property unmarketable or uninsurable, and (3) does not materially impair the value of the Royale Property;

(v) the Royale Properties Indebtedness encumbering such Royale Property;

(vi) the Royale Leases with respect to such Royale Property.

(c) From and after the date of this Agreement, Royale shall not take any action, or fail to take any action, that would cause title to the Royale Properties to be subject to any title exceptions or objections, other than the Royale Permitted Exceptions.

16. Risk of Loss. If prior to Closing (i) condemnation proceedings are commenced against all or any portion of the H/SIC Properties or the Royale Properties (other than a de minimis condemnation, which shall mean a condemnation which does not materially and adversely affect and parking or access area of the H/SIC Properties and does not have a material adverse affect on the value of the H/SIC Properties or the Royale Properties), or (ii) if the H/SIC Properties or the Royal Properties are damaged by an uninsured casualty to the extent that the cost of repairing such damage shall be Five Hundred Thousand Dollars ($500,000.00) or more based on the good faith estimate of an independent contractor selected by the H/SIC General Partners and reasonably approved by Royale, then the H/SIC General Partners and Royale shall have the right, upon notice in writing to the other party delivered within forty five (45) days after actual notice of such condemnation or fire or other casualty to terminate this Agreement, and thereupon the parties shall be released and discharged from any further obligations to each other. If this Agreement is not terminated or in the event of fire or other casualty or condemnation not giving rise to a right to terminate this Agreement, all of the proceeds of fire or other casualty insurance proceeds and the rent insurance proceeds payable with respect to the period after Closing or, of the condemnation award, as the case may be, shall remain with the entity owning the affected property.

17. Mutual Conditions. Neither the H/SIC General Partners, H/SIC, nor Royale will be obligated to complete or cause to be completed the transactions contemplated by this Agreement unless the following conditions have been satisfied prior to or at the Closing, unless waived by the H/SIC General Partners, H/SIC, and Royale:

(a) No order to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Transactions shall have been entered by any court or administrative body and shall remain in full force and effect (other than order sought by any of the parties to this Agreement).

(b) The obligations to consummate the transactions contemplated hereby shall not have been terminated pursuant to Section 30 hereof.

18. Conditions Precedent to Obligations of H/SIC General Partners and H/SIC. The obligations of the H/SIC General Partners and H/SIC to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or upon the Closing Date, of the following conditions precedent, unless waived by the H/SIC General Partners and H/SIC:

(a) Royale and Crown shall have complied with and performed in all material respects all of the covenants contained in this Agreement to be performed by Royale at or prior to the Closing Date. Without limitation on the other obligations of Royale under this Agreement, all actions required under Section 4 of this Agreement shall have been taken and shall be in effect concurrent with Closing.

(b) From and after the date hereof, there shall have been no material adverse change in the business or financial condition of Royale. For the purpose hereof, a material adverse change shall only mean a change which results in a significant diminution of the value of any of the Royale Properties or of Royale as a whole; and the following shall be deemed not to be a material adverse change: (i) changes in the ordinary course of business which are not in the aggregate material adverse, and (ii) changes resulting from general economic conditions.

(c) Royale shall have obtained from tenants occupying at least eighty percent (80%) of each of the Royale Properties an estoppel certificate in accordance with Section 12(l).

(d) Royale shall have delivered to the H/SIC General Partners a letter from each of the holders of the Royale Properties Indebtedness dated no earlier than thirty (30) days prior to the Closing, stating the outstanding principal balance under the mortgage held by such holder, and accrued interest thereon, if any, and stating that there has not been, and there does not currently exist any default under the Royale Properties Indebtedness.

(e) The representations and warranties set forth in Section 9 and Section 12 shall be true and accurate in all material respects on and as of the Closing Date with the same force and effect as if they had been made at the Closing Date.

(f) Title policies, in the form contemplated by Sections 14 and Section 15 of this Agreement, shall have been delivered to the UPREIT as to the H/SIC Properties and the state of title of the Royale Properties shall be as set provided in Section 15.

(g) The Registration Rights Agreement and the UPREIT Agreement shall have been executed and delivered by all required parties.

(h) The H/SIC Properties Indebtedness shall have been obtained, funded and closed.

(i) All consents and approvals necessary under the H/SIC Properties Indebtedness documents shall have been obtained.

(j) The H/SIC Partners shall have delivered all documents required to be delivered by the H/SIC Partners under this Agreement and otherwise to consummate the Transactions.

(k) Royale shall have executed and delivered, or caused to be executed and delivered, all documents contemplated by this Agreement to be executed by Royale or caused to be executed by Royale or as necessary or desirable to consummate the Transactions.

19. Conditions Precedent to Royale's Obligations.

The obligations of Royale and Crown to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or upon the Closing Date, of the following conditions precedent, unless waived by Royale.

(a) The H/SIC General Partners and H/SIC shall have complied with and performed in all material respects all of the covenants contained in this Agreement to be performed by the H/SIC General Partners at or prior to the Closing Date.

(b) From and after the date hereof, there shall have been no material adverse change in the business or financial condition of the H/SIC Partnerships or H/SIC.

(c) The H/SIC General Partners shall have obtained from tenants occupying at least eighty percent (80%) of

each of the H/SIC Properties an estoppel certificate in accordance with Section 10(h).

(d) The H/SIC General Partners shall have delivered to Royale a letter from each of the holders of the H/SIC Properties Indebtedness dated no earlier than thirty (30) days prior to the Closing, approving the conveyance of the H/SIC Partnership Interests to the UPREIT, and stating that there has not been, and there does not currently exist any default under the H/SIC Properties Indebtedness.

(e) The H/SIC General Partners shall have received a commitment from a reputable lender for the Royale Acquisition Facility.

(f) The representations and warranties set forth in Section 10 shall be true and accurate in all material respects on and as of the Closing Date with the same force and effect as if they had been made at the Closing Date.

(g) The H/SIC General Partners shall have executed and delivered, or caused to be executed and delivered, all documents contemplated by this Agreement to be executed by the H/SIC Partners or caused to be executed by the H/SIC Partners or as necessary or desirable to consummate the

Transactions.

20. Deliveries by H/SIC General Partners. At Closing, the H/SIC General Partners shall deliver, or cause the delivery of, the following documents:

(a) The UPREIT Agreement.

(b) Contribution and assumption agreements ("Assignments") and amendments to partnership agreements and limited partnership certificates ("Amendments") setting forth the assignment by each of the Contributors of their Contributed Interests and his, her or its withdrawal from the H/SIC Partnerships (or reduction in interest, in the case of Contributors holding Retained Interests) and the admission of UPREIT (and/or its designee(s)) as partners of the H/SIC Partnerships, which Assignments and Amendments shall be executed and acknowledged by the Contributors and the UPREIT (or its designees).

(c) A release from each Contributor releasing the H/SIC Partnerships and the UPREIT (and its designee(s)) as partners of the H/SIC Partnerships from any obligations

and liabilities with respect to the original formation of the H/SIC Partnerships, and any other matter arising from business done, transactions entered into or events occurring prior to the Closing Date.

(d) The original H/SIC Leases and schedule from the H/SIC General Partners updating the H/SIC Rent Schedule for the H/SIC Properties and setting forth all arrearages in rents and all prepayments of rents.

(e) An original letter executed by the H/SIC General Partners advising the tenants of the H/SIC Properties of the change in control and management of the H/SIC Properties and directing that rents and other payments thereafter be sent to the UPREIT or as UPREIT may direct.

(f) Possession of the H/SIC Properties from the H/SIC General Partners in the condition required by this Agreement, and the keys therefor.

(g) From each Contributor, a certification of non-foreign status as required by the Code.

(h) The Registration Rights Agreement.

(i) All such documents and instruments (including, without limitation, an accredited investor's questionnaire from each of the Contributors for the purposes of confirming accredited investor status) as may be reasonably required to allow the UPREIT or Royale to comply with federal and state securities law requirements with respect to the issuance of the Common Units and Preferred Units or Royale Common Stock, as the case may be.

(j) Such other documents and items (including, without limitation, legal opinions customarily delivered in transactions similar to the Transactions) as may be reasonably required under the terms of this Agreement or relating to the Transactions to reasonably effect the purposes of this Agreement or consummate the Transactions.

21. Royale Performance and Deliveries by Royale. At the Closing, simultaneously with the deliveries pursuant to the provisions of Section 20 above, the UPREIT shall issue to Contributors the Common Units and Preferred Units in the amount and manner specified in Section 7, and the UPREIT (or its designee) and Royale shall execute and deliver those documents (including without limitation those documents described in Section 20 above to which the UPREIT (or its designees) or Royale is a party or a required signatory) and take such other actions required to be taken by Royale at Closing as required under this Agreement. Without limitation on the foregoing provisions of this Section 21 Royale shall deliver, or cause the delivery of the following documents:

(a) The original signed Royale Leases and a schedule updating the Royale Rent Schedule for the Royale Properties and setting forth all arrearages in rents and all prepayments of rents.

(b) Originally executed Royale Service Contracts and copies of books, records, operating reports, files and other materials related to the ownership, use and operation of the Royale Properties, to the extent that any exist and are in the possession of Royale.

(c) The Registration Rights Agreement.

(d) A transfer and assignment agreement by Crown to Royale transferring all of Crown's assets to Royale in accordance with Section 6, and Royale's written confirmation of the termination of the Advisory Agreement.

(e) The Management Agreement in accordance with Section 6.

(f) Then currently dated and effective resolutions of the Board of Directors of Royale authorizing this Agreement and the Transactions, and the execution and delivery by Royale of all documents necessary or desirable to consummate the Transactions.

(g) All of the corporate and financial books and records of Royale.

(h) Such other documents and items (including, without limitation, legal opinions customarily in delivered in transactions similar to the Transactions) as may be reasonably required under the terms of this Agreement or re-

lating to the Transactions to reasonably effect the purposes of this Agreement or to consummate the Transactions.

22. Closing Charges; Prorations and Adjustments.

(a) Royale or H/SIC General Partners on behalf of the H/SIC Partnerships and out of the funds of such H/SIC Partnerships), as the case may be, shall pay the title examination charges, the title insurance premium, survey costs, environmental assessment charges, notary fees and other such charges relating to the Royale Properties and the H/SIC Properties respectively.

(b) Although H/SIC General Partners and Royale believe that no real estate transfer or recording fees or taxes will be due in connection with the contribution of the H/SIC Partnership Interests, if it is finally determined that such taxes are due and payable in connection herewith, then the H/SIC Partnership for which the transfer of whose H/SIC Partnership Interests shall be deemed subject to real estate transfer tax shall pay the costs of contesting such taxes and shall pay the full amount of such taxes if they are finally determined to be payable. (c) The H/SIC General Partners and Royale shall each pay their own due diligence costs and legal, brokerage, lenders', investment banking and accounting costs and fees related to the Transaction and preparation of this Agreement and all documents required to settle the transaction contemplated hereby.

(d) With respect to each of the H/SIC Properties, as of the 11:59 p.m. of the calendar day immediately preceding the Closing Date, there shall be apportioned between the H/SIC Partnership owning such H/SIC Property and the UPREIT (1) rent under the H/SIC Leases, (2) interest under the H/SIC Properties Indebtedness, (3) taxes, insurance and operating expenses of such H/SIC Property to the extent borne by the owning H/SIC Partnership, and (4) payments with respect to the items listed in the preceding clause (3) that are received from tenants to the extent prepaid (including all security deposits) or paid in arrears to the owning H/SIC Partnership. All management agreements between the H/SIC Partnerships and H/SIC (or any affiliate) shall be terminated as of Closing Date, and all fees due under such agreements through Closing shall be paid by the H/SIC Partnership. Any amount due pursuant to this Section 22(d) shall be paid in cash at the Clos-

ing. To the extent that the amount of the items to be adjusted are not reasonably ascertainable as of the Closing Date, such as tenant chargebacks or collections for tenant reimbursements, they shall be adjusted promptly after the determination of the amount thereof.

(e) It is acknowledged and agreed that, on or prior to the Closing, the H/SIC General Partners shall cause the H/SIC Partnerships to distribute to the H/SIC Partners all cash and assets of the Partnership other than the H/SIC Properties.

23. Partnership Liabilities and Sales of H/SIC Properties.

(a) Subject to the provisions of Section 23(b) hereof, for a period of three (3) years following the Closing Date (the "Non Taxable Disposition Period"), Royale and the UPREIT shall use their good faith, reasonable and diligent efforts:

(1) to cause any sale or other voluntary disposition (other than through a deed in lieu of foreclosure, a foreclosure action, or an act of eminent domain) of the H/SIC Properties to qualify for non-recognition of gain under the Code, whether by means of exchanges contemplated under Code Sections 351, 354, 355, 368, 721, 1031, 1033, or otherwise; provided, however, that the foregoing shall not require Royale and the UPREIT, in their sole and absolute discretion, to sell, or otherwise dispose of, or prevent Royale and the UPREIT in their sole and absolute discretion, from selling or otherwise disposing of

any of the H/SIC Properties in transactions qualifying for non-recognition of loss;

(2) to avoid a distribution of property that would cause any Contributor to recognize income or gain pursuant to the provisions of either or both of Code Sections 704(c)(1)(B) and 737; and

(3) to avoid a termination of the UPREIT pursuant to the provisions of Code Section 708(b)(1)(B).

(b) Notwithstanding the above provisions of Section 23(a), the obligation of either or both of Royale and the UPREIT to undertake those activities set forth in Section 23(a) hereof shall, in all events, be subject to, and oth-

erwise interpreted consistent with Royale's fiduciary and statutory obligations to all partners (both present and future) in the UPREIT, and to its stockholders, both present and future. Notwithstanding the preceding sentence, however, the UPREIT and/or Royale shall use every reasonable effort (but shall not be required) to engage in a non-taxable disposition of an H/SIC Property.

(c) In addition to the foregoing, and again consistent with and subject to Royale's fiduciary, statutory and other obligations to all partners (present and future) in the UPREIT, and to all of Royale's stockholders, and likewise in all events consistent with and subject to the exercise of sound and prudent business judgment in furtherance of the interests of all such partners and stockholders, for a period of three (3) years after the Closing Date, the UPREIT and Royale shall use their respective good faith, reasonable and diligent efforts to deal with the aggregate of non-recourse indebtedness ("Aggregate Debt") secured by the H/SIC Properties ("Project Specific Mortgages") and excess non-recourse indebtedness secured by properties owned by the UPREIT other than the H/SIC Properties ("Other Mortgages") in such manner as shall provide Contributors that collective allocation of taxable basis derived from either or both of Project-Specific and Other Mortgages that is set forth in Exhibit "Schedule of H/SIC Debt Allocations." In the event that Royale or the UPREIT determines, during the three (3) year period following the Closing, that it is necessary or desirable to pay down or retire all or any balance due under the Project-Specific Mortgages or Other Mortgages, then the Royale and the UPREIT shall be free to do so, subject to the terms of Section 23(d). In addition, Royale and the UPREIT shall be free from time to time and at any time to make scheduled periodic and other payments required under the Project Specific Mortgages and Other Mortgages, without notice or accountability to any Contributor.

(d) At Closing, the UPREIT and Royale shall confirm, in writing, to the Contributors their respective acknowledgments of, and agreements to comply with, the undertakings set forth in Sections 23(a), 23(b), 23(c) and 23(d).

(1) In the event, on or before the third anniversary of the Closing Date, of (each, a "Tax-Related Event"): (A) a post-Closing sale of an H/SIC Property occurs; or (B) an attempt by the UPREIT to effect an H/SIC Property transfer as permitted by Section 23(a)

above occurs, but the terms of Section 1031 of the Code or the regulations promulgated thereunder have changed such that the mechanics for implementing a tax-deferred exchange of real estate are materially and adversely altered (whether with respect to the timing required to identify and close upon an exchange property or otherwise) from those mechanics in place as of the date of this Agreement, and, in any case, provided that the obligations of the Royale and the UPREIT under Section 23 shall not have otherwise terminated by the terms of such Section, the H/SIC shall give written notice of such Tax-Related Event (a "Tax-Related Notice") to the relevant Contributors for the subject H/SIC Property as soon as practicable after the occurrence of such event becomes reasonably likely, or, if later, on the date on which the UPREIT is, in the reasonable judgment of its securities counsel, legally permitted, under applicable federal and state securities laws and regulations, and the rules and regulations of any securities exchange on which Royale Common Stock may be listed, to disseminate such Tax-Related Notice to such Contributors.

(2) Upon their receipt of a Tax-Related Notice, the Contributors who were H/SIC Partners in the affected H/SIC Property shall designate Jay Shidler, or if he is unable or unwilling to serve, a person selected by a majority in H/SIC Partnership Interests of the Contributors who were H/SIC Partners in the affected H/SIC Property to represent them in connection with the Tax-Related Event that triggers

the delivery of the applicable Tax-Related Notice (the "Spokesperson"). The UPREIT and Royale shall be entitled to rely on the first written notice either of them receives that designates a Spokesperson with respect to a given Tax-Related Event, and shall be under no obligation to deal with any person other than that Spokesperson in connection with the subject Tax-Related Event. The UPREIT and Royale shall have no obligation to deal with any person or entity whatsoever in connection with a Tax-Related Event unless and until a Spokesperson is properly designated. The UPREIT and Royale and their respective independent accountants, attorneys and other representatives and advisors, shall cooperate With the Spokesperson in order to consider strategies proposed by or through the Spokesperson (it being understood that neither Royale or the UPREIT shall have any obligation what-

soever to propose any such strategies), on behalf of affected Contributors, which strategies are designed or intended to defer or mitigate any recognition of gain under the Code by any Contributor or any shareholder or partner in any Contributor (any such gain recognition being referred to herein as an "Adverse Tax Consequence") that may result from a Tax-Related Event, whether such strategies involve any or all of the Contributors on a basis independent of Royale and the UPREIT, or in conjunction with Royale and the UPREIT. The requesting party shall pay its own fees and expenses, and the fees and expenses of Royale and the UPREIT, incurred in connection with the procedure delineated in this Section 23(d)(2). Under this Section 23(d), the UPREIT and Royale are only obligated to cooperate with the Spokesperson on behalf of any Contributor (or any partner, shareholder or member of any Contributor) who may be facing an Adverse Tax Consequence, in connection with such Contributor's determination of the efficacy of tax-deferral or tax-mitigation alternatives proposed by or through the Spokesperson that may involve Royale or the UPREIT. In no event shall either Royale or the UPREIT be required to incur any expense (other than administrative expenses incurred in complying with this Section 23(d)(2)) in connection its cooperation under this Section 23(d)(2), nor shall any transaction duly approved by the Board of Directors of Royale that results in a Tax-Related Event be required to be suspended, postponed, impeded or otherwise adversely affected by virtue of any potential Adverse Tax Consequence.

(e) The provisions of this Section 23 shall not be amended or modified without the consent of (1) the H/SIC General Partners and (2) other Contributors holding at least seventy percent (70%) of the H/SIC Partnership Interests.

24. Preparation of Documents.

(a) Royale shall direct its counsel to prepare all documentation relating to changes in the directors and senior management of Royale, and all Board of Directors resolutions in connection with the Transactions all such documents to be subject to the reasonable approval of the H/SIC General Partners and their counsel.

(b) The H/SIC General Partners shall direct their counsel to prepare the UPREIT Agreement, all documents relating to the formation and governance of the UPREIT and the UPREIT Subsidiary, all documents pertaining to the issuance of the Common Units and Preferred Units, all documents pertaining to the contribution of the H/SIC Partnership Interests, all documents pertaining to the H/SIC Properties, documents relating to the commitment for the Royale Acquisition Facility, the H/SIC Properties Indebtedness (including negotiation of documents prepared by lenders' counsel), and all documents pertaining to the transfer of H/SIC's management of the H/SIC Properties to Royale.

(c) Royale and the H/SIC General Partners shall cooperate in good faith and with due diligence to complete in a timely manner all documents necessary or desirable to consummate the Transactions.

25. Transfer of H/SIC Management. The terms and conditions of the transfer of H/SIC's management of the H/SIC Properties to Royale are set forth on Exhibit "H/SIC Management Transfer" attached hereto.

26. Lease Guarantee Agreement. In order to maintain the projected net lease income for the H/SIC Property known as 429 Ridge Road, Dayton, New Jersey and the H/SIC Property known as 2601 Market Place, Harrisburg, Pennsylvania, the net lease income from the operation of such properties shall be assured by collateralized security and as otherwise more particularly described in Exhibit "Lease Guarantee Agreement."

27. Notices. All notices and other communications under this Agreement shall be addressed as follows, shall be sent by a reputable national overnight

delivery service and shall be deemed given one (1) business day after delivery and acceptance by such reputable national overnight delivery service:

If to H/SIC General Partners or H/SIC:

Mr. Clay W. Hamlin, III
The Shidler Group
One Logan Square - Suite 1105
Philadelphia, PA 19103

with a copy to:

F. Michael Wysocki, Esquire
Saul, Ewing, Remick & Saul
3800 Centre Square West
Philadelphia, PA 19102

If to Royale:

Mr. Vernon R. Beck, Chairman
Royale Investments, Inc.
3430 List Place
Minneapolis, MN 55416-4547

with a copy to:

John Parsinen, Esquire
Parsinen, Kaplan, Levy, Rosberg & Gotlieb, P.A.
100 South 5th Street - Suite 1100
Minneapolis, MN 55402

28. Due Diligence. Royale and the H/SIC General Partners shall cooperate in good faith to assist each other in their respective due diligence efforts and will provide information as reasonably requested, including, without limitation, copies of all existing corporate documentation, partnership documentation, financial information, market studies, leases, engineering reports, environmental reports, surveys, building plans, property contracts, title policies and title reports, zoning and other information, subject at all times to the disclosure requirements of the United States Securities Exchange Commission. In addition, the H/SIC General Partners and Royale shall provide to each other access to their respective properties for inspections (excluding any invasive tests or investigations) of their respective properties, subject to the rights of tenants.

29. No Public Disclosure. Subject to compliance with federal and state securities law disclosure requirements, Royale and the H/SIC General Partners agree that no press releases or other public disclosures shall be made by Royale (or any person or entity affiliated with or controlled by Royale) or any of the H/SIC General Partners (or any person or entity affiliated with or controlled by any H/SIC General Partner) regarding the Transactions without the prior written approval of Royale and the H/SIC General Partners.

30. Termination; Default.

(a) At any time prior to the Closing Date, this Agreement may be terminated (1) by mutual written consent of Royale, the H/SIC General Partners and H/SIC; (2) by

Royale or the H/SIC General Partners if (A) there shall be any order, or any proceedings for the purpose of obtaining such an order, in effect preventing consummation of the transactions contemplated by this Agreement (other than an order sought by any of the parties), or (B) there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated, issued or deemed applicable to the transactions contemplated by this Agreement by any governmental entity that makes consummation of the transactions contemplated by this Agreement illegal, or the economic effect of which would be materially and adversely burdensome to any party to this Agreement or, in the case of any H/SIC Partnership, to the H/SIC Partners of such Partnership (and the party so burdened may elect to terminate), or (3) by Royale or the H/SIC General Partners if the Closing Date is not on or prior to one hundred twenty (120) days from the date of this Agreement.

(b) If this Agreement shall be terminated as provided in Section 30(a), this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto to any other party, except that nothing set forth herein shall relieve a party hereto from liability for its willful breach of this Agreement or its own costs incurred with respect to costs agreed upon by each party prior to such termination. If this Agreement is terminated, each party hereto agrees to return or destroy all documents and other information received from any other party hereto as soon as practicable after the termination of this Agreement.

(c) Notwithstanding anything contained in this Section 30 or elsewhere in this Agreement to the contrary,

(1) if Royale defaults in the performance of any of Royale's obligations under this Agreement, the H/SIC General Partners and H/SIC shall, as their sole and exclusive remedy, have the right either (A) to seek specific performance of this Agreement by Royale, or (B) to be paid One Hundred Fifty Thousand Dollars ($150,000) by Royale, and, upon such election by the H/SIC General Partners and H/SIC, Royale shall pay to the H/SIC General Partners and H/SIC One Hundred Fifty Thousand Dollars ($150,000) as liquidated damages and the sole and exclusive remedy, with no action for damages other than $150,000;

(2) if the H/SIC General Partners or H/SIC default in the performance of any of the obligations of the H/SIC General Partners or H/SIC under the Agreement, Royale shall, as its sole and exclusive remedy, have the right either (A) to seek specific performance of this Agreement by the H/SIC General Partners and H/SIC or (B) to be paid One Hundred Fifty Thousand Dollars ($150,000) by H/SIC General Partners and H/SIC, and, upon such election by Royale, the H/SIC General Partners and H/SIC shall pay to Royale One Hundred Fifty Thousand Dollars ($150,000) as liquidated damages and the sole and exclusive remedy of Royale, with no action for damages other than $150,000.

31. Miscellaneous.

(a) This Agreement may not be amended except by an instrument in writing signed by the parties to this Agreement.

(b) This Agreement together, including the Exhibits attached hereto and the agreements contemplated by the terms of this Agreement (1) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, (2) may be executed in several counterparts, each of which will be deemed an original and all of which shall constitute one and the same instrument and (3) shall be governed in all respects, including validity, interpretation and effect, by the laws of the Commonwealth of Pennsylvania. All Exhibits attached to this Agreement are made a part of this Agreement.

(c) This Agreement shall be binding upon, and shall be enforceable by and inure to the benefit of, the parties named herein and their respective successors; provided, however, that this Agreement may not be assigned by any party without the prior written consent of the other parties and any attempted assignment without such consent shall be void and of no effect.

(d) The titles and captions of the Sections and paragraphs of this Agreement are included for convenience of reference only and shall have no effect on the construction or meaning of this Agreement.

(e) The representations and warranties set forth in this Agreement shall survive Closing.

(f) Other than with respect to Section 4 and Section 23, no provision of this Agreement is intended, nor shall it be interpreted, to provide or create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, stockholder, partner or employee or any party hereto or any other person or entity.

(g) Royale and H/SIC General Partners each agree to execute and deliver, or to cause the execution and delivery of, such other documents, certificates, agreement and other writings and to take such other actions as may be necessary or desirable in order to consummate expeditiously or implement the Transactions.

(h) The parties to this Agreement understand that the structure of the Transactions may be subject to change as a result of many factors, including, without limitation, federal and state tax considerations, securities laws considerations, the requirements of lenders, and corporate and partnership law considerations. The parties to this Agreement agree to cooperate in good faith to attempt to accommodate any required changes, provided that the ultimate benefits to, and burdens of, this Agreement and the Transactions to the parties remain as specified in this Agreement, notwithstanding any such changes.

(i) If any provision of this Agreement, or the application thereof, is for any reason held to any extent to be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the

intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provisions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

H/SIC CORPORATION, a Delaware corporation

By: _____

STRATEGIC FACILITY INVESTORS, INC., a Delaware limited partnership, the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership

By: _____

SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company, a general partner of South Brunswick Investors, L.P., a Delaware limited partnership

By: _____

COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation, the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership

By: _____

GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation, the sole general partners of 6385 Flank Drive, L.P.

By: _____

ROYALE INVESTMENTS, INC., a Minnesota corporation

By: _____

Crown Advisors, Inc. and all of its shareholders hereby join in this Agreement for the purpose of confirming its obligation to execute and deliver the documents required to effectuate the provisions of Section 6 and consummate the Transactions.

CROWN ADVISORS, INC.

By: _____

SHAREHOLDERS:

Vernon R. Beck

John Parsinen

Exhibit
"H/SIC Partners Unit Consideration"

The allocation of Royale Common Stock, Common Units and Preferred Units among H/SIC and the H/SIC Partners shall be determined by the H/SIC General Partners and confirmed by H/SIC and the H/SIC Partners at least 10 days in advance of the Closing.

Exhibit "H/SIC Partners Authorization Agreements"

The Following agreements shall be executed by the H/SIC Partners and provided at least 10 days prior to the Closing:

Consent, Authorization and Power of Attorney

UPREIT Partnership Signature Page

Subscription Agreement Signature Page

Accredited Investor Questionnaire

Exhibit "H/SIC Properties Violations"

Blue Bell Investment Company, L.P.

The following violations refer to all three Blue Bell Properties, 751/753 Jolly Road, 760 Jolly road, and 785 Jolly Road and the adjacent Option Land.

None

Comcourt Investors, L.P.

The following violations refer to 2605 Interstate Dr. and 2601 Market Place and the adjacent Option Land.

None

South Brunswick Investors, L.P.

The following violations refer to all three South Brunswick Properties 429 Ridge Road, 431 Ridge Road, and 437 Ridge Road along with the Adjacent Option Land.

None

6385 Flank Drive, L.P.

The following violations pertain to 6385 Flank Drive and the adjacent Option Land.

None

<TABLE>
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Exhibit "H/SIC Leases"

Property	Address	Tenant	Square Feet	Expiration Date	Rental Rate	Annual Rental Revenue	Security Deposit

<S>	<C>	<C>	<C>	<C>	<C>		<C>	<C>
Blue Bell, PA								
Unisys World Headquarters	751/753 Jolly Road	Unisys	537,338	Jun-09	$8.06	N	$4,329,171	
$12,750,000								
Unisys World Headquarters	760 Jolly Road	Unisys	199,380	Jun-09	$12.50	N	$2,492,000	None
Merck Building	785 Jolly Road	Unisys/Merck(1)	218,219	Jun-09	$9.61	N	$2,096,951	None
Harrisburg, PA								
6385 Flank Drive	6385 Flank Drive	Orion Capital	8,640	Oct-00	$10.79	N	$93,226	None
		Pitney Bowes	6,898	May-01	$10.42	N	$71,877	
None								
		Cowles Magazines	11,309	Mar-02	$10.38	N	$117,387	
None								
		Orion Consulting	3,566	May-02	$10.31	N	$36,765	
$2,424								
		Hershey Foods	2,387	May-02	$10.98	N	$26,209	
None								
			32,800				$345,465	
Commerce Court	2601 Market Place	HealthAmerica	42,941	Jul-97	$17.21	G	$738,808	None
		Groundwater Sciences	4,293	Sep-99	$17.00	G	$72,981	
None								
		Texas Eastern	17,363	May-00	$16.50	G	$286,490	
None								
		McGraw-Hill	1,467	Apr-02	$17.50	G	$25,673	
None								
		Ernst & Young	17,499	Oct-07	$18.45	G	$322,857	
None								
			66,064(2)				$1,123,951(2)	
Conrail Building	2605 Interstate Drive	Health Central	12,699	Dec-00	$14.94	G	$189,723	None
		Aerotek	4,338	Apr-01	$15.00	G	$65,070	
None								
		PA Emergency Mgmt Agency	43,828	Nov-01	$14.51	G	$635,944	
None								
		USF&G	19,903	Jun-02	$13.65	G	$271,676	
None								
		Vacant	3,500	Sep-02		G	$0	
			84,268				$1,162,413	
Princeton, NJ	429 Ridge Road	Teleport Communications	113,975	Jul-07	$17.62	G	$2,008,240	None
Teleport Communications Group Headquarters		Group (TCG)						
		Vacant-Teleport Option Space	28,410(3)	Dec-08	$17.62	G	$500,584 (3)	
None								
			142,385				$2,508,824	
None								
Teleport National HQ	437 Ridge Road	IBM/Teleport Communications Group(4)	30,000	Dec-06	$11.65	N	$349,500	None
IBM Building	431 Ridge Road	IBM	170,000	Mar-02	$8.50	N	$1,445,000	None
		Total	1,480,454				$15,352,691	

</TABLE>

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(1) Merck subleased 50% of building from Unisys and will be leasing the remainder as of January 1, 1999.

(2) The Ernst & Young lease has not been included in the totals as the lease does not commence until November 1, 1997 after the expiration of the HealthAmerica lease (8/1/97).

(3) Teleport has one remaining option for 28,410 s.f. which would bring their total square footage to 142,385. We anticipate this option being exercised shortly.

(4) IBM has leased this building along with 431 Ridge Road under a single lease until 3/31/02. Teleport has entered into a sub-lease with IBM ending 3/31/02 and a lease commencing 4/1/02 and ending 12/31/06 with Landlord.

Exhibit
"H/SIC Properties Service Contracts"

ComCourt Investors L.P.

2601 Market Place

Allied Maintenance	Janitorial Services
Bailey Landscape Maintenance	Landscape Maintenance
Berkshire System	Fire Alarm System Maintenance
Brickman Group	Landscape Maintenance
Commonwealth Security	Security System/Remote Alarms
Cummins Power Systems	Diesel Generator Maintenance
First Industrial Management Corp.	Management and Maintenance
George A. Kint, Inc.	Fire Extinguisher Service
Greenhill's Plant Interiors	Interior Plantscape Maintenance
Guardian Chemical Specialties	Boiler Water Treatment
Home Paramount Pest Control	Interior Pest Control
Lencioni's Window Cleaning	Window Cleaning
McClure Mechanical Services	HVAC Maintenance
Security Elevator	Elevator Maintenance
Suppression Systems, Inc.	Halon Fire Protection Service
The Protection Bureau	Security System Maintenance
Waste Management, Inc.	Trash Removal Services
Worldwide Services	UPS System Maintenance

Blue Bell Investment Co., LP

None

6385 Flank Drive LP

Brickman Group	Landscape Maintenance
Commonwealth Security	Security System/Remote Alarms
First Industrial Management Corp.	Management and Maintenance
Heintzelman's Window Cleaning	Window Cleaning
Pealer's Florists	Interior Plantscape Maintenance
USA Waste	Trash Removal Services

Princeton Technology Center

Bell Atlantic	Local phone service
Brickman	Landscape maintenance
Comcast Metrophone	Cellphone service

Princeton Technology Center
continued

Cooper Electric	Generator maintenance
Fluidics	Chiller maintenance
Jackson-Cross Co.	Property management
Klenzoid	Equipment water treatment
Landis & Staefa	Energy management system service
Manhattan Maintenance	Cleaning service
MCI	Long distance phone service
Metro Fire Protection	Fire alarm system certification
Metrocall	Pager service
Midco Recycling	Trash recycling service
Midco Waste Systems	Trash disposal
MobileComm	Pager service
Public Service Gas & Electric	Electricity & gas
Security Elevator co.	Elevator maintenance
South Brunswick Township	Water & sewer
Spectaguard	Fire alarm system monitoring
Western Termite	Pest control service

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Exhibit
"H/SIC Properties Insurance"

Property	Carrier	Coverage
<S>	<C>	<C>

751 Jolly Road	Sun Insurance Office of America	All Risk	up to $200,000,000
753 Jolly Road	Sun Insurance Office of America	All Risk	up to $200,000,000
760 Jolly Road	Sun Insurance Office of America	All Risk	up to $200,000,000
785 Jolly Road	Sun Insurance Office of America	All Risk	up to $200,000,000
6385 Flank Drive	Chubb	All Risk	up to $30,000,000
2601 Market Place	Chubb	All Risk	up to $30,000,000
2605 Interstate Drive	Chubb	All Risk	up to $30,000,000
429 Ridge Road	Aon Risk Services- Multiple Carriers	All Risk	up to $30,000,000
437 Ridge Road	Aon Risk Services- Multiple Carriers	All Risk	up to $30,000,000
431 Ridge Road	Aon Risk Services- Multiple Carriers	All Risk	up to $30,000,000

</TABLE>

Exhibit
"H/SIC Litigation"

The only litigation involving any of the H/SIC properties is the lawsuit captioned Nancy Kovac v. Unisys Corporation and Blue Bell Investment Co., L.P. This is a personal injury claim for an alleged fall in Unisys' parking lot. Under Unisys' lease, Unisys as Tenant completely indemnifies Blue Bell Investment Company, L.P. in this matter.

Exhibit "H/SIC Environmental Matters"

Blue Bell Investment Company, L.P.

The following reports refer to all three Blue Bell Properties, 751/753 Jolly Road, 760 Jolly Road, and 785 Jolly Road and the adjacent Option Land.

- - Site Inspection and Supplemental Document Review performed by Leggette, Brashears, & Graham, Inc. dated February 26, 1997

- - Revised Environmental Baseline Report for Unisys Corporation performed by Douglas Burman, PE, REA dated January 1997

- - Environmental Indemnification Agreement for Unisys

Comcourt Investors, L.P.

2605 Interstate Drive

- - Phase I Environmental Site Assessment - Conrail Building performed by GZA GeoEnvironmental dated September 13, 1996

2601 Market Place and Adjacent Option Land

- - Phase I Environmental site Assessment Update - Commerce Court performed by GZA GeoEnvironmental dated September 13, 1996

South Brunswick Investors, L.P.
The following reports refer to all three South Brunswick Properties 429 Ridge Road, 431 Ridge Road and 437 Ridge Road along with the Adjacent Option Land.

- - Phase I Environmental Site Assessment Report prepared by Groundwater Technology, Inc. dated October 27, 1994

- - Phase I Environmental Update performed by Groundwater Technology, Inc. dated April 19, 1296

- - Asbestos Investigation Report prepared by Galson Corporation dated June, 1995

- - Galson Summary Letter dated September 20, 1995

- - Remedial Investigation Summary Report for Remedial Activities prepared by Kroll Environmental Enterprises, Inc. dated July 1995 submitted by IBM to the New Jersey Department of Environmental Protection (NJDEP)

- - Remediation Agreement between NJDEP and IBM dated May 25, 1994

- - Amended Administrative Consent Order between NJDEP and IBM dated May 24, 1984

- - Environmental Indemnification Agreement from IBM

6385 Flank Drive, L.P.

The following report pertains to 6385 Flank Drive and the adjacent Option Land.

- - Phase I Environmental Site Assessment Report prepared by Groundwater Technology dated February 25, 1994.

Exhibit
"H/SIC Personal Property"

ComCourt Investors L.P.

2 Trash Cans - Cafeteria
2 Plastic Cones
1 Forklift
1 Volume-Air Air Balancer
1 Balometer
1 Pitot Tube
2 Temperature Recorders
2 Snapper 21' Mower w/Bag
1 STIHL String Trimmer
1 STIHL Blower/Vacuum
1 Gravely 36' Mower
1 Bench Grinder
2 Trash Cans - Lobbies
1 Wheelbarrow

Blue Bell Investment Co., LP

None

6385 Flank Drive LP

None

South Brunswick Investors, L.P.

1 Gateway Pentium desktop computer
2 Gateway 486 laptop computer
1 Hewlett Packard laser printer
1 Panasonic copier
1 Brother fax machine
1 IBM typewriter
1 Panasonic dictaphone transcriber
1 Olympus portable dictaphone unit
8 AT&T Merlin telephone sets
7 Motorola portable 2-way radios
3 Pager units
1 Small refrigerator
1 Bruning blueline drawing printer
8 Large drawing files
1 Secretarial station, files, chair
6 Office desks, credenzas, chairs
1 Conference table & 4 chairs
6 Picnic tables with benches
1 1981 Chevrolet Blazer with winch
1 Fork lift unit
1 Lift aloft bucket truck
Misc. tools, equipment, shelves

Exhibit
Royale Personal Property

None that we are aware of.

Exhibit
Royale Property Violations

None that we are aware of.

<TABLE>
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Exhibit
Royale Leases

Property	Address	Tenant	Square Feet	Expiration Date	Annual Rental
<S>	<C>	<C>	<C>	<C>	<C>
Cub Food Store	3550 Vicksburg Lane Plymouth, MN	Fleming Companies, Inc.	67,510	Mar - 11	$522,813.48
Cub Food Store	Tenth & I-465 Indianapolis, IN	Wigest Corp.	67,541	Jul - 11	$548,196.48
Sentry Foods	7601 N. Port Washington Rd Glendale, WI	Fleming Companies, Inc.	36,248	Oct - 10	$158,300.00
Sentry Foods	3265 Golf Rd. Delafield, WI	Fleming Companies, Inc.	50,000	Nov - 14	$312,201.00
Supersaver Foods	630 E. Wisconsin Ave Oconomowoc, WI	Fleming Companies, Inc.	39,272	May - 14	$249,125.00
Sunmart	2100 S. Broadway Minot, ND	Nash-Finch	46,134	Jan - 14	$305,773.94
Econo Foods	1351 38th St. N. Peru, IL	Nash-Finch	60,232	Jan - 14	$334,775.55

</TABLE>

Exhibit
Royale Purchase Options

Cub Food Store - Plymouth, MN	None
Cub Food Store - Indianapolis, MN	None
Sentry Foods - Glendale, WI	None
Sentry Foods - Delafield, WI	None
Supersaver Foods - Oconomowoc, WI	None
Sunmart - Minot, ND	None
Econo Foods - Peru, IL	None

Exhibit
"Royale Service Contracts"

None.

Exhibit
"Royale Properties Insurance"

None.

Exhibit
Royale Litigation

Evets Corp., a Minnesota Corporation which is owned by Steve Hoyt, is a shareholder of Royale Investments, Inc. and has commenced a mandamus action to compel Royale to produce a Non-Objecting Beneficiary List of shareholders (NOBO List) and Royale has responded denying any obligation to provide any such list to Evets Corp.

The action is pending.

Exhibit
Royale Environmental Matters

Cub Food Store - Plymouth, MN	None
Cub Food Store - Indianapolis, MN	None
Sentry Foods - Glendale, WI	None
Sentry Foods - Delafield, WI	None
Supersaver Foods - Oconomowoc, WI	None
Sunmart - Minot, ND	None
Econo Foods - Peru, IL	None

"Schedule of H/SIC Debt Allocations"

The allocation of Project Specific Mortgages and Other Mortgages shall be determined by the H/SIC General Partners and provided to all parties at least 15 days in advance of the closing.

Exhibit
"H/SIC Management Transfer"

At Closing, H/SIC shall transfer to Royale all of its employees, current

and historical property and partnership files and records, management agreements, market research, property submittal and offer databases, software, and The Shidler Group confidential proprietary acquisition and management systems, licenses and publications. In addition, the following furniture, fixtures and equipment shall be transferred:

Office Equipment

Copy Machines	Minolta 5430 Xerox
Fax Machine	Xerox 7020
Printer	HP LaserJet
Telephone Equipment	Symantec nine desk phones two courtesy phones
Desks	4 desk layouts with overhead storage
File Cabinets	5 Steelcase 5' tall 1 Steelcase Storage Cabinet 3 Steelcase 3' tall
Kitchen Equipment	Microwave Refrigerator Coffee Machine Table & Chairs

Computers

Hardware	2 Dell Pentiums 2 Gateway Pentiums 1 Microcenter - 486 SMC elite 3609TP (10Base-T Concentrator) Smart-UPS 400 (Battery Backup)
Network	Novell - Netware v. 3.12
Software	Microsoft Word & Excel Lotus - spreadsheets Project C - project analysis FileMaker Pro - submittal & mailing database Business Works - accounting DayTimer - scheduler
Back-up System	Mountain Filesafe v. 5.4
Internet Service Provider	Erol's
Virus Protection	Symantec Norton AntiVirus

At Closing, H/SIC and its shareholders shall represent, covenant and warrant to Royale, and hold Royale harmless, that all relevant and necessary information with respect to the H/SIC Assets held by H/SIC has been transferred, the non-existence of liens or obligations relating to the period of H/SIC's ownership, including Bulk Sales and other unpaid taxes, absence of defaults, valid ownership and authority, compliance with government requirements and other standard provisions normally required in such instances and reasonably acceptable to Royale's counsel. Such representations and warranties shall survive the Closing.

The allocation of value attributable to the H/SIC Assets shall be determined by the H/SIC General Partner and confirmed by H/SIC and the H/SIC Partners at least 30 days in advance of the Closing.

Exhibit
"Lease Guarantee Agreement"

Two separate agreements shall be entered into and funded at Closing between the UPREIT and (i) the partners of Comcourt Investors, L.P. and (ii) the partners of South Brunswick Investors, L.P. The substance of the agreements shall be as follows:

Comcourt Investors, L.P. ("Comcourt")

1. Comcourt owns an office building of 66,064 rentable square fee, located at 2601 Market Place, Commerce Park, Harrisburg, PA. The building is 100% leased; however, on July 31, 1997, the lease for HealthAmerica, which occupies 42,941 sq. ft., is scheduled to expire (the "Vacant Space"). Comcourt has

executed a replacement lease dated May 30, 1997 between Comcourt as Landlord and Ernst & Young U.S. LLP as Tenant for 17,499 sq. ft. of the Vacant Space, commencing November 1, 1997 for a term of ten years, as well as a lease dated August 8, 1997 with Penn State Geisinger System Services as Tenant for 17,665 sq. ft. of the Vacant Space, commencing November 1, 1997 for a term of ten years, leaving a balance of 7,777 sq. ft. to be leased (the "Unleased Vacant Space"). The Comcourt partners are negotiating with prospective tenants and anticipate that leases for the Unleased Vacant Space will be quickly executed.

2. The partners are transferring their partnership interests to UPREIT at Closing. As partial consideration for the transfer, the UPREIT has required that the partners of Comcourt provide the UPREIT an agreement to insure that the lease income attributable to the Vacant Space is beginning at the date of Closing attained at the level projected, and, in addition, that the partners of Comcourt by responsible for all tenant improvement and leasing commissions for new leases on the Vacant Space, as well as the Ernst and Young and Penn State Geisinger leases.

3. The Lease Income From the Vacant Space ("LEASE INCOME") means the stabilized net rent determined on a GAAP basis.

4. The Comcourt partners shall fund two cash escrows at Closing. Comcourt represents that the amounts escrowed are expected to cover all reasonably anticipated amounts to be needed, based upon the lease terms and conservative assumptions. The escrow amounts set forth below shall be reduced to the extent that, prior to Closing, additional leasing of Vacant Space is achieved and/or tenant improvements and/or leasing commissions are paid by Comcourt.

(a) The first escrow shall be in cash in the amount of $296,897 (the "Comcourt LEASE INCOME Escrow") and shall be used by the UPREIT to the extent required on a monthly basis to supplement the income as necessary to achieve the LEASE INCOME, beginning at Closing.

(i) Upon lease up, commencement of occupancy and payment of rent for the Vacant Space, the remaining balance of the Comcourt LEASE INCOME Escrow shall be released to the Comcourt partners, provided that the LEASE INCOME has been achieved. If the LEASE INCOME has not been achieved, the amount retained shall be the present value

of the amount of the annualized deficit below the LEASE INCOME from such time multiplied by the number of years remaining on the lease.

(b) The second cash escrow shall be created by the Comcourt partners in the amount of $945,104 for tenant improvements and leasing commissions for the Vacant Space, as well as the full amount of improvements to be incurred for the Ernst & Young space and the Penn State Geisinger space per the attached schedule (the "Comcourt TI Escrow"). Such amount shall be fully funded in cash at Closing. Payments from the Comcourt TI Escrow shall be drawn for tenant improvements and leasing commissions for new tenants as incurred by the UPREIT. Amounts not expended shall be refunded to the Comcourt partners upon lease up of the Vacant Space.

South Brunswick Investors, L.P. ("SBI")

1. SBI owns an office building of 142,385 rentable square feet, located at The Princeton Technology Center, 431 Ridge Road, Dayton, NJ. The building has been undergoing a total renovation and lease up since 1996. 113,975 square feet have been leased to the tenant, Teleport Communications Group, Inc. ("TCG"), for a 10 year initial term. TCG has exercised an option to lease the remaining 28,410 sq. ft. (the "Vacant Space") for a ten year term commencing February 1, 1998. The SBI partners have represented to the UPREIT that all capital improvements respecting the renovation and all tenant improvements for the 113,975 of leased space and the 28,410 option space shall be paid at Closing.

2. The SBI partners are transferring their partnership interests to the UPREIT at Closing. As partial consideration for the transfer, the SBI partners will provide one cash escrow to subsidize the net income attributable to the Vacant Space from the date of Closing until the commencement of rent and another cash escrow to fund all tenant improvement and leasing commissions for the new lease on the Vacant Space.

3. The Lease Income From the Vacant Space ("LEASE INCOME") means the stabilized net rent determined on a GAAP basis.

4. The SBI partners shall fund two cash escrows at Closing. SBI represents that the amounts escrowed are expected to cover all reasonably anticipated amounts to be needed, based upon the lease terms. The escrow amounts set forth below shall be reduced to the extent that, prior to Closing, tenant improvements, leasing commission or capital improvements are otherwise paid for which escrowed monies are to be provided hereinafter.

(a) The first escrow shall be in cash in the amount of $245,563 (the "SBI LEASE INCOME Escrow") and shall be used by the UPREIT to the extent required on a monthly basis to supplement the income as necessary to achieve the LEASE INCOME, beginning at Closing.

(i) Upon commencement of occupancy and payment of rent for the Vacant Space, the remaining balance of the SBI LEASE INCOME Escrow, if any, shall be released to the SBI partners.

(b) The second cash escrow shall be created by the SBI partners at Closing in the amount of $3,435,350 for the full amount of improvements to be incurred for (i) any accrued but unpaid capital improvements for the building renovation and unpaid leasing commissions and tenant improvements for the 113,975 sq. ft. of leased space as of the date of Closing, and (ii) tenant improvements and leasing commissions for the Vacant Space, as per the attached schedule (collectively, the "SBI TI Escrow"). Such amount shall be fully funded in cash at Closing. Payments from the SBI TI Escrow shall be drawn for tenant improvements and leasing commissions as incurred by the UPREIT. Amounts not expended shall be refunded to the SBI partners upon rent commencement of the Vacant Space.

Comcourt Lease Income
2601 Market Place

MONTH	1	2	3
	Oct-97	Nov-97	(thereafter)
Square footage 7,777			
Rent-E & Y	24,352		
Rent-Penn State	24,289		
Rent-Vacant Space	11,971	11,971	11,971
Reimbursements	0	0	0
Total Income	60,612	11,971	11,971
Less Expense Reduction	(2,021)	(2,021)	(2,021)
Lease Income Guarantee	58,591	9,950	9,950

	Years	
Present Value @ 5%	2	296,897

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Comcourt TI Escrow
2601 Market Place

Commerce Court

Tenant	Square Footage	Tenant Improvements	Commissions	Capital Improvements	Total
<S>	<C>	<C>	<C>	<C>	<C>
Ernst & Young	17,499	316,732	73,617		390,349
Penn State/Geisinger	17,665	247,310	121,087		368,397
Vacant Space	7,777	82,770	30,425		113,195
Total Commerce Court		646,812	225,129	0	871,941

Conrail Building

		Tenant		Capital	

Tenant	Square Footage	Improvements	Commissions	Improvements	Total
PEMA		73,163			73,163
Total Conrail		73,163	0	0	73,163
TOTAL		719,975	225,129	0	945,104

</TABLE>

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SBI Lease Income
429 Ridge Road

Month	1	2	3	4	Total
	Oct-97	Nov-97	Dec-97	Jan-98	
<S>	<C>	<C>	<C>	<C>	<C>
Square footage 28,410					
TCG Option Payment Refund				85,230	85,230
Rent	41,913	41,913	41,913	41,913	167,651
Reimbursements	988	988	988	988	3,951
Total Income	42,901	42,901	42,901	128,131	256,832
Less Expense Reduction	(2,817)	(2,817)	(2,817)	(2,817)	(11,269)
Less Income Guarantee	0,083	40,083	40,083	125,313	245,563

</TABLE>

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SBI TI Escrow
429 Ridge Road

Tenant	Square Footage	Tenants Improvements	Commissions	Capital Improvements	Total
<S>	<C>	<C>	<C>	<C>	<C>
Teleport Communications Group		292,000	106,000		398,000
Initial Lease-Existing Obligations					
Teleport Communications Group	26,425	1,057,000	285,950		1,342,950
First Option Space - already exercised					
Teleport Communications Group	28,410	1,136,400	305,000	80,000	1,521,400

Second Option Space - already exercised				
General Property Improvements			173,000	173,000
Totals	2,485,400	696,950	253,000	3,435,350

</TABLE>

EXHIBIT 2

AMENDMENT TO
FORMATION/CONTRIBUTION AGREEMENT

THIS AMENDMENT TO FORMATION CONTRIBUTION AGREEMENT ("Amendment") dated as of the 13th day of October, 1997 by and among ROYALE INVESTMENTS, INC., a Minnesota corporation ("Royale"), H/SIC CORPORATION, a Delaware corporation ("H/SIC"), STRATEGIC FACILITY INVESTORS, INC., a Delaware corporation ("Strategic"), the sole general partner of BLUE BELL INVESTMENT COMPANY, L.P., a Delaware limited partnership ("Blue Bell"), SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company ("SBIC"), a general partner of SOUTH BRUNSWICK INVESTORS, L.P., a Delaware limited partnership ("South Brunswick"), COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation ("ComCourt Corporation"), the sole general partner of COMCOURT INVESTORS, L.P., a Delaware limited partnership ("Comcourt"), and GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation ("Gateway"), the sole general partner of 6385 FLANK DRIVE, L.P., a Pennsylvania limited partnership ("Flank Drive") (collectively, the "Parties").

BACKGROUND

The Parties are party to a certain Formation/Contribution Agreement dated as of September 7, 1997 (the "Formation Agreement"), pursuant to which the Parties agreed to pursue a series of transactions, the general structure of which is set forth in the Formation Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Formation Agreement.

Section 26 and Exhibit "Lease Guarantee Agreement" of the Formation Agreement together outline terms calling for the funding of certain escrows by the partners of Comcourt and South Brunswick (the "Partners") at Closing. The Parties have agreed to modify these provisions in a manner intended to facilitate the overall transaction.

The Parties also desire to amend the definition of H/SIC Assets, Section 9(d)(9) and Exhibit "UPREIT Agreement Terms" of the Formation Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to the following modifications of the terms of the Formation Agreement:

1. On the Closing Date, the Partners shall, in lieu of two escrows designed to subsidize the lease income of Comcourt and South Brunswick (the "Receiving Partnerships"), fund, or cause to be funded, a single rent escrow account (the "Rent Escrow"). The Rent Escrow shall be in the amount set forth in the Exhibit "Lease Income" attached hereto and shall be deposited in an account to be held and disbursed by Bankers Trust Company pursuant to the provisions of that certain Credit Agreement to be executed by Royale, FCO, L.P., FCO Holdings, Inc., Blue Bell, Comcourt, South Brunswick, and Flank Drive in connection with the H/SIC Properties Indebtedness (the "Credit Agreement"). The Rent Escrow shall be delivered in its entirety to the Receiving Partnerships pursuant to the schedule set forth in Exhibit "Lease Income", and the partners shall not be entitled to the return of any portion of the Rent Escrow.

2. On the Closing Date, the Partnerships (and not the Partners) shall, in lieu of two escrows designed to finance certain tenant improvement obligations of the Receiving Partnerships, fund a single tenant improvement escrow account (the "Tenants Costs"). The TI Escrow shall be funded in the amount set forth in the Exhibit "TI Escrow" attached hereto and shall be deposited in an account to be held and disbursed by Bankers Trust Company pursuant to the provisions of the Credit Agreement. The TI Escrow shall be delivered in its entirety to the Receiving Partnerships pursuant to the schedule set forth in Exhibit "Tenants Costs", and the Partners shall not be entitled to the return of any portion of the TI Escrow.

3. The definition of H/SIC Assets in the Formation Agreement is amended to read as follows:

> "H/SIC Assets" shall mean H/SIC's furniture, fixtures, equipment and proprietary assets.

4. Section 9(d)(9) of the Formation Agreement is hereby amended to read as follows:

> "(9) Except as otherwise provided in Section 7(f) and except to the extent the UPREIT Agreement may provide for a shorter holding period or for shorter holding periods, such Contributor acknowledges and agrees that (A) the Common Units to be issued at Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of Closing, and (B) Preferred Units to be issued at Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of twenty-five (25) months from and after the Closing Date. Common Units and Preferred Units received by the Retained Partners at the Retained Interests Closing shall not be subject to any holding period and the Retained Partners shall have the right to exchange immediately for Royale Common Stock such Common Units and Preferred Units received at the Retained Interests Closing."

5. The paragraph captioned "Management Expenses" is hereby deleted from Exhibit "UPREIT Agreement Terms" of the Formation Agreement. The Parties agree that the Limited Partnership Agreement of FCO, L.P. to be executed at Closing satisfies the requirements of Exhibit "UPREIT Agreement Terms."

6. This Amendment may not be amended except by an instrument in writing signed by the parties to this Amendment.

7. This Amendment may be executed in several counterparts, each of which will be deemed an original and all of which shall constitute one and the same instrument and shall be governed in all respects by the laws of the Commonwealth of Pennsylvania.

8. As amended by this Amendment, the Formation Agreement shall remain in full force and effect.

9. This Amendment shall be binding upon, and shall be enforceable by and inure to the benefit of, the parties named herein and their respective successors.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

H/SIC CORPORATION, a Delaware corporation

By: _____

STRATEGIC FACILITY INVESTORS, INC., a Delaware limited partnership, the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership

By: _____

SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company, a general partner of South Brunswick Investors, L.P., a Delaware limited partnership

By: _____

(SIGNATURES CONTINUED ON NEXT PAGE)

COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation, the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership

By:

GATEWAY SHANNON DEVELOPMENT CORPORATION, a
Pennsylvania corporation, the sole general partners
of 6385 Flank Drive, L.P.

By:

ROYALE INVESTMENTS, INC., a
Minnesota corporation

By:

Crown Advisors, Inc. and its shareholders join in this Amendment.

CROWN ADVISORS, INC.

By:

SHAREHOLDERS:

Vernon R. Beck

John D. Parsinen

<TABLE>
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Exhibit "TI Escrow"

Tenant	Square Footage	Tenant Improvements	Commissions	Capital Improvements	Total
<S>	<C>	<C>	<C>	<C>	<C>
429 Ridge Road					
Teleport Communications Group	87,550	291,805	103,723	30,000	425,528
Initial Lease - Existing Obligations					
Teleport Communications Group	26,425	0	359,450		359,450
First Option Space - already exercised					
Teleport Communication Group	28,410	1,136,400	335,790	70,000	1,542,190
Second Option Space - already exercised					
General Property Improvements				104,00	104,000
Total Ridge Road		1,428,205	798,963	204,000	2,431,168
Commerce Court					
Ernst & Young	17,499	197,091	98,617		295,708
Penn State/Geisinger	17,665	247,310	143,565		390,875
Groundwater Sciences	4,702	8,528	0		8,528

Penn State/Geisinger 1st Floor	7,763	33,500	15,053	48,553
Total Commerce Court	486,429	257,235	0	743,664
Conrail Building				
PEMA	51,161			51,161
Total Conrail	51,161	0	0	51,161
TOTAL	1,965,795	1,056,198	204,000	3,225,993

</TABLE>

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<CAPTION>

Schedule 5.6

Lease Income

	Oct-97	Nov-97	Dec-97	Jan-98	Total
<S>	<C>	<C>	<C>	<C>	<C>
429 Ridge Road					
TCG Option Payment Refund				92,333	92,333
Rent	24,222	41,715	41,715	41,715	149,368
Reimbursements	574	988	988	988	3,537
Total Income	24,796	42,703	42,703	135,036	245,238
Less Expense Reduction	(1,636)	(2,817)	(2,817)	(2,817)	(10,088)
Lease Income Reserve	23,160	39,886	39,886	132,218	235,150

Commerce Court	Oct-97	Nov-97	Dec-97	Thereafter	Total
Rent - E &Y	4,140				
Rent - Penn State	14,103				
Rent - Penn State - 1st Fl	5,785				
Rent - Vacant Space	321	553	553	10,695	
Total Income	34,349	553	553	10,695	46,150
Less Expense Reduction	0	0	0	0	0
Lease Income Reserve	34,349	553	553	10,695	46,150

Total Rent Reserve	57,509	40,439	40,439	142,913	281,300

</TABLE>

AGREEMENT AND PLAN
OF REORGANIZATION
REGARDING
CROWN ADVISORS, INC.

THIS AGREEMENT AND PLAN OF REORGANIZATION, made this 13th day of October, 1997, by and between Royale Investments, Inc., a Minnesota corporation having its principal place of business at 3430 List Place, Minneapolis, MN 55416 ("Royale") and Crown Advisors, Inc., a Minnesota corporation having its principal place of business at 3430 List Place, Minneapolis, MN 55416 ("Crown").

WHEREAS, Royale wishes to acquire and Crown wishes to transfer all of Crown's assets in a transaction intended to qualify as a reorganization within the meaning of Section 368(a)(1)(C) of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, Royale and Crown adopt this Plan of Reorganization and agree as follows:

ARTICLE I. EXCHANGE OF ASSETS FOR STOCK; LIQUIDATION OF CROWN

1.1. Transfer of Assets. At the Closing, Crown shall transfer to Royale all of its assets, free and clear of encumbrances or Crown liabilities, which include, without limitation, all of its furniture fixtures and equipment, that certain Amended and Restated REIT Advisory Agreement dated as of November 22, 1995 between Royale and Crown (the "Advisory Agreement") and an aggregate of 27,646 shares of Common Stock of Royale together with the right to receive dividends of $3,455.75 for the third quarter of 1997 (the "Shares") (collectively, the "Assets") in exchange for an aggregate of 273,729 shares of voting Common Stock of Royale (the "Royale Shares"), to be issued at the Closing to Crown.

1.2. Bill of Sale. The transfer of the Assets shall be effected by the delivery to Royale of a bill of sale in form and substance satisfactory to Royale.

1.3. Restrictions on Royale Shares. The Royale Shares issuable pursuant to this Plan of Reorganization will be "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended (the "Act"), and will contain a legend restricting transfer thereof without registration under the Act and applicable state securities laws or an exemption therefrom. Royale may also place a "stop transfer"order with its transfer agent to such effect. Notwithstanding the above, Royale acknowledges that immediately after effectuating the exchange, the Royale Stares will be transferred to the shareholders of Crown in liquidation of Crown.

1.4 Registration Rights on Royale Shares. The holders of the Royale shares shall have the registration rights with respect to Royale Shares specified in that certain Registration Rights Agreement dated October ___, 1997 executed by Royale for the benefit of Holders of Limited Partnership Units and Preferred Units of FC, L.P. and Holders of Common Stock of Royale, Investments, Inc.

1.5 Liquidation of Crown. Immediately after effectuating the exchange of Assets for the Royale Shares, Crown shall liquidate and distribute all of the Royale Shares to its shareholders.

ARTICLE II. THE CLOSING

The Closing contemplated by Article I shall be held at such place and time as shall be agreed upon by the parties, but in no event shall the Closing occur later than October 31, 1997.

ARTICLE III. REPRESENTATIONS AND WARRANTIES OF CROWN

Crown hereby represents and warrants to Royale as follows:

3.1. Title To Assets. Crown has good and marketable title to all of the Assets, free and clear of any liens or encumbrances, except for the lien, if any, held by National City Bank (the "National City Lien"), which shall be released prior to or at the Closing.

3.2. Authorization. This Agreement has been duly authorized, executed, and delivered by Crown, and constitutes a valid and binding agreement of Crown enforceable in accordance with its terms.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF ROYALE

Royale represents and warrants to Crown, as follows:

4.1. Corporate Authority; Authorization. Royale has the full corporate power and authority to enter into this Agreement, the execution of which has been duly authorized by all requisite corporate action on the part of Royale.

4.2. Issuance of Shares. The Royale Shares, when issued in exchange for the Assets, will be fully paid, validly issued and non-assessable.

ARTICLE V. COMMONS PRECEDENT TO ROYALE'S OBLIGATIONS

The obligations of Royale under this Agreement, are subject to fulfillment, before or on the date of Closing, of each of the following conditions, any of which may be waived in writing at the discretion of Royale:

5.1. Representations and Warranties of Crown. The representations and warranties of Crown contained herein shall be true and correct, in all material impacts, as of the date hereof, and shall continue to be true and correct, in all material aspects, as of the Closing.

5.2. Covenants and Agreements of Crown. Crown shall have performed all obligations and complied with all covenants and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing.

ARTICLE VI. CONDITIONS PRECEDENT TO CROWN'S OBLIGATIONS

The obligations of Crown under this Agreement, are subject to the fulfillment, before or on the date of Closing, of each of the following conditions, any of which may be waived in writing at the discretion of Crown:

6.1. Representations and Warranties of Royale. The representations and warranties of Royale contained herein shall be true and correct, in all material respects, as of the date hereof, and shall continue to be true and correct, in all material aspects, as of the Closing.

6.2. Covenants and Agreements of Royale. Royale shall have performed all obligations and complied with all covenants and conditions expired by this Agreement to be performed or complied with by it at or prior to the Closing.

6.3. Approval of the Board of Directors of Royale. The Board of Directors of Royale shall have approved the transaction as contemplated by this Agreement.

ARTICLE VII. TERMINATION

7.1. Circumstances of Termination. This Agreement may be terminated (1) by mutual consent in writing; (2) by either Crown or Royale if there has been a material misrepresentation or material breach of any warranty or covenant by the other patty, which determination on behalf of Royale shall be made by its Board of Directors in its sole discretion; or (3) if the Closing shall not have taken place, unless adjourned to a later date by mutual consent in writing, by the date set forth in Article II.

7.2. Effect of Termination. In the event of a termination of this Agreement pursuant to Section 7.1, each party shall pay the costs and expenses incurred by it in connection with this Agreement and no party (or any of its officers, directors, and shareholders) shall be liable to any other party for any costs, expenses, damage or loss of anticipated profits hereunder.

ARTICLE VIII. MISCELLANEOUS

8.1. Waivers. No action pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party shall be deemed to constitute a waiver by the party taking such action of any representation, warranty, covenant, or agreement contained herein, except that a breach of any representation or warranty set forth herein that is known to a party hereto at

the time the transactions contemplated hereby are consummated shall not be subsequently enforceable or actionable by such party. A waiver by any party, or repeated waiver by any party hereto, of a breach or repeated series of breaches of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

8.2. Governing Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the laws of the State of Minnesota applicable to agreements executed in Minnesota.

8.3. Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties with respect to the transactions contemplated hereby and supersedes all prior agreements, arrangements, and understandings relating to the subject matter hereof.

8.4. Continuation of Representations and Warranties. The representations and warranties of Articles III and IV of this Agreement shall survive the closing of the transactions contemplated by thus Agreement.

8.5. Notices. Any notices or other communications required or permitted hereunder shall be sufficiently given, if sent by registered mail or certified mail, postage prepaid, and addressed to the address set forth above with the name of each party hereto.

8.6. Assignment. This Agreement may not be assigned by operation of law or otherwise.

8.7. Headings. Readings in this Agreement are descriptive only, are inserted for convenience, and do not constitute part of this Agreement.

8.8. Counterparts. This Agreement may be signed in any number of counterparts, and all such counterparts taken together shall constitute a single agreement of the parties.

IN WITNESS WHEREOF, each of the parties has executed or caused its duly authorized representative to execute this Agreement and Plan of Reorganization in the manner appropriate to each, all as of the date first above written.

ROYALE INVESTMENTS, INC.

By:_____
Its _____

CROWN ADVISORS, INC.

By:_____
Its:_____

FCO, L.P.

LIMITED PARTNERSHIP AGREEMENT

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS PURSUANT TO A REGISTRATION OR EXEMPTION THEREFROM

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FCO, L.P.

LIMITED PARTNERSHIP AGREEMENT

The undersigned, being the sole general partner and the initial Limited Partners of FCO, L.P. (the "Partnership"), a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act, do hereby enter into this Partnership Agreement this 14th day of October 1997.

R E C I T A L S:

A. The Partnership was formed pursuant to a Certificate of Limited Partnership filed on October 10, 1997 with the Secretary of State of the State of Delaware under the name "FCO, L.P."

B. The General Partner and the initial Limited Partners desire to set forth the understandings and agreements, including certain rights and obligations, among the Partners (as hereinafter defined) with respect to the Partnership.

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ARTICLE I - INTERPRETIVE PROVISIONS

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SECTION 1.1 Certain Definitions. The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Delaware Revised Uniform Limited Partnership Act, ss.ss. 17-101 to 171 -1111 of the Delaware Code Annotated. Title 6, as amended from time to time.

Additional Limited Partner/Preferred Limited Partner: A Person admitted to the Partnership as a Limited Partner or Preferred Limited Partner in accordance with Section 8.7 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(A) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.7042(i)(5).

(B) Debit to such Capital Account the items described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall he interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or of any corporation directly or indirectly controlling such Person: and (vi) if the Person in question is a partnership, any general partner of the partnership or any limited partner owning or controlling ten percent (10%) or more of either

the capital or profits interest in such partnership. As used herein, "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities. by contract. or otherwise.

Agreed Value: In the case of any (i) Contributed Property acquired pursuant to a Contribution Agreement, the value of such Contributed Property as set forth in or determined pursuant to such Contribution Agreement or, if no such value is set forth or determined for such Contributed Property, the portion of the consideration provided for under such Contribution Agreement allocable to such Contributed Property, as determined by the General Partner in its reasonable discretion, (ii) Contributed Property acquired other than pursuant to a Contribution Agreement, the fair market value of such property at the time of contribution, as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (iii) property distributed to a Partner by the Partnership. the Partnership's Book Value of such property at the time such property is distributed without taking into account, in the case of each of (i), (ii) and (iii)), the amount of any related indebtedness assumed by the Partnership (or the Partner in the case of clause (iii)) or to which the Contributed Property is taken subject.

Agreement: This Limited Partnership Agreement and all Exhibits attached hereto, as the same may be amended or restated and in effect from time to time.

Assignee: Any Person to whom one or more Partnership Units have been Transferred as permitted under this Agreement but who has not become a Substituted Limited Partner in accordance with the provisions hereof.

Bankruptcy: Either (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any reorganization, composition, readjustment, liquidation, dissolution, or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization, composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to, or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Book-Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(D), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(D) hereof, N the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value (reduced to take into account the amount of any related indebtedness assumed by the Partnership, or to which the Contributed Property is subject) of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Cash Payment: The payment to a Redeeming Party of a cash amount determined by multiplying (i) the number of Partnership Units tendered for redemption by such Redeeming Party pursuant to a validly proffered Redemption Notice by (ii) the Unit Value with respect to such Partnership Units.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent or vote is required or solicited, or the act of granting such consent or vote, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership (whether as a result of a Code Section 708 termination or otherwise). For the avoidance of doubt, the properties and assets held by the partnership constituting the Contributed Interests (as defined in the Formation Agreement) shall constitute Contributed Properties to the extent the Contributed Interests are acquired by the Partnership.

Contribution Agreements: Those certain agreements among one or more of the Initial Limited Partners (or Persons in which such Initial Limited Partners have direct or indirect interests) and the Partnership pursuant to which, inter alia, the Initial Limited Partners (or such Persons), directly or indirectly are contributing property to the Partnership on the date of this agreement in exchange for Partnership Units including, without limitation, the Formation Agreement.

Conversion Factor: The factor (carried out to four decimal places) applied for converting Partnership Units to REIT Shares, which shall initially be 1.0; provided, however, in the event that on or after the date of this Agreement the General Partner (i) declares or pays a dividend on its outstanding REIT Shares in REIT Shares or makes a distribution to all holders of its outstanding REIT Shares in REIT Shares, (H) subdivides its outstanding REIT Shares or (iii) combines its outstanding REIT Shares into a smaller number of REIT Shares, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of REIT Shares issued and outstanding on the record date (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of REIT Shares (determined without the above assumption) issued and outstanding on the record date for such dividend, distribution, subdivision or combination; provided_further, in the event that the Partnership (a) declares or pays a distribution on the outstanding Partnership Units in Partnership Units or makes a distribution to all Partners in Partnership Units. (b) subdivides the outstanding Partnership Units or (c) combines the outstanding Partnership Units into a smaller number of Partnership Units, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall he the actual number of Partnership Units issued and outstanding on the record date (determined without giving effect to such dividend, distribution, subdivision or combination), and the denominator of which shall be the actual number of Partnership Units (determined after giving effect to such dividend. distribution, subdivision or combination) issued and outstanding on such record date. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

Depreciation: For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for fed-

eral income tax purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Distributable Cash: with respect to any period, and without duplication:

(i) all cash receipts of the Partnership during such period from all sources,

(ii) less all cash disbursements of the Partnership during such period. including, without limitation, disbursements for operating expenses, taxes, debt service (including, without limitation. the payment of principal, premium and interest), redemption of Partnership Interests and capital expenditures;

(iii) less amounts added to reserves in the reasonable discretion of the

General Partner, plus amounts withdrawn from reserves in the reasonable discretion of the General Partner.

Distribution Period: The quarterly period commencing on January 1, April 1, July 1 and October 1 of each year and ending on and including the day preceding the next Distribution Period Commencement Date with respect to the Preferred Units.

ERISA: The Employee Retirement Income Security Act of 1976, as amended from time to time.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner. Formation Agreement: The Formation/Contribution Agreement dated as of September 7, 1997 by and among Royale, H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC. Comcourt Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen, as the same has heretofore been and hereafter may at any time be amended, modified and supplemented and in effect.

General Partner: Royale Investments, Inc., a Minnesota corporation ("Royale"), and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest held by the General Partner that is a general partner interest. A General Partner Interest may be expressed as a number of Partnership Units.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof). (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees). (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership and (vi) any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Those Persons listed as such on Exhibit 1 attached hereto and made a part hereof, as such Exhibit may be amended from time to time, including any Person who becomes a Substituted Limited Partner or an Additional Limited Partner in accordance with the terms of this Agreement; provided that such term shall not include the Preferred Limited Partners.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest. A Limited Partner Interest may be expressed as a number of Partnership Units.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated to a Person and delivered to such Person in accordance with Section 12.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes of this Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the Partnership if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax year plus any increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner Nonrecourse Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse Deductions shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are determined hereunder.

Partners: The General Partner, the Preferred Limited Partners and the Limited Partners as a group. The term "Partner" shall mean a General Partner, a Preferred Limited Partner or a Limited Partner. Such terms shall be deemed to include such other Persons who become Partners pursuant to the terms of this Agreement.

Partnership: The Delaware limited partnership referred to herein as FCO, L.P., as such partnership may from time to time be constituted.

Partnership Assets: At any particulartime, any assets or property (real or personal, tangible or intangible, cboate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the Partnership and including such Partner's right to distributions under this Agreement and any other rights or benefits which such Partner has in the Partnership, together with any and all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Partnership Units.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the Partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulations Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata

basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Partnership Unit: A fractional, undivided share of the Partnership Interests of all Partners (other than the Preferred Limited Partners) issued pursuant to Section 4.1 hereof.

Percentage Interest: As to any Partner (other than the Preferred Limited Partners), the percentage in the Partnership, as determined by dividing the Partnership Units then owned by such Partner by the total number of Partnership Units then outstanding, as the same may be automatically adjusted from time to time to reflect the issuance and redemption of Partnership Units in accordance with this Agreement, without requiring the amendment of Exhibit 1 to reflect any such issuance or redemption.

Person: Any individual, partnership, corporation, trust or other entity.

Preferred Conversion: As described in Section 9.8 hereof.

Preferred Limited Partner: Those persons listed as such on Exhibit 1 attached hereto and made a part hereof, as such Exhibit may be amended from time to time, in their capacity as limited partners in the Partnership holding Preferred Units, including any person who becomes a Substituted Preferred Limited Partner or an Additional Preferred Limited Partner in accordance with

the terms of this Agreement.

Preferred Unit: The Partnership Interest held by a Preferred Limited Partner.

Priority Return Amount: For each Distribution Period, an amount equal to 1.625% of that portion of the Capital Contribution of the Preferred Limited Partner allocable to each Preferred Unit.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of "Depreciation" herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(C) and 5.2(D), Profit or Loss shall be recomputed without regard to such item.

Recourse Liabilities: The amount of liabilities owed by the Partnership (other than nonrecourse liabilities and liabilities to which Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i)).

Redeeming Party: A Limited Partner or Assignee (other than the General Partner) who tenders Partnership Units for redemption pursuant to a Redemption Notice.

Redemption Date: The date for redemption of Partnership Units as set forth in Section 9.2.

Redemption Notice: A Notice to the General Partner by a Redeeming Party, substantially in the form attached as Exhibit 2, pursuant to which the Redeeming Party requests the redemption of Partnership Units in accordance with Article IX.

Redemption Obligation: The obligation of the Partnership to redeem the Partnership Units as set forth in Section 9. 1 (A).

Redemption Period: The 45-day period immediately following the filing with the SEC by the General Partner of an annual report of the General Partner on Form 10-K or a quarterly report of the General Partner on Form 10-Q or such other period or periods as the General Partner may otherwise determine.

Redemption Price: As defined in Section 9.3 hereof.

Redemption Restriction: A restriction on the ability of the Partnership to redeem the Partnership Units as set forth in Section 9. 1 (A).

Registration Rights Agreement: A Registration Rights Agreement, substantially in the form of Exhibit 3 hereto, pursuant to which Royale will agree, among other things, to register under the Securities Act of 1933, as amended, REIT Shares issued in connection with Share Payments made under Article IX hereof.

REIT: A real estate investment trust, as defined in Code Section 856.

REIT Charter: The Amended and Restated Articles of Incorporation of Royale filed with the Department of State of the State of Minnesota on November 2, 1990, as the same may hereafter be amended or restated and in effect from time to time.

REIT Share: A share of common stock representing an ownership interest in the General Partner.

REIT Share Rights: Rights to acquire additional REIT Shares issued to all holders of REIT Shares, whether in the form of rights. options. warrants or convertible or exchangeable securities, to the extent the same have been issued without additional consideration after the initial acquisition of such REIT Shares.

Royale: Royale Investments, Inc., a Minnesota corporation.

SEC: The Securities and Exchange Commission.

Share Payment: The payment to a Redeeming Party of a number of REIT Shares determined by multiplying (i) the number of Partnership Units tendered for redemption by such Redeeming Party pursuant to a validly proffered Redemption Notice by (ii) the Conversion Factor. In the event the General Partner grants any REIT Share Rights on or after the date of this Agreement and prior to such payment, any Share Payment shall include for the Redeeming Party such Redeeming Party's ratable share of such REIT Share Rights other than REIT Share Rights which have expired.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

Substituted Limited Partner/Preferred Limited Partner: That Person or those Persons admitted to the Partnership as a substitute Limited Partner or substitute Preferred Limited Partner, in accordance with the provisions of this Agreement. A Substituted Limited Partner or Substituted Preferred Limited Partner, upon admission as such, shall succeed to the rights, privileges and liabilities of the predecessor in interest as a Limited Partner or Preferred Limited Partner.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner: The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer: With respect to any Partnership Unit shall mean a transaction in which a Partner assigns his Partnership Interest to another Person and includes any sale. assignment, gift. pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise; provided, however, the redemption of any Partnership Interest pursuant to Article IX hereof shall not constitute a "transfer" for purposes hereof.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time.

Unit Value: With respect to any Partnership Unit, the average of the daily market price for a REIT Share for the ten (10) consecutive trading days immediately preceding the date of receipt of a Redemption Notice by the General Partner multiplied by the Conversion Factor. If the REIT Shares are traded on a securities exchange or the NASDAQ Small Cap Market or National Market System, the market price for each such trading day shall be the reported last sale price on such day or, if no sales take place on such day, the average of the closing bid and asked prices on such day. If the REIT Shares are not traded on a securities exchange or the NASDAQ Small Cap Market or National Market System, the market price for each such trading day shall be determined by the General Partner using any reasonable method of valuation. If a Share Payment would include any REIT Share Rights, the value of such REIT Share Rights shall be determined by the General Partner using any reasonable method of valuation,

taking into account the Unit Value determined hereunder and the factors used to make such determination and the value of such REIT Share Rights shall be included in the Unit Value.

SECTION 1.2 Rules of Construction. The following rules of construction shall apply to this Agreement:

(A) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(B) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(C) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(D) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or privilege, or other procedure by the General Partner shall mean and refer to the decision, determination. act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

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ARTICLE II - CONTINUATION

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SECTION 2.1 Continuation. The Partners hereby continue the Partnership as a limited partnership under the Act. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all other . urisdictions in which the Partnership may elect to conduct business, including but not limited to the filing of amendments to the Certificate with the Delaware Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

SECTION 2.2 Name. The name of the Partnership is FCO, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2. 1.

SECTION 2.3 Place of Business; Registered Agent. The principal office of the Partnership is located at 1209 Orange Street, Wilmington, Delaware 19801, which office may be changed to such other place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Delaware as may be determined by the General Partner. The initial registered agent for the Partnership in the State of Delaware is The Corporation Trust Company, whose address is c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

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ARTICLE III - BUSINESS PURPOSE

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SECTION 3.1 Business. The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling, commercial, industrial, office and net leased retail properties, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that

business of the Partnership shall be limited so as to permit the General Partner to elect and maintain its status as a REIT (unless the General Partner determines no longer to qualify as a REIT).

SECTION 3.2 Authorized Activities. In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the General Partner to qualify and continue to qualify as a REIT, (ii) could subject the General Partner to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or its securities.

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ARTICLE IV - CAPITAL CONTRIBUTION

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SECTION 4.1 Capital Contributions.

(A) Upon the contribution to the Partnership of property in accordance with a Contribution Agreement. Partnership Units and/or Preferred Units shall be issued in accordance with. and as contemplated by, such Contribution Agreement, and the Persons receiving such Partnership Units and/or Preferred Units shall become Partners and shall be deemed to have made a Capital Contribution as set forth on Exhibit 1. The Capital Contribution made by each Partner contributing assets to the Partnership as of the date hereof under the Formation Agreement shall be determined by multiplying the number of Partnership Units issued to such Partner by $5.50 and by multiplying the number of Preferred Units issued to such Partner by $25.00. Exhibit I also sets forth the initial number of Partnership Units and Preferred Units owned by each Partner and the Percentage Interest of each Partner, which Percentage Interest shall be adjusted from time to time by the General Partner to reflect the issuance of additional Partnership Units, the redemption of Partnership Units, the conversion of Preferred Units into Partnership Units, additional Capital Contributions and similar events having an effect on a Partner's Percentage Interest. Except as set forth in Section 4.2 (regarding issuance of additional Partnership Units) or Section 7.6 (regarding withholding obligations), no Partner shall be required under any circumstances to contribute to the capital of the Partnership any amount beyond that sum required pursuant to this Article IV.

(B) Anything in the foregoing Section 4. 1 (A) or elsewhere in this Agreement notwithstanding, the Partnership Units held by the General Partner shall, at all times, be deemed to be General Partner units and shall constitute the General Partner Interest.

SECTION 4.2 Additional Partnership Interests.

(A) The Partnership may issue additional limited partnership interests in the form of Partnership Units or Preferred Units for any Partnership purpose at any time or from time to time. to any Partner or other Person (other than the General Partner, except in accordance with Section 4.2(B) below).

(B) The Partnership also may from time to time issue to the General Partner additional Partnership Units, Preferred Units or other Partnership Interests in such classes and having such designations, preferences and relative rights (including preferences and rights senior to the existing Limited Partner Interests) as shall be determined by the General Partner in accordance with the Act and governing law. Except as provided in Article IX, any such issuance of Partnership Units, Preferred Units or Partnership Interests to the General Partner shall be conditioned upon (i) the undertaking by the General Partner of a related issuance of its capital stock (with such shares having designations, rights and preferences such that the economic rights of the holders of such capital stock are substantially similar to the rights of the additional Partnership Interests issued to the General Partner) and the General Partner making a Capital Contribution (a) in an amount equal to the net proceeds raised in the issuance of such capital stock, in the event such capital stock is sold for cash or cash equivalents or (b) the property received in consideration for such capital stock, in the event such capital stock is issued in consideration

for other property or (ii) the issuance by the General Partner of capital stock under any stock option or bonus plan and the General Partner making a Capital Contribution in an amount equal to the exercise price of the option exercised pursuant to such stock option or other bonus plan.

(C) Except as contemplated by Article IX (regarding redemptions) or Section 4.2(B), the General Partner shall not issue any (i) additional RETT Shares, (ii) rights, options or warrants containing the right to subscribe for or purchase REIT Shares (other than options granted under the General Partner's Stock Option Plan for Non-Employee Directors or any stock option or similar plan for officers, directors and employees of the General Partner or any of its Affiliates) or (iii) securities convertible or exchangeable into REIT Shares (collectively, "Additional REIT Securities") other than to all holders of REIT Shares, pro rata, unless (x) the Partnership issues to the General Partner (i) Partnership Interests, (ii) rights, options or warrants containing the right to subscribe for or purchase Partnership Interests or (iii) securities convertible or exchangeable into Partnership Interests such that the General Partner receives an economic interest in the Partnership substantially similar to the economic interest in the General Partner represented by the Additional REIT Securities and (y) the General Partner contributes to the Partnership the net proceeds from, or the property received in consideration for, the issuance of the Additional REIT Securities and the exercise of any rights contained in any Additional REIT Securities.

SECTION 4.3 No Third Party Beneficiaries. The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or other Person shall obtain any right under

any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

SECTION 4.4 Capital Accounts.

(A) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.7041(b)(2)(iv). The Capital Account of each Partner shall be credited with:

(1) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(2) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(A), income and gain exempt from tax);

and shall be debited with the sum of:

(1) all losses or deductions of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(2) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B). and

(3) all cash and the Agreed Value (reduced to take into account the amount of any related indebtedness assumed by the Partner, or to which the distributed property is subject) of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(B) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(1) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(2) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except

to the extent required in accordance with the provisions of Treasury Regulations Section 1.7041(b)(2)(iv)(m);

(3) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(4) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(D) below, the amount of such adjustment shall be treated as gain or loss from the disposition of such asset.

(C) Any transferee of a Partnership Interest shall succeed to a pro rata portion of the transferor's Capital Account transferred unless such Transfer causes a Code Section 708 termination of the Partnership, in which case the Book Value of all Partnership Assets shall be adjusted immediately prior to the deemed distribution pursuant thereto as provided in Section 4.4(D).

(D) Consistent with the provisions of Treasury Regulations Section 1.7041 (b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt unless the General Partner shall determine that such revaluation is not necessary to maintain Capital Accounts in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv).

(E) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704- 1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations. the General Partner may make such modification if such modification is not likely to have a material effect on the amount or timing of any distribution to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

SECTION 4.5 Return of Capital Account; Interest. Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest

shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

SECTION 4.6 Preemptive Rights. No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Units.

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ARTICLE V - ALLOCATIONS AND DISTRIBUTIONS

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SECTION 5.1 Limited Liability. For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, neither any Limited Partner (in its capacity as a Limited Partner) nor any Preferred Limited Partner (in its capacity as a Preferred Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

SECTION 5.2 Profits, Losses and Distributive Shares.

(A) Profits. After giving effect to the special allocations, if any, provided in Sec-tion 5.2(C) and (D). Profits in each Fiscal Year shall be allocated in the following order:

(1) First, to the General Partner until the cumulative Profits allocated to the General Partner under this Section 5.2(A)(1) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(4);

(2) Second, to the Preferred Limited Partners in the proportion to the cumulative Losses allocated to such Partners under Section 5.2(B)(3) until the cumulative Profits allocated to such Partners under this Section 5.2(A)(2) equal the cumulative Losses allocated to such Partners under Section 5.2(B)(3);

(3) Third, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(B)(2), until the cumulative Profits allocated to such Partner under this Section 5.2(A)(3) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(2);

(4) Fourth, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(B)(1), until the cumulative Profits allocated to such Partner under this Section 5.2(A)(4) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(1);

(5) Fifth, to the Preferred Limited Partners in an amount equal to the excess of (x) the Priority Return Amount for each Distribution Period or portion thereof that ends on or prior

to the close of the Fiscal Year over (y) the cumulative Profits previously allocated under this Section 5.2(B)(5); and

(6) Then, the balance, if any, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units) in accordance with their respective Percentage Interests.

The allocation of Profits to any Preferred Limited Partner under Section 5.2(A)(5) shall be appropriately prorated in the case of Preferred Units that are outstanding for less than all of any Distribution Period.

(B) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(C) and (D), Losses in each Fiscal Year shall be allocated in the following order of priority:

(1) First, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units), in accordance with their respective Percentage Interests, but not in excess of the positive Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(B)(1);

(2) Second, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units) with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(B)(2), in proportion to the amount of such balances until all such balances are reduced to zero;

(3) Third, to the Preferred Limited Partners in proportion to their Adjusted Capital Account balances until their Adjusted Capital Accounts are reduced to zero; and

(4) Thereafter, to the General Partner;

provided, however, that this Section 5.2(B) shall control, notwithstanding any reallocation or adjustment of taxable income. loss or other items by the Internal Revenue Service or any other taxing authority.

(C) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(1) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V, if there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.7042(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-2(j)(2).

This Section 5.2(C)(1) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f) and (3). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(2) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(C)(1) which shall be applied before this Section 5.2(C)(2)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii). This Section 5.2(C)(2) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulation 1.704-2(f), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(3) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d), the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(C)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(C)(3) were not contained in this Agreement.

(4) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion tot heir respective Partnership Interests in the Partnership.

(5) Partner Nonrecopurse Deductions. Notwithstanding anything tot he contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are madewill be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(6) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section --1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustinent decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(7) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(8) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect" under Treasury Regulations Section 1.704-1(b)(2)(ii)(a) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(D) Curative Allocations. The allocations set forth in Section 5.2(C)(1) through (8) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(E) Tax Allocations.

(1) Except as otherwise provided in Section 5.2(E)(2), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.2 hereof.

(2) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book-Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(a) Depreciation, Amortization and Other Cost Recovery Iterns. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as follows: (x) first, to Partners (the "Non-Contributing Partners") other than the Partners who contributed such property to the Partnership (or are deemed to have contributed the property pursuant to Section 4.1(A) (the "Contributing Partners') in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.2 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.2 hereof; and (y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(b) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative items of book gain or loss are allocated among the Partners pursuant to Section 5.2 hereof.

(3) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(D) hereof, and such asset has not been deemed contributed to a new partnership, with the contributing partnership then being liquidated pursuant to Code Section 708 subsequent thereto, all items of income, gain. loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(E)(2) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(4) The General Partner shall have the authority to elect alternative methods to eliminate the Book-Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(5) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(E) comply with the requirements of Code Section 704(c) and Treasury Regulations Sections 1.704-3 and 1.704-3T.

(6) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(E) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of "book" items in respect of Partnership Assets pursuant to Section 5.2(A), (B), (C), (D) and (F) hereof

(F) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits, Losses and other items:

(1) Except as otherwise provided in the Agreement. all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(2) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(3) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(4) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any nonrecourse liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more nonrecourse liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess nonrecourse liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(G) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(H) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2, 1.704-3 and 1.704-3T and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

SECTION 5.3 Distributions.

(A) Distributable Cash for each Fiscal Year shall be distributed in the following order of priority:

(1) First, the General Partner shall cause the Partnership to distribute to the holder of each Preferred Unit an amount in cash equal to the cumulative undistributed Priority Return Amount on December 31, March 31, June 30 and September 30 of each year, commencing on December 31, 1997 (or in the case of a Preferred Unit with an issuance date after December 31, 1997, on the first such distribution date following the applicable issuance date); provided that, if any such distribution date shall be a Saturday, Sunday or day on which banking institutions in the State of New York are authorized or obligated by law to close, or a day which is declared a national or New York State holiday (any of the foregoing, a "Non-business Day"), then such distribution shall be made on the next succeeding day which is not a Non-business Day. In any case in which a Preferred Unit is outstanding for less than all of one or more Distribution Periods, the amount distributable to the Preferred Limited Partner in respect of such Unit shall be appropriately adjusted on the basis of a 360 day year consisting of twelve 30 day months.

(2) Second, there shall be distributed with respect to each Limited Partner Unit (other than a Preferred Unit) an amount equal on a per Unit basis to the amount (other than in General Partner common shares) distributed by the General Partner on its common shares during the Fiscal Year (other than a liquidating distribution), except that the first distribution paid on Units issued on October 15, 1997 shall be pro rated to reflect the actual portion of the period for which the distribution is being paid during which such Units were outstanding. To the extent practicable, distributions under this paragraph shall

be made at the same time as the dividend distributions on the General Partner's common shares.

(3) Third, there shall be distributed to each holder of a Limited Partner Interest (other than the Preferred Limited Partners) an amount equal to (x) the product of the taxable income and gain allocated to such holder for the Fiscal Year under Section 5.2(E) and the maximum federal income tax rate plus 7% reduced by (y) the distributions received by such holder under Section 5.3(A)(2) during the Fiscal Year. To the extent practicable, distributions under this paragraph shall be made in sufficient time to permit Limited Partners to pay required installments of estimated tax and the final tax payment for the taxable year.

(B) After giving effect to Section 5.3(A), the General Partner shall have the authority to cause the Partnership to make other distributions from time to time as it determines, including without limitation, distributions that are sufficient to enable the General Partner to (i) maintain its status as a REIT, (ii) avoid the imposition of any tax under Code Section 857 and (iii) avoid the imposition of any excise tax under Code Section 4981.

(C) Distributions pursuant to Section 5.3(B) shall be made pro rata among the Partners of record on the Record Date established by the General Partner for the distribution, in accordance with their respective Percentage Interests, without regard to the length of time the record holder has been such.

(D) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder; provided that the General Partner and the Partnership shall not have liability to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

SECTION 5.4 Distributions upon Liquidation. Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 10.2.

SECTION 5.5 Amounts Withheld. All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to the General Partner, the Preferred Limited Partners, the Limited Partners or Assignees shall be treated as amounts distributed to such General Partner, the Preferred Limited Partners, the Limited Partners or Assignees, as applicable, pursuant to Section 5.3 of this Agreement.

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ARTICLE VI - PARTNERSHIP MANAGEMENT

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SECTION 6.1 Management and Control of Partnership Business.

(A) Except as otherwise expressly provided or limited by the provisions of this Agreement, the General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. Except as set forth in this Agreement, the Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage. or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(B) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners and the Preferred Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

(C) The General Partner and its Affiliates may acquire Limited Partner Interests or Preferred Units from Limited Partners or Preferred Limited Partners who agree so to transfer Limited Partner Interests or Preferred Units from the Partnership in accordance with Section 4.2(A).

Any Limited Partner Interest or Preferred Unit acquired by the General Partner shall be converted into a General Partner Interest. Upon acquisition of any Limited Partner Interest or Preferred Unit by an Affiliate of the General Partner, such Affiliate shall have all the rights of a Limited Partner or Preferred Limited Partner, as the case may be.

SECTION 6.2 No Management by Limited partners; Limitation of Liability.

(A) Neither the Limited Partners, in their capacity as Limited Partners, nor the Preferred Limited Partners, in their capacity as Preferred Limited Partners, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. Neither the Limited Partners nor the Preferred Limited Partners, in their capacity as Preferred Limited Partners, shall have any rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners or the Preferred Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners or the Preferred Limited Partners in the business of the Partnership and are not intended to create any inference that the Limited Partners or the Preferred Limited Partners should be classified as general partners under the Act.

(B) Neither any Limited Partner nor any Preferred Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7104, in connection with a violation of any provision of this Agreement by such Limited Partner or Preferred Limited Partner or as provided in the Act.

(C) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) or a Preferred Limited Partner (in its capacity as a Preferred Limited Partner) to liability as a general partner.

(D) No Partner shall take any action that would result in the Partnership being treated as an association taxable as a corporation, or as a corporation, for federal income tax purposes.

SECTION 6.3 Limitations on Partners.

(A) No Partner or Affiliate of a Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(C). or (iii) any act which is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(B) No action shall be taken by a Partner if it would cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded partnership within the meaning of Section 7.6 of the Code. A determination of whether such action will have the above described effect shall be

based upon a declaratory judgment or similar relief obtained from a court of competent jurisdiction, a favorable ruling from the IRS or the receipt of a written opinion of counsel.

SECTION 6.4 Business with Affiliates.

(A) The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and its Subsidiaries. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner or the Partnership in respect of matters of tax or corporate or financial structure; provided, in the case of this clause (ii), such sale, transfer. or conveyance is not being effected for the purpose of materially disadvantaging the Limited Partners.

(B) In furtherance of Section 6.4(A), the Partnership may lend or contribute to its Subsidiaries on terms and conditions established by the General Partner.

SECTION 6.5 Compensation; Reimbursement of Expenses. In consideration for the General Partner's services to the Partnership in its capacity as General Partner, the Partnership shall pay on behalf of or reimburse to the General Partner all expenses of the General Partner incurred in connection with the management of the business and affairs of the Partnership, including all employee compensation of employees of the General Partner related to services performed for the Partnership and indemnity or other payments made pursuant to agreements entered into in furtherance of the Partnership's business. Except as otherwise set forth in this Agreement, the General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with issuance of additional Partnership Interests.

SECTION 6.6 Liability for Acts and Omissions.

(A) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or omission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the Partnership or the shareholders of the General Partner. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any liability as a result of any income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hereunder and, by their execution of

this Agreement, the Limited Partners and the Preferred Limited Partners acknowledge the foregoing.

(B) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

(C) The General Partner acknowledges that it owes fiduciary duties both to its shareholders and to the Limited Partners and the Preferred Limited Partners and it shall use its reasonable efforts to discharge such duties to each-, provided, however, that in the event of a conflict between the interests of the shareholders of the General Partner and the interests of the Limited Partners or the Preferred Limited Partners, the Limited Partners and the Preferred Limited Partners agree that the General Partner shall discharge its fiduciary duties to the Limited Partners and the Preferred Limited Partners by acting in the best interests of the General Partner's shareholders. Nothing contained in the preceding sentence shall be construed as entitling the General Partner to realize any profit or gain from any transaction between the General Partner and the Partnership (except in connection with a distribution in accordance with this Agreement), including from the lending of money by the General Partner to the Partnership or the contribution of property by the General Partner to the Partnership, it being understood that in any such transaction the General Partner shall be entitled to cost recovery only.

SECTION 6.7 Indemnification.

(A) The Partnership shall indemnify the General Partner and each director, officer and shareholder of the General Partner and each Person (including any Affiliate) designated as an agent by the General Partner in its reasonable discretion (each, an "Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(B) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification pursuant to Section 6.7(A) hereof.

(C) The provisions of this Section 6.7 are for the benefit of the Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

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ARTICLE VII - ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

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SECTION 7.1 Books and Records. The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner and Preferred Limited Partner shall have, upon written demand and at such Limited Partner's or Preferred Limited Partner's expense, as the case may be, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Delaware law.

SECTION 7.2 Annual Audit and Accounting. The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the "Independent Accountants").

SECTION 7.3 Partnership Funds. The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time determine.

SECTION 7.4 Reports and Notices. The General Partner shall provide all Partners with the following reports no later than the dates indicated or as soon thereafter as circumstances permit:

(A) By March 31 of each year, IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year;

(B) Within ninety (90) days after the end of each of the first three (3) fiscal quarters. as of the last day of the fiscal quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, and such other information as may be legally required or determined to be appropriate by the General Partner; and

(C) Within one hundred twenty (120) days after the end of each Fiscal Year, as of the close of the Fiscal Year, an annual report containing audited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, presented in accordance with GAAP and certified by the Independent Accountants.

SECTION 7.5 Tax Matters.

(A) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(A). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to the Limited Partners and Preferred Limited Partners within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection without the conduct of all proceedings pursuant to this Section 7.5(A).

(B) The Tax Matters Partner shall receive no compensation for its services

in such capacity. If the Tax Matters Partner incurs any costs related to any tax audit, declaration of any tax deficiency or any administrative proceeding or litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(C) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(D) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax law; provided, however, upon the request of any Partner, the General Partner shall make the election under code Section 754 and the Treasury Regulations promulgated thereunder. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

SECTION 7.6 Withholding. Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner. Any amount paid to any taxing authority which does not constitute a reduction in the amount otherwise distributable to such Partner shall be treated as a loan from the Partnership to such Partner, which loan shall

bear interest at the "prime rate" as published from time to time in The Wall Street Journal plus two (2) percentage points, and shall be repaid within ten (10) business days after request for repayment from the General Partner. The obligation to repay any such loan shall be secured by such Partner's Partnership Interest and each Partner hereby grants the Partnership a security interest in his Partnership Interest for the purposes set forth in this Section 7.6, this Section 7.6 being intended to serve as a security agreement for purposes of the Uniform Commercial Code with the General Partner having in respect hereof all of the remedies of a secured party under the Uniform Commercial Code. Each Partner agrees to take such reasonable actions as the General Partner may request to perfect and continue the perfection of the security interest granted hereby. In the event any Partner fails to repay any deemed loan pursuant to this Section 7.6 the Partnership shall be entitled to avail itself of any rights and remedies it may have. Furthermore, upon the expiration of ten (10) business days after demand for payment, the General Partner shall have the right, but not the obligation, to make the payment to the Partnership on behalf of the defaulting Partner and thereupon be subrogated to the rights of the Partnership with respect to such defaulting Partner.

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ARTICLE VIII - TRANSFER OF PARTNERSHIP INTERESTS; ADMISSION OF PARTNERS

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SECTION 8.1 Transfer by General Partner. The General Partner may not voluntarily withdraw or Transfer all or any portion of its General Partner Interest. Notwithstanding the foregoing, the General Partner may pledge its General Partner Interest in furtherance of the Partnership's business (including without limitation, in connection with a loan agreement under which the Partnership is a borrower) without the consent of any Partner.

SECTION 8.2 Obligations of a Prior General Partner. Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (ii) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

SECTION 8.3 Successor General Partner. A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such

transferee shall carry on the business of the Partnership without dissolution. In addition, the following conditions must be satisfied:

(A) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner; and

(B) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act.

(C) Any consent required under Section 10.1(A) shall have been obtained.

SECTION 8.4 Restrictions on Transfer and Withdrawal by Limited Partner.

(A) Subject to the provisions of Section 8.4(D), no Limited Partner or Preferred Limited Partner may Transfer all or any portion of its Partnership Interest without first obtaining the Consent of the General Partner, which Consent may be granted or withheld in the sole and absolute discretion of the General Partner. Any such purported transfer undertaken without such Consent shall be considered to be null and void ab initio and shall not be given effect.

(B) No Limited Partner or Preferred Limited Partner may withdraw from the Partnership other than as a result of a permitted Transfer (i.e., a Transfer consented to as contemplated by clause (A) above or clause (D) below or a Transfer pursuant to clause (C) below) of all of his Partnership Units pursuant to this Article VIII or pursuant to a redemption or exchange of all of his Partnership Units pursuant to Article IX. Upon the permitted Transfer or redemption of all of a Limited Partner's or Preferred Limited Partners Partnership Units, such Limited Partner or Preferred Limited Partner shall cease to be a Limited Partner or Preferred Limited Partner.

(C) Upon the Involuntary Withdrawal of any Limited Partner or Preferred Limited Partner (which shall under no circumstance cause the dissolution of the Partnership), the executor, administrator, trustee, guardian, receiver or conservator of such Limited Partner's or Preferred Limited Partners estate shall become a Substituted Limited Partner or Substituted Preferred Limited Partner upon compliance with the provisions of Section 8.5(A)(l)-(3).

(D) Subject to clause (E) below, a Limited Partner or Preferred Limited Partner may Transfer, with the Consent of the General Partner, all or a portion of his Partnership Units to (a) a parent or parents, spouse, natural or adopted descendant or brother or sister, or a trust created by such Limited Partner or Preferred Limited Partner for the benefit of such Limited Partner or Preferred Limited Partner and/or any such person(s), of which trust such Limited Partner or Preferred Limited Partner or any such person(s) is a trustee, (b) a corporation controlled by a Person or Persons named in (a) above, (c) if the Limited Partner or Preferred Limited Partner is an entity, its beneficial owners, or (d) a family limited partnership comprised of members of the family of a Limited Partner or a Preferred Limited Partner, and the General Partner shall grant its Consent to any

Transfer pursuant to this Section 8.4(D) unless such Transfer, in the reasonable judgment of the General Partner, would cause (or have the potential to cause) the General Partner to fail to qualify for taxation as a REIT, in which case the General Partner shall have the absolute right to refuse to permit such Transfer, and any purported Transfer in violation of this Section 8.4(D) shall be null and void ab initio.

(E) No Transfer of Limited Partnership Units or Preferred Units shall be made if such Transfer would (i) in the opinion of Partnership counsel, cause the Partnership to be terminated for federal income tax purposes or to be treated as an association taxable as a corporation (rather than a partnership) for federal income tax purposes; (h) be effected through an "established securities market" or a "secondary market (or the substantial equivalent thereof)" within the meaning of Code Section 7704 and the Treasury Regulations thereunder, (iii) in the opinion of Partnership counsel, violate the provisions of applicable securities laws; (iv) violate the terms of (or result in a default or acceleration under) any law, rule, regulation, agreement or commitment binding on the Partnership; (v) cause the Partnership to become, with respect to any employee benefit plan subject to Title I of ERISA, a "party-in-interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined in Section 4975(e) of the Code), (vi) in the opinion of counsel to the Partnership, cause any portion of the underlying assets of the Partnership to constitute assets of any employee benefit plan pursuant to Department of Labor Regulations Section 2510.3-101; or (vii) result in a deemed distribution to any Partner attributable to a failure to meet the requirements of Treasury Regulations Section 1.752-2(d)(1), unless such Partner consents thereto.

(F) Prior to the consummation of any Transfer under this Section 8.4, the transferor and/or the transferee shall deliver to the General Partner such opinions, certificates and other documents as the General Partner shall request in connection with such Transfer.

SECTION 8.5 Substituted Limited Partner.

(A) No transferee shall become a Substituted Limited Partner or Substituted Preferred Limited Partner in place of its assignor unless and until the following conditions have been satisfied:

(1) The assignor and transferee file a Notice or other evidence of Transfer and such other information reasonably required by the General Partner, including, without limitation, names, addresses and telephone numbers of the assignor and transferee;

(2) The transferee executes, adopts and acknowledges this Agreement, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, all documents necessary to comply with applicable tax and/or securities rules and regulations; and

(3) The assignor or transferee pays all costs and fees incurred or charged by the Partnership to effect the Transfer and substitution.

(B) If a transferee of a Limited Partner or Preferred Limited Partner does not become a Substituted Limited Partner or Substituted Preferred Limited Partner pursuant to Section 8.5(A), such transferee shall be an Assignee and shall not have any rights to require any information on account of the Partnership's business, to inspect the Partnership's books or to vote or otherwise take part in the affairs of the Partnership (such Partnership Units being deemed to have been voted in the same proportion as all other Partnership Units held by Limited Partners or Preferred Limited Partners have been voted). Such Assignee shall be entitled, however, to all the rights of an assignee of a limited partnership interest under the Act. Any Assignee wishing to Transfer the Partnership Units acquired shall be subject to the restrictions set forth in this Article VIII.

SECTION 8.6 Timing and Effect of Transfers. Unless the General Partner agrees otherwise, Transfers under this Article VIII may only be made as of the first day of a fiscal quarter of the Partnership. Upon any Transfer of a Partnership Interest in accordance with this Article VIII or redemption of a Partnership Interest in accordance with Article IX, the Partnership shall allocate all items of Profit and Loss between the assignor Partner and the transferee Partner in accordance with Section 5.2(F)(2) hereof. The assignor Partner shall have the right to receive all distributions as to which the Record Date precedes the date of Transfer and the transferee Partner shall have the right to receive all distributions thereafter.

SECTION 8.7 Additional Limited Partners. Other than in accordance with the transactions specified in the Contribution Agreements, after the initial execution of this Agreement and the admission to the Partnership of the Initial Limited Partners, any Person making a Capital Contribution to the Partnership in accordance herewith shall be admitted as an Additional Limited Partner or Additional Preferred Limited Partner of the Partnership only (i) with the Consent of the General Partner and (ii) upon execution, adoption and acknowledgment of this Agreement, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 12.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner or Additional Preferred Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

SECTION 8.8 Amendment of Agreement and Certificate. Upon any admission of a Person as a Partner to the Partnership, the General Partner shall make any necessary amendment to this Agreement to reflect such admission and, if required by the Act, to cause to be filed an amendment to the Certificate.

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ARTICLE IX REDEMPTION AND CONVERSION

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SECTION 9.1 Right of Redemption

(A) Subject to compliance with (w) the terms and conditions of the REIT Charter,(x) all requirements under the Code applicable to real estate investment trusts, (y) the Minnesota Business Corporation Act or any other law as in effect from time to time and (z) any applicable rule or policy of any stock exchange or self-regulatory organization (a "Redemption Restriction"), beginning on September 1, 1998, during each Redemption Period each Redeeming Party shall have the right to require the Partnership to redeem all or a portion of the Partnership Units held by such Redeeming Party by providing the General Partner with a Redemption Notice. A Limited Partner may invoke its rights under this Article IX with respect to one or more Partnership Units or all of the Partnership Units held by such Limited Partner. Upon the General Partner's receipt of a Redemption Notice from a Redeeming Party, the Partnership shall be obligated (subject to the existence of any Redemption Restriction) to redeem the Partnership Units from such Redeeming Party (the "Redemption Obligation").

(B) Upon receipt of a Redemption Notice from a Redeeming Party, the General Partner shall either (i) cause the Partnership to redeem the Partnership Units tendered in the Redemption Notice, (ii) assume the Redemption Obligation, as set forth in Section 9.4, or (iii) provide written Notice to the Redeeming Party of each applicable Redemption Restriction.

SECTION 9.2 Timing of Redemption. The Redemption Obligation (or the obligation to provide Notice of an applicable Redemption Restriction, if one exists) shall mature on the date which is seven (7) business days after the receipt by the General Partner of a Redemption Notice from the Redeeming Party (the "Redemption Date").

SECTION 9.3 Redemption Price. On or before the Redemption Date, the Partnership (or the General Partner if it elects pursuant to Section 9.4) shall deliver to the Redeeming Party, in the sole and absolute discretion of the General Partner, either (i) a Share Payment or (ii) a Cash Payment; provided, however, that a Share Payment shall not be made, and a Cash Payment shall instead be made in all cases, if, in the sole discretion of the General Partner, the making of a Share Payment would result in a material risk of termination of the General Partner's status as a REIT under the Code. In order to enable the Partnership to effect a redemption by making a Share Payment pursuant to this Section 9.3, the General Partner in its sole and absolute discretion may issue to the Partnership the number of REIT Shares required to make such Share Payment in exchange for the issuance to the General Partner of Partnership Units equal in number to the quotient of the number of REIT Shares issued and the Conversion Factor.

SECTION 9.4 Assumption of Redemption Obligation. Upon receipt of a Redemption Notice, the General Partner, in its sole and absolute discretion, shall have the right to assume the Redemption Obligation of the Partnership. In such case, the General Partner shall be substituted for the Partnership for all purposes of this Article IX and, upon acquisition of the Partnership Units tendered by the Redeeming Party pursuant to the Redemption Notice shall be treated for all purposes of this Agreement as the owner of such Partnership Units. Such exchange transaction shall be treated for federal income tax purposes by the Partnership, the General Partner and the Redeeming Party as a sale by the Redeeming Party as seller to the General Partner as purchaser.

SECTION 9.5 Further Assurances; Certain Representations. Each party to this Agreement agrees to execute any documents deemed reasonably necessary by the General Partner to evidence the issuance of any Share Payment to a Redeeming Party. Each Limited Partner and Preferred Limited Partner, by executing this Agreement, shall be deemed to have represented to the General Partner and the Partnership that (i) its acquisition of its Partnership Interest is or will be made as a principal for its own account, for investment purposes only and not with a view to the resale or distribution of such Partnership Interest and (ii) if it shall receive REIT Shares pursuant to this Article IX other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, that its acquisition of such REIT Shares is or will be made as a principal for its own account, for investment purposes only and not with a view to the resale or distribution of such REIT Shares and agrees that such REIT Shares may be bear a legend to the effect that such REIT Shares have not been so registered and may not be sold other than pursuant to such a registration statement or an exemption from the registration requirements of such Act.

SECTION 9.6 Effect of Redemption. Upon the satisfaction of the Redemption Obligation by the Partnership or the General Partner, as the case may be, the Redeeming Party shall have no further right to receive any Partnership distributions in respect of the Partnership Units so redeemed and shall be deemed to have represented to the Partnership and the General Partner that the Partnership Units tendered for redemption are not subject to any liens, claims or encumbrances.

SECTION 9.7 Registration Rights. In the event a Limited Partner receives

REIT Shares in connection with a redemption of Partnership Units pursuant to this Article IX, such Limited Partner shall be entitled to have such REIT Shares registered under the Securities Act of 1933, as amended, as provided in the Registration Rights Agreement.

SECTION 9.8 Conversion. (A) Each Preferred Limited Partner shall have the right, at any time or from time to time, to convert on or after October 1, 1999 some or all of its Preferred Units into Limited Partner Interests, effective upon January 1, April 1, July I or October I of any year, by providing the General Partner with a Conversion Notice not less than 30 days prior to the effective date of such conversion. Upon the effective date of any such conversion, the Preferred Units which are the subject of such conversion shall be converted, without necessity of any further action by the General Partner, into Units of Limited Partner Interest on the basis of 3.5714 Units of Limited Partner Interest for each Preferred Unit being converted plus an amount in cash equal to the accrued Priority Return Amount in respect of such Preferred Units. In any case in which the conversion into Limited Partner Interests under this Section would result in the issuance of a fractional Limited Partner Interest, the General Partner shall pay the converting Limited Partner cash in lieu of issuance of a fractional Limited Partner Interest, with the value of such fractional interest being determined by reference to the Unit Value applicable on the date of conversion.

(B) In any case in which there is an unpaid Priority Return Amount with respect to a Preferred Unit that is converted pursuant to paragraph (A) of this Section, the converting partner shall continue to have the right to distributions (and allocations) under Article V and Section 10.2 of this Agreement as if the converting partner continued to hold the converted Preferred Unit until the unpaid distributions (and related allocations) have been paid (or allocated).

SECTION 9.9 Redemption Restriction.

(A) The General Partner shall not take, or cause to be taken, any action which would cause a Redemption Restriction to exist or continue.

(B) The General Partner shall, at its cost and expense, take, or cause to be taken, all such actions that may be necessary or desirable to mitigate the existence or effect of any Redemption Restriction and to facilitate and make effective the rights of redemption and conversion provided in this Article IX.

SECTION 9.10 Special Event.

(A) Notwithstanding any provision of this Agreement to the contrary, upon the occurrence of a Special Event (whether before or after September 1, 1998), each Redeeming Party shall immediately have the unconditional right (irrespective of whether a Redemption Restriction exists or could thereby be created) to require the Partnership to redeem all or a portion of the Partnership Units held by such Redeeming Party by providing the General Partner with a Redemption Notice. A Limited Partner may invoke its rights under this Section 9. 10 with respect to one or more Partnership Units or all of the Partnership Units held by such Limited Partner. Any such redemption shall otherwise be governed by and effected and implemented pursuant to this Article IX as if no Redemption Restriction existed.

(B) Notwithstanding any provision of this Agreement to the contrary, upon the occurrence of a Special Event (whether before or after October 1, 1999), each Preferred Limited Partner shall have the right effective upon the happening of such Special Event, at any time or from time to time, to convert some or all of its Preferred Units into Limited Partner Interests by providing the General Partner with a Conversion Notice. Anv such conversion shall otherwise be governed by and effected and implemented pursuant to this Article IX.

(C) "Special Event" means the occurrence of any of the following:

(I) any person or group (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) other than the Permitted Holders, directly or indirectly, makes an offer to purchase or commences a tender offer for REIT Shares such that, after acquiring all such REIT Shares offered to be acquired or tendered for, such person or group would then be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of 20% or more of the total number of REIT Shares then issued and outstanding; or

(II) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the beneficial owner (as defined in clause (C)(1) above, except that for purposes of this clause (II) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indi-

rectly, of more than 20% of the total voting power represented by all the REIT Shares then outstanding; or

(III) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Royale (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Royale was approved by a vote of 66 2/3 % of the directors of Royale then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Royale then in office; or

(IV) the merger or consolidation of Royale with or into another Person or the merger or consolidation of another Person with or into Royale, or the sale of all or substantially all the assets of Royale to another Person (other than a Person that is controlled by the Permitted Holders in the aggregate), and, in the case of any such merger or consolidation, the securities of Royale that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the REIT Shares are changed into or exchanged for cash, securities or property.

(D) "Permitted Holders" means Jay H. Shidler, Clay W. Hamlin III, Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co. Investment Partnership I, L.P. and any corporation, partnership, trust, estate or other legal entity controlled by any of the foregoing Persons (or jointly controlled by Messrs. Shidler and Hamlin).

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ARTICLE X - DISSOLUTION AND LIQUIDATION

- ---

SECTION 10.1 Term and Dissolution. The Partnership commenced as of October 10, 1997, and shall continue until October 31, 2096, at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(A) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner unless, within ninety (90) days after such event of withdrawal of a majority of the Limited Partners remaining agree in writing to the continuation of the Partnership and to the appointment of a Successor General Partner;

(B) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(C) The sale, exchange or other disposition of all or substantially all of the Partnership Assets; or

(D) The affirmative vote of the holders of not less than two-thirds of the Limited Partner Interests (for this purpose Preferred Units shall be treated as if they have been converted on the date of such vote into Limited Partner Interests pursuant to Section 9.8 and the Preferred Limited Partners holding such Preferred Units shall be treated as Limited Partners).

SECTION 10.2 Liquidation of Partnership Assets.

(A) Subject to Section 10. 2(E), in the event of dissolution pursuant to Section 10.1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated (including, at the discretion of the Liquidator, in exchange, in whole or in part, for REIT Shares) as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(1) First, to creditors, including partners who are creditors, in satisfaction of liabilities of the Partnership, other than liabilities for distributions to Partners and former Partners;

(2) Second, to the Preferred Limited Partners in amounts equal to any

unpaid Priority Return Amounts;

(3) Third, to Partners and former Partners in satisfaction of liabilities for distributions; and

(4) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions, and allocations for all periods.

(B) In accordance with Section 10.2(A), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(C) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 10.2(A). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(D) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 10.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(E) Notwithstanding the foregoing provisions of this Section 10.2, in the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 10.1(B) or (C), then each Limited Partner shall be deemed to have delivered a Redemption Notice on the date of such dissolution. In connection with each such Redemption Notice, the General Partner shall have the option of either (i) complying with the redemption procedures contained in Article IX or (ii) at the request of any Limited Partner, delivering to such Limited Partner, Partnership property approximately equal in value (after taking into account the liabilities hereto referred to) the amount otherwise distributable to such Partner under Section 10.4(A)(4) hereof upon the assumption by such Limited Partner of such Limited Partner's proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the amount otherwise distributable to such Partner under Section 10.4(A)(4). In lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, the General Partner may deliver to such Limited Partner unencumbered Partnership property approximately equal in value to the amount otherwise distributable to such Partner under Section 10.4(A)(4).

SECTION 10.3 Effect of Treasury Regulations.

(A) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article X to the General Partner, the Limited Partners, the Preferred Limited Partners who have positive Capital Accounts in compliance with Treasury Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions (without regard to this Section 10.3(A)), distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership. Any deficit restoration obligation pursuant to the provisions hereof shall be for the benefit of creditors of the Partnership or any other Person to whom any debts, liabilities, or obligations are owed by (or who otherwise has any claim against) the Partnership or the general partner, in its capacity as General Partner of the Partnership.

(B) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 10.1. I hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a liquidation there shall be deemed to have been a distribution of Partnership Assets in kind

to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

SECTION 10.4 Time for Winding-Up. Anything in this Article X notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

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ARTICLE XI - AMENDMENTS AND MEETINGS

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SECTION 11.1 Amendment Procedure.

(A) Amendments to this Agreement may be proposed by the General Partner. An amendment proposed at any time when the General Partner holds less than 90% of all Partnership Units will be adopted and effective only if it receives the Consent of the holders of a majority of the Partnership Units and Preferred Units, voting separately, not then held by the General Partner and an amendment proposed at any time when the General Partner holds 90% or more of all Partnership Units and Preferred Units may be made by the General Partner without the Consent of any Limited Partner or Preferred Limited Partner; provided, however, no amendment shall be adopted if it would (i) convert a Limited Partner's Partnership Interest or Preferred Limited Partner's Preferred Units into a general partner interest, (ii) increase the liability of a Limited Partner or a Preferred Limited Partner under this Agreement, (iii) except as otherwise permitted in this Agreement, alter the amount or the Partner's rights to distributions set forth in Article V or X, or the allocations set forth in Article IV, (iv) alter or modify any aspect of the Partners' rights with respect to redemption of Partnership Units or conversion of Preferred Units, (v) cause the early termination of the Partnership (other than pursuant to the terms hereof) or (vi) amend this Section 11.1(A), in each case without the Consent of each Partner adversely affected thereby. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(B) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner or Preferred Limited Partner, to (i) add to the representations, duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein, (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of

Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify the Limited Partners and Preferred Limited Partners whenever it exercises its authority pursuant to this Section 11.1(B).

(C) Within ten (10) days of the making of any proposal to amend this Agreement, the General Partner shall give all Partners Notice of such proposal (along with the text of the proposed amendment and a statement of its purposes).

SECTION 11.2 Meetings and Voting.

(A) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or

required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 11.1(A).

(B) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments (for this purpose Preferred Units and Preferred Limited Partners shall be treated as provided in Section 10.1(D) in the case of a vote pursuant to such Section). Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take the action for which such solicitation was required.

(C) Each Limited Partner and each Preferred Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters on which a Limited Partner or a Preferred Limited Partner may participate. Every proxy (i) must be signed by the Limited Partner or his attomey-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall be revocable at the discretion of the Limited Partner or Preferred Limited Partner granting such proxy.

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ARTICLE XII - MISCELLANEOUS PROVISIONS

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SECTION 12.1 Title to Property. All property owned by the Partnership, whether real or personal, tangible or intangible. shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership

may hold any of its assets in its own name or, in the name of its nominee, which nominee may be one or more individuals, corporations, partnerships, trusts or other entities.

SECTION 12.2 Other Activities of Limited Partners and Preferred Limited Partners. Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or a Preferred Limited Partner or any Affiliate of a Limited Partner or a Preferred Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or Preferred Limited Partner or any Affiliate of any Limited Partner or Preferred Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitation, real estate business ventures, whether or not such other enterprises shall be in competition with any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

SECTION 12.3 Power of Attorney.

(A) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 12.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to:

(1) make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII, dissolution and termination of the Partnership pursuant to Article X, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; (e) any document which may be required to effect an amendment to this Agreement to correct any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 11.1(B); and (f) all instruments (including this Agreement and amendments and restatements hereof) relating to the determination of the

rights, preferences and privileges of any class or series of Partnership Units issued pursuant to Section 4.2(B) of this Agreement; and

(2) sign, execute, swear to and acknowledge all voting ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary. in the sole discretion of the General Partner, to make, evidence, give, confirm or ratify any vote, consent, approval,

agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement and appropriate or necessary, in the sole discretion of the General Partner, to effectuate the terms or intent of this Agreement.

(B) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XI or as may be otherwise expressly provided for in this Agreement.

(C) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Transfer by a Limited Partner of all or any portion of its Interest and shall be fully binding upon such transferee; except that the power of attorney shall survive such assignment with respect to the assignor Limited Partner for the sole purpose of enabling the General Partner to execute, acknowledge and file any instrument necessary to effect the admission of the transferee as a Substitute Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

SECTION 12.4 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner or a Preferred Limited Partner, at the most current address given by such Limited Partner or Preferred Limited Partner to the General Partner by means of a notice given in accordance with the provisions of this Section 12.4, which address initially is the address contained in the records of the General Partner, or (ii) if to the General Partner, Royale Investments, Inc., 3430 List Place, Minneapolis, MN 55416-4547 Attn: Chairman.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered, five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

SECTION 12.5 Further Assurances. The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

SECTION 12.6 Titles and Captions. All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

SECTION 12.7 Applicable Law. This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Delaware, without regard to its principles of conflicts of laws.

SECTION 12.8 Binding Agreement. This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

SECTION 12.9 Waiver of Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

SECTION 12.10 Counterparts and Effectiveness. This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of

the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

SECTION 12.11 Survival of Representations. All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

SECTION 12.12 Entire Agreement. This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

SECTION 12.13 Temporary Allocation. With respect to the period from inception of the Partnership through December 31, 2000, in lieu of the allocation provided by Section 5.2(A)(6), the portion of Profits resulting from Partnership operations for each fiscal year shall be allocated (x) 19.8% to the General Partner and (y) 80.2% to all Partners (including the General Partner, but other than the Preferred Limited Partners) in accordance with their Percentage Interests. Profits from Partnership operations for a Fiscal Year shall mean the portion of Partnership Profits in excess of the amounts allocated pursuant to Sections 5.2(C) and (D) and 5.2(A)(1) through (5) of this Agreement, but shall not include Profits that arise from sales or dispositions of Partnership Assets, except in the ordinary course of business. The foregoing allocation of Profits shall be considered to occur pursuant to Section 5.2(A) of this Agreement.

SECTION 12.14 Authorization and Consent. The General Partner, each Limited Partner and each Preferred Limited Partner hereby authorizes the General Partner, in the name and on behalf of the Partnership, to execute, deliver and perform the Senior Secured Credit Agreement dated as of September 30, 1997 ("Credit Agreement") between Royale Investments, Inc. ("Royale") the Partnership, FCO Holdings, Inc., Blue Bell Investment Company, L.P., South Brunswick In-

vestors, L.P. Comcourt Investors, L.P. and 6385 Flank Drive, L.P., as Loan parties and Bankers Trust Company, as Banker and each of Security Documents (as defined in the Credit Agreement) to which it is to be a party or by which it is to be bound and to execute and deliver in the name and on behalf of the Partnership such instruments, agreements and documents and to take or refrain from taking all such action as it in its sole discretion shall deem necessary, desirable or advisable in connection with the foregoing and in connection with the Formation/Contribution Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner: ROYALE INVESTMENTS, INC., as sole General Partner of the Partnership

By: ----------

LIMITED PARTNERS:

SHIDLER EQUITIES, L.P.

By: SHIDLER EQUITIES CORP.

By: ----------
Name:
Title:

LBCW LIMITED PARTNERSHIP

By:

Clay W. Hamlin III, General Partner

- ---
Robert L. Denton

- ---
John E. de B. Blockey, Trustee of
the John E. de B. Blockey
Living Trust dated 9/12/88

- ---
Henry D. Bullock

- ---
Frederick K. Ito

- ---
Jay H. Shidler

- ---
Clay W. Hamlin III

- ---
James K. Davis

TIGER SOUTH BRUNSWICK, L.L.C.

By:

Name:
Title:

WESTBROOK REAL ESTATE FUND T, L.P.

By: WESTBROOK REAL ESTATE
PARTNERS MANAGEMENT T, L.L.C.

By:

Name:
Title:

WESTBROOK REAL ESTATE
CO. INVESTMENT PARTNERSHIP T, L.P.

By: WESTBROOK REAL ESTATE
PARTNERS MANAGEMENT I, L.L.C.

By:

Name:
Title:

CHLB PARTNERSHIP

By:

Name: Clay W. Hamlin III, General Partner

LGR INVESTMENT FUND, LTD.

By:

Name:

- ---
Denise J. Liszewski

- ---
Samuel Tang

- ---
David P. Hartsfield

- ---
Laurence J. Taff

- ---
Kimberly F. Aquino

Exhibit 1

<TABLE>
<CAPTION>

Schedule Of Partners

	No. of Units	Percentage Interest	Preferred partnership Units
<S>	<C>	<C>	<C>
General Partner			
Royale Investments, Inc.	600,000	20.6946%	
Limited Partners and Preferred Limited Partners			
Jay H. Shidler	2,600	0.0897%	126,079
Shidler Equities, L.P.	582,103	20.0773%	457,826
Clay W. Hamlin, III	5,235	0.1805%	115,334
LBCW Limited Partnership	875,284	30.1894%	663,808
CHLB Partnership	63,243	2.1813%	41,741
Robert L. Denton	129,549	4.4683%	85,502
James K. Davis	15,368	0.5300%	10,142
John E. deB. Blockey. Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	89,549	3.0886%	59,102
Henry D. Bullock	34,718	1.1975%	22,914
Frederick R. Ito	17,359	0.5987%	11,457
LGR investment Fund, Ltd.	80,030	2.7603%	52,820
Tiger South Brunswick, L.L.C.	2,875	0.0992%	1,898
Westbrook Real Estate Fund I, L.P.	336,121	11.5931%	221,840
Westbrook Real Estate Co.	33,299	1.1485%	21,977

Investment Partnership I, L.P.			
Denise J. Liszewski	10,227	0.3527%	6,750
Samuel Tang	6,818	0.2352%	4,500
David P. Hartsfield	9,091	0.3136%	6,000
Lawrence J. Taff	`4,091	0.1411%	2,700
Kimberly F. Acquino	1,750	0.0604%	1,155
	2,899,310	100.0000%	1,913,545

</TABLE>

FCO, L.P.

EXHIBIT 2

TO

LIMITED PARTNERSHIP AGREEMENT

Form of Redemption or Conversion Notice

Exhibit 2

Redemption Conversion Notice

The undersigned hereby irrevocably (i) elects to exercise its [redemption] [conversion] rights contained in ARTICLE IX of the Limited Partnership Agreement of First Commercial, L.P. (the "Partnership Agreement") with respect to an aggregate of _____ [Partnership Units] [Preferred Units], (ii) surrenders such [Partnership Units] [Preferred Units] and all right, title and interest therein and (iii) directs that the [REIT shares (or applicable cash amount if so determined by the General Partner in accordance with the Partnership Agreement)] [Units of Limited Partner Interest] deliverable upon [redemption] [conversion] of such [Partnership Units] [Preferred Units] be delivered to the address specified below. Terms used above which are defined in the Partnership Agreement are used herein are defined therein.

Dated:

Name of Limited Partner or Preferred Limited Partner:

Social Security or Federal Employer ID Number:

(Signature of Limited Partner or Preferred Limited Partner)

(Street Address)

(City) (State)(Zip Code)

Signature Guaranteed by:

EXHIBIT 3

TO

LIMITED PARTNERSHIP AGREEMENT

Form of Registration Rights Agreement

BLUE BELL INVESTMENT COMPANY, L.P.
AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (the "Agreement") is made this ____ day of October, 1997, by and among FCO Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of Royale Investments, Inc., as General Partner (the "General Partner"), and the persons set forth on the signature page hereof as Limited Partners (the "Limited Partners"). The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

RECITALS:

A. Blue Bell Investment Company, L.P. (the "Partnership") was originally formed pursuant to the terms of an Agreement of Limited Partnership dated April __, 1992 (the "Original Agreement").

B. The Original Agreement has previously been amended to reflect, inter alia, a refinancing of the Partnership's indebtedness, the admission to the Partnership of FCO Holdings, Inc. as a General Partner, the conversion of certain General Partner interests in the Partnership into Limited Partner interests in the Partnership and the transfer to FCO, L.P. of certain Limited Partner interests in the Partnership.

C. The General Partner and the Limited Partners desire to amend and restate the Original Agreement in its entirety as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, agree that the Original Agreement shall be amended and restated in its entirety to provide as follows:

1. ARTICLE I. INTERPRETIVE PROVISIONS

1.1. Certain Definitions.

The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Delaware Revised Uniform Limited Partnership Act, ss.ss. 17-101 to 17-1109 of the Delaware Code Annotated, Title 6, as amended from time to time.

Additional Limited Partner: A Person admitted to the Partnership as a Limited Partner in accordance with Section 4.2 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(a) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5).

(b) Debit to such Capital Account the items described in Treasury Regulations Section 1.7041(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall be interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or of any corporation directly or indirectly controlling such Person; and (vi) if the Person in question is a partnership, any general partner of the partnership

or any limited partner owning or controlling ten percent (10%) or more of either the capital or profits interest in such partnership. As used herein, 'control' shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreed Value: In the case of any (i) Contributed Property, the allocated value of such property at the time of contribution (exclusive of any related indebtedness assumed by the Partnership), as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (ii) property distributed to a Partner by the Partnership, the Partnership's Book Value of such property at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Code Section 752 and the Treasury Regulations thereunder.

Agreement: This Amended and Restated Limited Partnership Agreement and the Schedule attached hereto, as the same may be amended or restated and in effect from time to time.

Bankruptcy: Any of (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any reorganization, composition, readjustment, liquidation, dissolution or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization, composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Bankruptcy Code: 11 U. S. C. Sections 101 - 1330, as amended from time to time.

Book Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(c), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(c) hereof, (b) the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: Royale Investments, Inc., a Minnesota corporation.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent is required or solicited, or the act of granting such consent, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership.

Depreciation: For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner.

General Partner: FCO Holdings, Inc., a Delaware corporation, and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest held by the General Partner that is a general partner interest.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof), (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees), (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership any (vi) any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Each of the Persons set forth on the signature page hereof as a Limited Partner and any Person who becomes an Additional Limited Partner in accordance with the terms of this Agreement.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated and delivered to such Person in accordance with Section 11.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes of this Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the Partnership if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax year plus any increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner Nonrecourse Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse Deductions shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are hereunder.

Partners: The General Partner and the Limited Partners as a group. The term "Partner" means a General Partner or a Limited Partner. Such terms shall be deemed to include such other Persons who may become Partners pursuant to the terms of this Agreement.

Partnership: The Delaware limited partnership referred to herein as such partnership may from time to time be constituted.

Partnership Assets: At any particular time, any assets or property (tangible or intangible choate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the and including such Partner's right to distributions under this Agreement and any other rights or benefits such Partner has in the Partnership, together with any and all obligations of such Partner to comply with the provisions of this Agreement.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulation Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Percentage Interest: As to any Partner, the percentage in the Partnership as initially shown opposite the name of such Partner on Schedule I attached hereto, as such percentage interest may be adjusted from time to time in accordance with the provisions of this Agreement.

Person: Any individual, partnership, corporation, trust or other entity.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)vi , and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of 'Depreciation' herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(c) and 5.2(d), Profit or Loss shall be recomputed without regard to such item.

REIT: A real estate investment trust, as defined in Code Section 856.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests, is owned, directly or indirectly, by such Person.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner. The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer. A transaction in which a Partner assigns all or a portion of its Partnership Interest to another Person and includes any sale, assignment, gift, pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.2. Rules of Construction.

The following rules of construction shall apply to this Agreement:

(a) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(b) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(c) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(d) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or

privilege, or other procedure by the General Partner shall mean and refer to the decision, determination, act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

2. ARTICLE II. FORMATION

2.1. Formation.

The Partners hereby continue the Partnership as a limited partnership under the Act and in accordance with the terms and conditions of this Agreement. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all other jurisdictions in which the Partnership may elect to conduct business, including but not limited to the filing of amendments to the Certificate with the Delaware Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner

shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

2.2. Name.

The name of the Partnership is Blue Bell Investment Company, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2.1.

2.3. Place of Business; Registered Agent.

The principal office of the Partnership shall be located at such place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Delaware as may be determined by the General Partner. The initial registered agent for the Partnership in the State of Delaware is The Corporation Trust Company, whose address is c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

ARTICLE III. BUSINESS PURPOSE

3.1. Business.

The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling,real property, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that business of the Partnership shall be limited so as to permit the Company to elect and maintain its status as a REIT (unless the Company determines no longer to qualify as a REIT).

3.2. Authorized Activities.

In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the Company to qualify and continue to qualify as a REIT under the Code, (ii) could subject the Company to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or the Company or their securities.

ARTICLE IV. CAPITAL CONTRIBUTIONS

4.1. Capital Contributions.

The Partners, or their predecessors in interest, have contributed cash and property in the aggregate amounts set forth on Schedule 1. No Partner shall be required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner, may, at the option of the General Partner and without an obligation so to do, be contributed by the General Partner as additional Capital Contributions. If the General Partner determines to make any such Capital Contribution, it shall give notice of such determination to the Limited Partners and permit each Limited Partner to contribute a portion of such Capital Contribution equal to the product of such Limited Partner's Percentage Interest and the total amount of such Capital Contribution. The General Partner shall also have the right (but not the obligation) to raise additional funds required for the Partnership by lending the money to the Partnership or by causing the Partnership to borrow the money needed from third parties, in either case on such terms and conditions as the General Partner shall deem appropriate.

4.2. Additional Partnership Interests.

The Partnership may issue additional limited partnership interests for any Partnership purpose at any time or from time to time, to any Partner or other

Person. Any such other Person shall be admitted as an Additional Limited Partner of the Partnership only upon execution, adoption and acknowledgment of this Agreement by such Partner or Person, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 11.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

4.3. No Third Party Beneficiaries.

The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or other Person shall obtain any right under any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

4.4. Capital Accounts.

(a) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.704-1 (b)(2)(iv). The Capital Account of each Partner shall be credited with:

(i) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(ii) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(a), income and gain exempt from tax);

and shall be debited with the sum of:

(i) all losses or deductions of the partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(ii) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B), and

(iii) all cash and the Agreed Value of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(i) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(ii) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except to the extent required in accordance with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(m);

(iii) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(iv) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(c) below, the amount of such adjustment shall be treated as gain or loss from the disposition of such asset.

(c) Consistent with the provisions of Treasury Regulations Section

1.704-1(b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt.

(d) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations, the General Partner may make such modification if such modification is not likely to have a material effect on the amount distributable to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

4.5. Return of Capital Account; Interest.

Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.6. Preemptive Rights.

No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Interests.

ARTICLE V. ALLOCATIONS AND DISTRIBUTIONS

5.1. Limited Liability.

For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, no Limited Partner (in its capacity as a Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

5.2. Profits, Losses and Distributive Shares.

(a) Profits. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Profits in each Fiscal Year shall be allocated in the following order:

(i) First, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(b)(ii), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(i) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(ii);

(ii) Second, to each Partner in proportion to the cumulative losses allocated to such Partner under Section 5.2(b)(i), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(ii) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(i); and

(iii) Then, the balance, if any, to the Partners in proportion to their respective Percentage Interests.

(b) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Losses in each Fiscal Year shall be allocated in the following order:

(i) First, to the Partners in proportion to their respective Percentage Interests, but not in excess of the positive Adjusted Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(b)(i);

(ii) Second, to the Partners with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(b)(ii), in proportion to the amount of such balances.

(c) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V. If there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts

required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-(j)(2). This Section 5.2(c) (i) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(2) and (3). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(ii) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(c)(i) which shall be applied before this Section 5.2(c)(ii)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner thereunder. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii). This Section 5.2(c)(ii) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(4), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(iii) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d) , the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(c)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(c)(3) were not contained in this Agreement.

(iv) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion to their respective Percentage Interests in the Partnership.

(v) Partner Nonrecourse Deductions. Notwithstanding anything to the contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(vi) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership Asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(vii) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(viii) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect' under Treasury Regulations Section 1.704-1(b)(2)(ii) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(d) Curative Allocations. The allocations set forth in Section 5.2(c)(i) through (viii) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(e) Tax Allocations.

(i) Except as otherwise provided in Section 5.2(e)(ii), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.1 hereof.

(ii) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(A) Depreciation, Amortization and Other Cost Recovery Items. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as

follows: (x) first, to Partners (the 'Non-Contributing Partners') other than the Partners who contributed such property to the Partnership in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.2 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.2 hereof, and (y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(B) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative items of book gain or loss are allocated among the Partners pursuant to Section 5.2 hereof.

(iii) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(c) hereof, and such asset has not been deemed distributed by, and recontributed to the Partnership pursuant to Code Section 708 subsequent thereto, all items of income, gain, loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(e)(ii) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(iv) The General Partner shall have the authority to elect alternative methods to eliminate the Book Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(v) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(e) comply with the requirements of Code Section 704(c) and Treasury Regulations Section 1.704-3.

(vi) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(e) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of 'book' items in respect of Partnership Assets pursuant to Sections 5.2(a) through (d).

(f) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits, Losses and other items:

(i) Except as otherwise provided in this Agreement, all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(ii) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(iii) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(iv) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any Nonrecourse Liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more Nonrecourse Liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess Nonrecourse Liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(g) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(h) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2 and 1.704-3 and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

5.3. Distributions.

(a) The General Partner shall cause the Partnership to make distributions from time to time to the Partners pro rata in accordance with their respective Percentage Interests.

(b) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder; provided that the General Partner and the Partnership shall not have liability

to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

5.4. Distributions upon Liquidation.

Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 9.2.

5.5. Amounts Withheld.

All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to a General Partner or a Limited Partner shall be treated as amounts distributed to a General Partner or aLimited Partner, as applicable, pursuant to Section 5.3 of this Agreement.

ARTICLE VI. PARTNERSHIP MANAGEMENT

6.1. Management and Control of Partnership Business.

(a) The General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage, or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(b) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

6.2. No Management by Limited Partner; Limitation of Liability.

(a) No Limited Partner, in its capacity as a limited partner, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. The Limited Partners shall have no rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners in the business of the Partnership and are not intended to create any inference that a Limited Partner should be classified as a general partner under the Act.

(b) No Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7.6, in connection with a violation of any provision of this Agreement by such Limited Partner or as provided in the Act.

(c) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) to liability as a general partner.

6.3. Limitations on Partners.

(a) No Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(c), or (iii) any act which is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(b) No action shall be taken by a Partner if it would cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded partnership within the meaning of Section 7704 of the Code. A determination of whether such action will have the above described effect shall be based upon a declaratory judgment or similar relief obtained from a court of competent

jurisdiction, a favorable ruling from the IRS or the receipt of an opinion of counsel.

6.4. Business with Affiliates.

The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and any Subsidiaries of the Partnership. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons, or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner in respect of matters of tax or corporate or financial structure and where the Partnership obtains or retains at least a majority interest in the Person to whom such sale, transfer or conveyance is made; provided, in the case of this clause (ii), such sale, transfer or conveyance is not being effected for the primary purpose of materially disadvantaging the Limited Partners.

6.5. Reimbursement of Expenses.

The General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with any issuance of additional Partnership Interests.

6.6. Liability for Acts and Omissions.

(a) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or emission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the Partnership. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any liability as a result of any

income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hereunder and, by its execution of this Agreement, the Limited Partner acknowledges the foregoing.

(b) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

6.7. Indemnification.

(a) The Partnership shall indemnify the General Partner and each director, officer and stockholder of the General Partner and each Person (including any Affiliate) designated as agent by a General Partner in its reasonable discretion (each, an "Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(b) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification pursuant to Section 6.7(a) hereof.

(c) The provisions of this Section 6.7 are for the benefit of the

Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

ARTICLE VII. ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

7.1. Books and Records.

The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner shall have, upon written demand and at such Limited Partner's expense, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Delaware law.

7.2. Annual Audit and Accounting.

The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the "Independent Accountants").

7.3. Partnership Funds.

The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in the name of the Partnership in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time, determine.

7.4. Reports and Notices.

(a) The General Partner shall provide all Partners with IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year by March 31 of each year or as soon thereafter as circumstances permit.

7.5. Tax Matters.

(a) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(A). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to each Limited Partner within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection with the conduct of all proceedings pursuant to this Section 7.5(a).

(b) The Tax Matters Partner shall receive no compensation for its services in such capacity. If the Tax Matters Partner incurs any costs related to any tax audit, declaration of any tax deficiency or any administrative proceeding or litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(c) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(d) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax

law. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

7.6. Withholding.

Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner.

ARTICLE VIII. TRANSFER OF PARTNERSHIP INTERESTS

8.1. Transfers Prohibited.

No Partner may voluntarily withdraw or Transfer all or any portion of its Partnership Interest without the prior written consent of the General Partner, provided that a Limited Partner may transfer all or any portion of its Limited partnership Interest to another Partner or to the Company without such consent. Notwithstanding the foregoing, any Partner may pledge its Partnership Interest as collateral for or otherwise in connection with a loan agreement under which the Partnership or an Affiliate of the Partnership is a borrower.

8.2. Obligations of a Prior General Partner.

Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (ii) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

8.3. Successor General Partner.

A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In addition, the following conditions must be satisfied:

(a) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner;

(b) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act; and

(c) Any consent required under Section 10.1(a) shall have been obtained.

ARTICLE IX. DISSOLUTION AND LIQUIDATION

9.1. Term and Dissolution.

The Partnership shall continue until December 31, 2047 at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(a) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner;

(b) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(c) The sale, exchange or other disposition of all or substantially all of the Partnership Assets.

If an event of the type described in clause (a) shall occur, the Partnership shall not dissolve unless, by the ninetieth (90th) day following such event, the Limited Partner shall not have elected to continue the Partnership. If the Limited Partner shall, during such time, elect to continue

the Partnership, it may also determine to admit a Successor General Partner.

9.2. Liquidation of Partnership Assets.

(a) Subject to Section 9.2(e), in the event of dissolution pursuant to Section 9.1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(i) First, to the discharge of Partnership debts and liabilities to creditors other than Partners;

(ii) Second, to the discharge of Partnership debts and liabilities to the Partners;

(iii) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions and allocations for all periods.

(b) In accordance with Section 9.2(a), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(c) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 9.2(a). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(d) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 9.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(e) In the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 9.1 (b) or (c), the General Partner shall have the option of either (i) delivering to the Limited Partner, Partnership property approximately equal in value to the value of such Limited Partner's Partnership Interest upon the assumption by such Limited Partner of such Limited Partner's

proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the value of such Limited Partner's Partnership Interest or (ii) in lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, delivering to such Limited Partner unencumbered Partnership property approximately equal in value to the net value of such Limited Partner's Partnership Interest.

9.3. Effect of Treasury Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article IX to the General Partner and the Limited Partners who have positive Capital Accounts in compliance with Treasury Regulations Section

1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership.

(b) In the event the Partnership is "liquidated' within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 9.1 hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a liquidation there shall be deemed to have been a distribution of Partnership Assets in kind to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

9.4. Time for Winding-Up.

Anything in this Article IX notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

ARTICLE X. AMENDMENTS AND MEETINGS

10.1. Amendment Procedure.

(a) Amendments to this Agreement may be made only with the Consent of Partners owning Percentage Interests of no less than eighty eight percent (88%) of all Percentage Interests. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(b) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner, to (i) add to the representations,

duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein; (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify each Limited Partner whenever it exercises its authority pursuant to this Section 10. 1(b).

10.2. Meetings and Voting.

(a) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 10.1(a).

(b) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments. Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take the action for which such solicitation was required.

(c) Each Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters on which a Limited Partner may participate. Every Proxy (i) must be signed by the Limited Partner or his attorney-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall be revocable at the discretion of the Limited Partner granting such proxy.

ARTICLE XI. MISCELLANEOUS PROVISIONS

11.1. Title to Property.

All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership shall hold its assets in its own name.

11.2. Other Activities of Limited Partners.

Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or any Affiliate of a Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or any Affiliate of any Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitations real estate business ventures,

whether or not such other enterprises shall be in competition with-any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

11.3. Power of Attorney.

(a) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 11.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII, dissolution and termination of the Partnership pursuant to Article IX, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; and (e) any document which may be required to effect an amendment to this Agreement to correct any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 10.1(b).

(b) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article X or as may be otherwise expressly provided for in this Agreement.

(c) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Involuntary Withdrawal by a Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

11.4. Notices.

All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner, to the address set forth on Schedule I hereto, or (ii) if to the General Partner, _____, Attn: President.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

11.5. Further Assurances.

The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

11.6. Titles and Captions.

All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

11.7. Applicable Law.

This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Delaware, without regard to its principles of conflicts of laws.

11.8. Binding Agreement.

This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

11.9. Waiver of Partition.

Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

11.10. Counterparts and Effectiveness.

This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

11.11. Survival of Representations.

All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

11.12. Entire Agreement.

This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner FCO HOLDINGS, INC.

By: _____

Limited Partners: FCO, L.P.

By: ROYALE INVESTMENTS, INC.
its General Partner

By:_____

SHIDLER EQUITIES, L.P.

By: SHIDLER EQUITIES CORP.,
its General Partner

By:_____

SCHEDULE I

SCHEDULE OF PARTNERS

NAME	INTEREST IN THE PARTNERSHIP	CAPITAL CONTRIBUTION	PERCENTAGE INTEREST
FCO Holdings, Inc.	General Partner		00.10 Percent
FC, L.P.	Limited Partner		88.90 Percent
Shidler Equities, L.P.	Limited Partner		11.00 Percent

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SOUTH BRUNSWICK INVESTORS, L.P.
SECOND AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (the "Agreement") is made this ____ day of October, 1997, by and among FCO Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of Royale Investments, Inc., as General Partner (the 'General Partner"), and the persons set forth on the signature page hereof as Limited Partners (the "Limited Partners"). The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

RECITALS:

A. South Brunswick Investors, L.P., L.P. (the "Partnership") was originally formed pursuant to the terms of an Agreement of Limited Partnership dated as of March 29, 1995, which Agreement was amended and restated on April 21, 1995 and April 22, 1995 (the "Original Agreement").

B. The Original Agreement has previously been amended to reflect, inter alia, a refinancing of the Partnership's indebtedness, the admission to the Partnership of FCO Holdings, Inc. as a General Partner, the conversion of certain General Partner interests in the Partnership into Limited Partner interests in the Partnership and the transfer to FCO, L.P. of certain Limited Partner interests in the Partnership.

C. The General Partner and the Limited Partners desire to amend and restate the Original Agreement in its entirety as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, agree that the Original Agreement shall be amended and restated in its entirety to provide as follows:

1. ARTICLE I. INTERPRETIVE PROVISIONS

1.1. Certain Definitions.

The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Delaware Revised Uniform Limited Partnership Act, ss.ss. 17-101 to 17-1109 of the Delaware COde Annotated, Title 6, as amended from time to time.

Additional Limited Partner: A Person admitted to the Partnership as a Limited Partner in accordance with Section 4.2 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(a) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5).

(b) Debit to such Capital Account the items described in Treasury Regulations Section 1.7041(b)(2)(ii)(d)(4), (5) and U6 .

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall be interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or of any corporation directly or indirectly controlling such Person; and (vi) if

the Person in question is a partnership, any general partner of the partnership or any limited partner owning or controlling ten percent (10%) or more of either the capital or profits interest in such partnership. As used herein, 'control' shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreed Value: In the case of any (i) Contributed Property, the allocated value of such property at the time of contribution (exclusive of any related indebtedness assumed by the Partnership), as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (ii) property distributed to a Partner by the Partnership, the Partnership's Book Value of such property at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Code Section 752 and the Treasury Regulations thereunder.

Agreement: This Limited Partnership Agreement and the Schedule attached hereto, as the same may be amended or restated and in effect from time to time.

Bankruptcy: Any of (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any

reorganization, composition, readjustment, liquidation, dissolution or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization, composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Bankruptcy Code: I 1 U. S. C. Sections 10 I - 1330, as amended from time to time.

Book Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(c), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(c) hereof, (b) the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: Royale Investments, Inc., a Minnesota corporation.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent is required or solicited, or the act of granting such consent, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership (whether as a result of a Code Section 708 termination or otherwise).

Depreciation: For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner.

General Partner: FCO Holdings, Inc., a Delaware corporation, and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest field by the General Partner that is a general partner interest.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof), (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees), (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Each of the Persons set forth on the signature page hereof as a Limited Partner and any Person who becomes an Additional Limited accordance with the terms of this Agreement.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated and delivered to such Person in accordance with Section 11.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax y increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner N Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are hereunder.

Partners: The General Partner and the Limited Partners as a group. The term "Partner" means a General Partner or a Limited Partner. Such terms shall be deemed to include such other Persons who may become Partners pursuant to the terms of this Agreement.

Partnership: The Delaware limited partnership referred to herein as such partnership may from time to time be constituted.

Partnership Assets: At any particular time, any assets or property (tangible or intangible choate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the and including such Partner's right to distributions under this Agreement and any other rights or benefits Partner has in the Partnership, together with any and all obligations of such Person to comply with the provisions of this Agreement.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in fall satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulations Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Percentage Interest: As to any Partner, the percentage in the Partnership as initially shown opposite the name of such Partner on Schedule I attached hereto, as such percentage interest may be adjusted from time to time in accordance with the provisions of this Agreement.

Person: Any individual, partnership, corporation, trust or other entity.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)0i , and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of 'Depreciation' herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(C) and 5.2(D), Profit or Loss shall be recomputed without regard to such item.

REIT: A real estate investment trust, as defined in Code Section 856.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests, is owned, directly or indirectly, by such Person.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner. The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer. A transaction in which a Partner assigns all or a portion of its Partnership Interest to another Person and includes any sale, assignment, gift, pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.2. Rules of Construction.

The following rules of construction shall apply to this Agreement:

(a) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(b) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(c) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(d) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or privilege, or other procedure by the General Partner shall mean and refer to the decision, determination, act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

2. ARTICLE II. FORMATION

2.1. Formation.

The Partners hereby confirm that the Partnership has been formed as a limited partnership under the Act. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all other jurisdictions in which the Partnership may elect to conduct business, including but not limited to the filing of amendments to the Certificate with the Delaware Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

2.2. Name.

The name of the Partnership is South Brunswick Investors, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2.1.

2.3. Place of Business; Registered Agent.

The principal office of the Partnership shall be located at such place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Delaware as may be determined by the General Partner. The initial registered agent for the Partnership in the State of Delaware is The Corporation Trust Company, whose address is c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

ARTICLE III. BUSINESS PURPOSE

3.1. Business.

The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling, industrial properties, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that business of the Partnership shall be limited so as to permit the Company to elect and maintain its status as a REIT (unless the Company determines no longer to qualify as a REIT).

3.2. Authorized Activities.

In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the Company to qualify and continue to qualify as a REIT under the Code, (ii) could subject the Company to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or the Company or their securities.

ARTICLE IV. CAPITAL CONTRIBUTIONS

4.1. Capital Contributions.

The Partners have contributed cash and property in the aggregate amounts set forth on Schedule 1. No Partner shall be required to contribute additional funds or other property to the Partnership; provided that, upon any future contribution of capital by any limited partner to the Partnership, the General Partner will contribute to the Partnership an amount equal to not less than 0.10% thereof. Any additional funds or other property required by the Partnership, as determined by the General Partner, may, at the option of the General Partner and without an obligation so to do, be contributed by the General Partner as additional Capital Contributions. If the General Partner determines to make any such Capital Contribution, it shall give notice of such determination to the Limited Partners and permit each Limited Partner to contribute a portion of such Capital Contribution equal to the product of such Limited Partner's Percentage Interest and the total amount of such Capital Contribution. The General Partner shall also have the right (but not the obligation) to raise additional funds required for the Partnership by lending the money to the Partnership or by causing the Partnership to borrow the money needed from third parties, in either case on such terms and conditions as the General Partner shall deem appropriate.

4.2. Additional Partnership Interests.

The Partnership may issue additional limited partnership interests for any Partnership purpose at any time or from time to time, to any Partner or other Person. Any such other Person shall be admitted as an Additional Limited Partner of the Partnership only upon execution, adoption and acknowledgment of this

Agreement by such Partner or Person, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 11.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

4.3. No Third Party Beneficiaries.

The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or otheR

Person shall obtain any right under any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

4.4. Capital Accounts.

(a) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.704- 1 (b)(2)(iv). The Capital Account of each Partner shall be credited with:

(i) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(ii) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(A), income and gain exempt from tax);

and shall be debited with the sum of:

(i) all losses or deductions of the partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(ii) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B), and

(iii) all cash and the Agreed Value of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(i) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(ii) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except to the extent required in accordance with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(m);

(iii) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(iv) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(c) below, the amount of such adjustment shall be treated as gain or loss from the disposition of such asset.

(c) Consistent with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the

Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt.

(d) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations, the General Partner may make such modification if such modification is not likely to have a material effect on the amount distributable to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

4.5. Return of Capital Account; Interest.

Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.6. Preemptive Rights.

No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Interests.

ARTICLE V. ALLOCATIONS AND DISTRIBUTIONS

5.1. Limited Liability.

For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, no Limited Partner (in its capacity as a Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

5.2. Profits, Losses and Distributive Shares.

(a) Profits. After giving effect to the special allocations, if any, provided in Section 5.2(C) and (D), Profits in each Fiscal Year shall be allocated in the following order:

(i) First, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(b)(2), until the cumulative Profits allocated to such Partner under this Section 5.2(A)(1) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(2);

(ii) Second, to each Partner in proportion to the cumulative losses allocated to such Partner under Section 5.2(b)(1), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(2) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(1); and

(iii) Then, the balance, if any, to the Partners in proportion to their respective Partnership Interests.

(b) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Losses in each Fiscal Year shall be allocated in the following order:

(i) First, to the Partners in proportion to their respective Partnership Interests, but not in excess of the positive Adjusted Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(b)(1);

(ii) Second, to the Partners with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(b)(2), in proportion to the amount of such balances.

(c) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V. If there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-20)(2). This Section 5.2(c) (1) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(2) and (3).

If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(ii) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(c)(1) which shall be applied before this Section 5.2(c(2)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner thereunder. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.70420)(2)(ii). This Section 5.2(c)(2) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(4), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(iii) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d) , the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(c)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(c)(3) were not contained in this Agreement.

(iv) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion to their respective Partnership Interests in the Partnership.

(v) Partner Nonrecourse Deductions. Notwithstanding anything to the contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(vi) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item

of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(vii) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(viii) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect' under Treasury Regulations Section 1.704-1(b)(2)(ii) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(d) Curative Allocations. The allocations set forth in Section 5.2(c)(1) through (8) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704l(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(e) Tax Allocations.

(i) Except as otherwise provided in Section 5.2(e)(2), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.1 hereof.

(ii) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(A) Depreciation, Amortization and Other Cost Recovery Items. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as follows: (x) first, to Partners (the 'Non-Contributing Partners') other than the Partners who contributed such property to the Partnership (or are deemed to have contributed the property pursuant to Section 4. I (A) (the 'Contributing Partners') in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.1 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.1 hereof, and

(y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(B) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative items of book gain or loss are allocated among the Partners pursuant to Section 5.1 hereof.

(iii) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(C) hereof, and such asset has not been deemed distributed by, and recontributed to the Partnership pursuant to Code Section 708 subsequent thereto, all items of income, gain, loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(E)(2) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(iv) The General Partner shall have the authority to elect alternative methods to eliminate the Book Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(v) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(e) comply with the requirements of Code Section 704(c) and Treasury Regulations Section 1.704-3.

(vi) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(E) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of 'book' items in respect of Partnership Assets pursuant to Section S. I hereof.

(f) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits. Losses and other items:

(i) Except as otherwise provided in the Agreement, all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(ii) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(iii) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(iv) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any nonrecourse liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more nonrecourse liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess nonrecourse liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(g) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(h) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2 and 1.704-3 and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

5.3. Distributions.

(a) The General Partner shall cause the Partnership to make distributions from time to time to the Partners pro rata in accordance with their respective Percentage Interests.

(b) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder; provided that the General Partner and the Partnership shall not have liability

to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

5.4. Distributions upon Liquidation.

Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 9.2.

5.5. Amounts Withheld.

All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to the General Partner or the Limited Partner shall be treated as amounts distributed to the General Partner or the Limited Partner, as applicable, pursuant to Section 5.3 of this Agreement.

ARTICLE VI. PARTNERSHIP MANAGEMENT

6.1. Management and Control of Partnership Business.

(a) The General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage, or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(b) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

6.2. No Management by Limited Partner; Limitation of Liability.

(a) No Limited Partner, in its capacity as a limited partner, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. The Limited Partners shall have no rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners in the business of the Partnership and are not intended to create any inference that a Limited Partner should be classified as a general partner under the Act.

(b) No Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7.6, in connection with a violation of any provision of this Agreement by such Limited Partner or as provided in the Act.

(c) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) to liability as a general partner.

6.3. Limitations on Partners.

(a) No Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(C), or (iii) any act which

is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(b) No action shall be taken by a Partner if it would cause the Partnership to be treated as al association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded partnership within the meaning of Section 7704 of the Code. A determination of

whether such action will have the above described effect shall be based upon a declaratory judgment or similar relief obtained from a court of competent jurisdiction, a favorable ruling from the IRS or the receipt of an opinion of counsel.

6.4. Business with Affiliates.

The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and any Subsidiaries of the Partnership. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons, or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner in respect of matters of tax or corporate or financial structure and where the Partnership obtains or retains at least a majority interest in the Person to whom such sale, transfer or conveyance is made; provided, in the case of this clause (ii), such sale, transfer or conveyance is not being effected for the primary purpose of materially disadvantaging the Limited Partners.

6.5. Reimbursement of Expenses.

The General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with any issuance of additional Partnership Interests.

6.6. Liability for Acts and Omissions.

(a) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or emission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the partnership. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any liability as a result of any income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hem-under and, by its execution of this Agreement, the Limited Partner acknowledges the foregoing.

(b) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this

Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

6.7. Indemnification.

(a) The Partnership shall indemnify the General Partner and each director, officer and stockholder of the General Partner and each Person (including any Affiliate) designated as agent by a General Partner in its reasonable discretion (each, an 'Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(b) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification pursuant to Section 6.7(a) hereof.

(c) The provisions of this Section 6.7 are for the benefit of the Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

ARTICLE VII. ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

7.1. Books and Records.

The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner shall have, upon written demand and at such Limited Partner's expense, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Delaware law.

7.2. Annual Audit and Accounting.

The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the 'Independent Accountants').

7.3. Partnership Funds.

The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in the name of the Partnership in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time, determine.

7.4. Reports and Notices.

The General Partner shall provide all Partners with the following reports no later than the dates indicated or as soon thereafter as circumstances permit:

(a) By March 31 of each year, IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year.

(b) Within ninety (90) days after the end of each of the first three (3) fiscal quarters, as of the last day of the fiscal quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, and such other information as may be legally required or determined to be appropriate by the General Partner; and

(c) Within one hundred twenty (120) days after the end of each Fiscal Year, as of the close of the Fiscal Year, an annual report containing audited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, presented in accordance with GAAP and certified by the Independent Accountants.

7.5. Tax Matters.

(a) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(a). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to each Limited Partner within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, ' in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection with the conduct of all proceedings pursuant to this Section 7.5(a).

(b) The Tax Matters Partner shall receive no compensation for its services in such capacity. If the Tax Matters Partner incurs any costs related to any tax audit, declaration of any tax deficiency or any administrative proceeding or

litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(c) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(d) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax law. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

7.6. Withholding.

Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner.

ARTICLE VIII. TRANSFER OF PARTNERSHIP INTERESTS

8.1. Transfers Prohibited.

No Partner may voluntarily withdraw or Transfer all or any portion of its Partnership Interest. Any such purported withdrawal or Transfer shall be void ab initio and shall not be given effect. Notwithstanding the foregoing, any Partner may pledge its Partnership Interest as collateral for or otherwise in connection with a loan agreement under which the Partnership or an Affiliate of the Partnership is a borrower.

8.2. Obligations of a Prior General Partner.

Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (h) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

8.3. Successor General Partner.

A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In addition, the following conditions must be satisfied:

(a) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner;

(b) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act; and

(c) Any consent required under Section 10. I (a) shall have been obtained.

ARTICLE IX. DISSOLUTION AND LIQUIDATION

9.1. Term and Dissolution.

The Partnership shall continue until December 31, 2047 at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(a) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner;

(b) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(c) The sale, exchange or other disposition of all or substantially all of the Partnership Assets.

If an event of the type described in clause (a) shall occur, the Partnership shall not dissolve unless, by the ninetieth (90th) day following such event, the Limited Partner shall not have elected to continue the Partnership. if the Limited Partner shall, during such time, elect to continue the Partnership, it may also determine to admit a Successor General Partner.

9.2. Liquidation of Partnership Assets.

(a) Subject to Section 9.2(e), in the event of dissolution pursuant to Section 9. 1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the 'Liquidator')) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(i) First, to the discharge of Partnership debts and liabilities to creditors other than Partners;

(ii) Second, to the discharge of Partnership debts and liabilities to the Partners;

(iii) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions and allocations for all periods.

(b) In accordance with Section 9.2(a), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(c) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 9.2(a). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(d) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 9.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(e) In the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 9. 1 (B) or (C), the General Partner shall have the option of either (i) delivering to the Limited Partner, Partnership property approximately equal in value to the value of such Limited Partner's Partnership Interest upon the assumption by such Limited Partner of such Limited Partner's proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the value of such Limited Partner's Partnership Interest or (ii) in lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, delivering to such Limited Partner unencumbered Partnership property approximately equal in value to the net value of such Limited Partner's Partnership Interest.

9.3. Effect of Treasury Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article IX to the General Partner and the Limited Partners who have positive Capital Accounts in compliance with Treasury Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership.

(b) In the event the Partnership is "liquidated' within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 9.1 hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a

liquidation there shall be deemed to have been a distribution of Partnership Assets in kind to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

9.4. Time for Winding-Up.

Anything in this Article IX notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

ARTICLE X. AMENDMENTS AND MEETINGS

10.1. Amendment Procedure.

(a) Amendments to this Agreement may be made only with the Consent of Partners owning Percentage Interests of no less than eighty eight percent (88%) of all Percentage Interests. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(b) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner, to (i) add to the representations, duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein; (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify each Limited Partner whenever it exercises its authority pursuant to this Section 10. l(b).

10.2. Meetings and Voting.

(a) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 10. I (a).

(b) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments. Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take

the action for which such solicitation was required.

(c) Each Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters on which a Limited Partner may participate. Every Proxy (i) must be signed by the Limited Partner or his attorney-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall be revocable at the discretion of the Limited Partner granting such proxy.

ARTICLE XI. MISCELLANEOUS PROVISIONS

11.1. Title to Property.

All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership shall hold its assets in its own name.

11.2. Other Activities of Limited Partners.

Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or any Affiliate of a Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or any Affiliate of any Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitations real estate business ventures, whether or not such other enterprises shall be in competition with-any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

11.3. Power of Attorney.

(a) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 1 1.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII,

dissolution and termination of the Partnership pursuant to Article IX, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; and (e) any document which may be required to effect an amendment to this Agreement to correct -any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 10.1(B).

(b) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article X or as may be otherwise expressly provided for in this Agreement.

(c) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Involuntary Withdrawal by a Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

11.4. Notices.

All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex,

telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner, to the address set forth on Schedule I hereto, or (ii) if to the General Partner, One Logan Square, Suite 1105, Philadelphia, PA 19103, Attn: President.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

11.5. Further Assurances.

The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

11.6. Titles and Captions.

All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

11.7. Applicable Law.

This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Delaware, without regard to its principles of conflicts of laws.

11.8. Binding Agreement.

This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

11.9. Waiver of Partition.

Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

11.10. Counterparts and Effectiveness.

This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

11.11. Survival of Representations.

All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

11.12. Entire Agreement.

This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner FCO HOLDINGS, INC.

By: _____

Limited Partners: FCO, L.P.

By: ROYALE INVESTMENTS, INC.
its General Partner

By: _____

SCHEDULE I

SCHEDULE OF PARTNERS

NAME	INTEREST IN THE PARTNERSHIP	CAPITAL CONTRIBUTION	PERCENTAGE INTEREST
FCO Holdings, Inc.	General Partner		00.10 Percent
FC, L.P.	Limited Partner		99.90 Percent

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COMCOURT INVESTORS L.P.
AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (the "Agreement") is made this ____ day of October, 1997, by and among FCO Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of Royale Investments, Inc., as General Partner (the "General Partner"), and the persons set forth on the signature page hereof as Limited Partners (the "Limited Partners"). The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

RECITALS:

A. Cmcourt investors, L.P. (the "Partnership") was originally formed pursuant to the terms of an Agreement of Limited Partnership dated October 8, 1996 (the "Original Agreement").

B. The Original Agreement has previously been amended to reflect, inter alia, a refinancing of the Partnership's indebtedness, the admission to the Partnership of FCO Holdings, Inc. as a General Partner, the conversion of certain General Partner interests in the Partnership into Limited Partner interests in the Partnership and the transfer to FCO, L.P. of certain Limited Partner interests in the Partnership.

C. The General Partner and the Limited Partners desire to amend and restate the Original Agreement in its entirety as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, agree that the Original Agreement shall be amended and restated in its entirety to provide as follows:

1. ARTICLE I. INTERPRETIVE PROVISIONS

1.1. Certain Definitions.

The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Delaware Revised Uniform Limited Partnership Act, ss.ss. 17-101 to 17-1109 of the Delaware COde Annotated, Title 6, as amended from time to time.

Additional Limited Partner: A Person admitted to the Partnership as a Limited Partner in accordance with Section 4.2 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(a) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5).

(b) Debit to such Capital Account the items described in Treasury Regulations Section 1.7041(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall be interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or of any corporation directly or indirectly controlling such Person; and (vi) if

the Person in question is a partnership, any general partner of the partnership or any limited partner owning or controlling ten percent (10%) or more of either the capital or profits interest in such partnership. As used herein, 'control' shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreed Value: In the case of any (i) Contributed Property, the allocated value of such property at the time of contribution (exclusive of any related indebtedness assumed by the Partnership), as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (ii) property distributed to a Partner by the Partnership, the Partnership's Book Value of such property at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Code Section 752 and the Treasury Regulations thereunder.

Agreement: This Amended and Restated Limited Partnership Agreement and the Schedule attached hereto, as the same may be amended or restated and in effect from time to time.

Bankruptcy: Any of (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any reorganization, composition, readjustment, liquidation, dissolution or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization,

composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Bankruptcy Code: 11 U. S. C. Sections 101 - 1330, as amended from time to time.

Book Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(c), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(c) hereof, (b) the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: Royale Investments, Inc., a Minnesota corporation.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent is required or solicited, or the act of granting such consent, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership.

Depreciation: For each Fiscal Year or other period, an amount equal to the

depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax

purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner.

General Partner: FCO Holdings, Inc., a Delaware corporation, and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest held by the General Partner that is a general partner interest.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof), (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees), (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership any (vi) any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Each of the Persons set forth on the signature page hereof as a Limited Partner and any Person who becomes an Additional Limited Partner in accordance with the terms of this Agreement.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated and delivered to such Person in accordance with Section 11.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes of this Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the Partnership if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall

be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax year plus any increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner Nonrecourse Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse Deductions shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are hereunder.

Partners: The General Partner and the Limited Partners as a group. The term "Partner" means a General Partner or a Limited Partner. Such terms shall be deemed to include such other Persons who may become Partners pursuant to the

terms of this Agreement.

Partnership: The Delaware limited partnership referred to herein as such partnership may from time to time be constituted.

Partnership Assets: At any particular time, any assets or property (tangible or intangible choate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the and including such Partner's right to distributions under this Agreement and any other rights or benefits such Partner has in the Partnership, together with any and all obligations of such Partner to comply with the provisions of this Agreement.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulation Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a

Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Percentage Interest: As to any Partner, the percentage in the Partnership as initially shown opposite the name of such Partner on Schedule I attached hereto, as such percentage interest may be adjusted from time to time in accordance with the provisions of this Agreement.

Person: Any individual, partnership, corporation, trust or other entity.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)vi , and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of 'Depreciation' herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(c) and 5.2(d), Profit or Loss shall be recomputed without regard to such item.

REIT: A real estate investment trust, as defined in Code Section 856.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests, is owned, directly or indirectly, by such Person.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner. The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer. A transaction in which a Partner assigns all or a portion of its Partnership Interest to another Person and includes any sale, assignment, gift, pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.2. Rules of Construction.

The following rules of construction shall apply to this Agreement:

(a) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(b) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(c) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(d) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or privilege, or other procedure by the General Partner shall mean and refer to the decision, determination, act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

2. ARTICLE II. FORMATION

2.1. Formation.

The Partners hereby continue the Partnership as a limited partnership under the Act and in accordance with the terms and conditions of this Agreement. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all other jurisdictions in which the Partnership may elect to conduct business,

including but not limited to the filing of amendments to the Certificate with the Delaware Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

2.2. Name.

The name of the Partnership is Comcourt Investors, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2.1.

2.3. Place of Business; Registered Agent.

The principal office of the Partnership shall be located at such place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Delaware as may be determined by the General Partner. The initial registered agent for the Partnership in the State of Delaware is The Corporation Trust Company, whose address is c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

ARTICLE III. BUSINESS PURPOSE

3.1. Business.

The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling,real property, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that business of the Partnership shall be limited so as to permit the Company to elect and maintain its status as a REIT (unless the Company determines no longer to qualify as a REIT).

3.2. Authorized Activities.

In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the Company to qualify and continue to qualify as a REIT under the Code, (ii) could subject the Company to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or the Company or their securities.

ARTICLE IV. CAPITAL CONTRIBUTIONS

4.1. Capital Contributions.

The Partners, or their predecessors in interest, have contributed cash and property in the aggregate amounts set forth on Schedule 1. No Partner shall be required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner, may, at the option of the General Partner and without an obligation so to do, be contributed by the General Partner as additional Capital Contributions. If the General Partner determines to make any such Capital Contribution, it shall give notice of such determination to the Limited Partners and permit each Limited Partner to contribute a portion of such Capital Contribution equal to the product of such Limited Partner's Percentage Interest and the total amount of such Capital Contribution. The General Partner shall also have the right (but not the obligation) to raise additional funds required for the Partnership by lending the money to the Partnership or by causing the Partnership to borrow the money needed from third parties, in either case on such terms and conditions as the General Partner shall deem appropriate.

4.2. Additional Partnership Interests.

The Partnership may issue additional limited partnership interests for any Partnership purpose at any time or from time to time, to any Partner or other Person. Any such other Person shall be admitted as an Additional Limited Partner of the Partnership only upon execution, adoption and acknowledgment of this Agreement by such Partner or Person, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 11.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

4.3. No Third Party Beneficiaries.

The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or other Person shall obtain any right under any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

4.4. Capital Accounts.

(a) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.704-1 (b)(2)(iv). The Capital Account of each Partner shall be credited with:

(i) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(ii) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(a), income and gain exempt from tax);

and shall be debited with the sum of:

(i) all losses or deductions of the partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(ii) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B), and

(iii) all cash and the Agreed Value of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(i) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(ii) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except to the extent required in accordance with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(m);

(iii) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(iv) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(c) below, the amount of such adjustment shall be treated

as gain or loss from the disposition of such asset.

(c) Consistent with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt.

(d) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations, the General Partner may make such modification if such modification is not likely to have a material effect on the amount distributable to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

4.5. Return of Capital Account; Interest.

Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.6. Preemptive Rights.

No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Interests.

ARTICLE V. ALLOCATIONS AND DISTRIBUTIONS

5.1. Limited Liability.

For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, no Limited Partner (in its capacity as a Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

5.2. Profits, Losses and Distributive Shares.

(a) Profits. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Profits in each Fiscal Year shall be allocated in the following order:

(i) First, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(b)(ii), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(i) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(ii);

(ii) Second, to each Partner in proportion to the cumulative losses allocated to such Partner under Section 5.2(b)(i), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(ii) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(i); and

(iii) Then, the balance, if any, to the Partners in proportion to their respective Percentage Interests.

(b) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Losses in each Fiscal Year shall be allocated in the following order:

(i) First, to the Partners in proportion to their respective Percentage

Interests, but not in excess of the positive Adjusted Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(b)(i);

(ii) Second, to the Partners with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(b)(ii), in proportion to the amount of such balances.

(c) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V. If there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts

required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-(j)(2). This Section 5.2(c) (i) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(2) and (3). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(ii) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(c)(i) which shall be applied before this Section 5.2(c)(ii)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner thereunder. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii). This Section 5.2(c)(ii) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(4), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(iii) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d) , the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(c)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(c)(3) were not contained in this Agreement.

(iv) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion to their respective Percentage Interests in the Partnership.

(v) Partner Nonrecourse Deductions. Notwithstanding anything to the contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(vi) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership Asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(vii) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(viii) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect' under Treasury Regulations Section 1.704-1(b)(2)(ii) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(d) Curative Allocations. The allocations set forth in Section 5.2(c)(i) through (viii) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(e) Tax Allocations.

(i) Except as otherwise provided in Section 5.2(e)(ii), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.1 hereof.

(ii) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(A) Depreciation, Amortization and Other Cost Recovery Items. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as

follows: (x) first, to Partners (the 'Non-Contributing Partners') other than the Partners who contributed such property to the Partnership in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.2 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.2 hereof, and (y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(B) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative

items of book gain or loss are allocated among the Partners pursuant to Section 5.2 hereof.

(iii) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(c) hereof, and such asset has not been deemed distributed by, and recontributed to the Partnership pursuant to Code Section 708 subsequent thereto, all items of income, gain, loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(e)(ii) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(iv) The General Partner shall have the authority to elect alternative methods to eliminate the Book Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(v) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(e) comply with the requirements of Code Section 704(c) and Treasury Regulations Section 1.704-3.

(vi) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(e) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of 'book' items in respect of Partnership Assets pursuant to Sections 5.2(a) through (d).

(f) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits, Losses and other items:

(i) Except as otherwise provided in this Agreement, all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(ii) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(iii) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(iv) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any Nonrecourse Liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more Nonrecourse Liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess Nonrecourse Liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(g) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(h) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2 and 1.704-3 and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

5.3. Distributions.

(a) The General Partner shall cause the Partnership to make distributions from time to time to the Partners pro rata in accordance with their respective Percentage Interests.

(b) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion

thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder; provided that the General Partner and the Partnership shall not have liability to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

5.4. Distributions upon Liquidation.

Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 9.2.

5.5. Amounts Withheld.

All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to a General Partner or a Limited Partner shall be treated as amounts distributed to a General Partner or aLimited Partner, as applicable, pursuant to Section 5.3 of this Agreement.

ARTICLE VI. PARTNERSHIP MANAGEMENT

6.1. Management and Control of Partnership Business.

(a) The General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage, or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(b) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

6.2. No Management by Limited Partner; Limitation of Liability.

(a) No Limited Partner, in its capacity as a limited partner, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. The Limited Partners shall have no rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners in the business of the Partnership and are not intended to create any inference that a Limited Partner should be classified as a general partner under the Act.

(b) No Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7.6, in connection with a violation of any provision of this Agreement by such Limited Partner or as provided in the Act.

(c) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) to liability as a general partner.

6.3. Limitations on Partners.

(a) No Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(c), or (iii) any act which is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(b) No action shall be taken by a Partner if it would cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded

partnership within the meaning of Section 7704 of the Code. A determination of whether such action will have the above described effect shall be based upon a declaratory judgment or similar relief obtained from a court of competent jurisdiction, a favorable ruling from the IRS or the receipt of an opinion of counsel.

6.4. Business with Affiliates.

The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and any Subsidiaries of the Partnership. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons, or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner in respect of matters of tax or corporate or financial structure and where the Partnership obtains or retains at least a majority interest in the Person to whom such sale, transfer or conveyance is made; provided, in the case of this clause (ii), such sale, transfer or conveyance is not being effected for the primary purpose of materially disadvantaging the Limited Partners.

6.5. Reimbursement of Expenses.

The General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with any issuance of additional Partnership Interests.

6.6. Liability for Acts and Omissions.

(a) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or emission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the Partnership. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any

liability as a result of any income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hereunder and, by its execution of this Agreement, the Limited Partner acknowledges the foregoing.

(b) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

6.7. Indemnification.

(a) The Partnership shall indemnify the General Partner and each director, officer and stockholder of the General Partner and each Person (including any Affiliate) designated as agent by a General Partner in its reasonable discretion (each, an "Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(b) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification

pursuant to Section 6.7(a) hereof.

(c) The provisions of this Section 6.7 are for the benefit of the Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

ARTICLE VII. ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

7.1. Books and Records.

The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner shall have, upon written demand and at such Limited Partner's expense, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Delaware law.

7.2. Annual Audit and Accounting.

The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the "Independent Accountants").

7.3. Partnership Funds.

The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in the name of the Partnership in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time, determine.

7.4. Reports and Notices.

(a) The General Partner shall provide all Partners with IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year by March 31 of each year or as soon thereafter as circumstances permit.

7.5. Tax Matters.

(a) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(A). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to each Limited Partner within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection with the conduct of all proceedings pursuant to this Section 7.5(a).

(b) The Tax Matters Partner shall receive no compensation for its services in such capacity. If the Tax Matters Partner incurs any costs related to any tax audit, declaration of any tax deficiency or any administrative proceeding or litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(c) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(d) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax

law. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

7.6. Withholding.

Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner.

ARTICLE VIII. TRANSFER OF PARTNERSHIP INTERESTS

8.1. Transfers Prohibited.

No Partner may voluntarily withdraw or Transfer all or any portion of its Partnership Interest without the prior written consent of the General Partner, provided that a Limited Partner may transfer all or any portion of its Limited partnership Interest to another Partner or to the Company without such consent. Notwithstanding the foregoing, any Partner may pledge its Partnership Interest as collateral for or otherwise in connection with a loan agreement under which the Partnership or an Affiliate of the Partnership is a borrower.

8.2. Obligations of a Prior General Partner.

Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (ii) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

8.3. Successor General Partner.

A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In addition, the following conditions must be satisfied:

(a) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner;

(b) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act; and

(c) Any consent required under Section 10.1(a) shall have been obtained.

ARTICLE IX. DISSOLUTION AND LIQUIDATION

9.1. Term and Dissolution.

The Partnership shall continue until December 31, 2047 at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(a) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner;

(b) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(c) The sale, exchange or other disposition of all or substantially all of the Partnership Assets.

If an event of the type described in clause (a) shall occur, the Partnership shall not dissolve unless, by the ninetieth (90th) day following such event, the Limited Partner shall not have elected to continue the Partnership. If the Limited Partner shall, during such time, elect to continue the Partnership, it may also determine to admit a Successor General Partner.

9.2. Liquidation of Partnership Assets.

(a) Subject to Section 9.2(e), in the event of dissolution pursuant to Section 9.1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(i) First, to the discharge of Partnership debts and liabilities to creditors other than Partners;

(ii) Second, to the discharge of Partnership debts and liabilities to the Partners;

(iii) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions and allocations for all periods.

(b) In accordance with Section 9.2(a), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(c) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 9.2(a). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(d) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 9.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(e) In the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 9.1 (b) or (c), the General Partner shall have the option of either (i) delivering to the Limited Partner, Partnership property approximately equal in value to the value of such Limited Partner's Partnership Interest upon the assumption by such Limited Partner of such Limited Partner's

proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the value of such Limited Partner's Partnership Interest or (ii) in lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, delivering to such Limited Partner unencumbered Partnership property approximately equal in value to the net value of such Limited Partner's Partnership Interest.

9.3. Effect of Treasury Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article IX to the General Partner and the Limited Partners who have positive Capital Accounts in compliance with Treasury Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership.

(b) In the event the Partnership is "liquidated' within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 9.1 hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a liquidation there shall be deemed to have been a distribution of Partnership Assets in kind to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

9.4. Time for Winding-Up.

Anything in this Article IX notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

ARTICLE X. AMENDMENTS AND MEETINGS

10.1. Amendment Procedure.

(a) Amendments to this Agreement may be made only with the Consent of Partners owning Percentage Interests of no less than eighty eight percent (88%) of all Percentage Interests. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(b) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner, to (i) add to the representations,

duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein; (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify each Limited Partner whenever it exercises its authority pursuant to this Section 10. 1(b).

10.2. Meetings and Voting.

(a) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 10.1(a).

(b) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments. Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take the action for which such solicitation was required.

(c) Each Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters

on which a Limited Partner may participate. Every Proxy (i) must be signed by the Limited Partner or his attorney-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall be revocable at the discretion of the Limited Partner granting such proxy.

ARTICLE XI. MISCELLANEOUS PROVISIONS

11.1. Title to Property.

All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership shall hold its assets in its own name.

11.2. Other Activities of Limited Partners.

Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or any Affiliate of a Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or any Affiliate of any Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitations real estate business ventures,

whether or not such other enterprises shall be in competition with-any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

11.3. Power of Attorney.

(a) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 11.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII, dissolution and termination of the Partnership pursuant to Article IX, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; and (e) any document which may be required to effect an amendment to this Agreement to correct any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 10.1(b).

(b) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article X or as may be otherwise expressly provided for in this Agreement.

(c) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Involuntary Withdrawal by a Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

11.4. Notices.

All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner, to the address set forth on Schedule I hereto, or (ii) if to the General Partner, _____, Attn: President.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

11.5. Further Assurances.

The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

11.6. Titles and Captions.

All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

11.7. Applicable Law.

This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Delaware, without regard to its principles of conflicts of laws.

11.8. Binding Agreement.

This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

11.9. Waiver of Partition.

Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

11.10. Counterparts and Effectiveness.

This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

11.11. Survival of Representations.

All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

11.12. Entire Agreement.

This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner FCO HOLDINGS, INC.

By: _____

Limited Partners: FCO, L.P.

By: ROYALE INVESTMENTS, INC.
its General Partner

By:_____

CLAY W. HAMLIN, III

SCHEDULE I

SCHEDULE OF PARTNERS

NAME	INTEREST IN THE PARTNERSHIP	CAPITAL CONTRIBUTION	PERCENTAGE INTEREST
FCO Holdings, Inc.	General Partner		00.10 Percent
FC, L.P.	Limited Partner		88.90 Percent
Clay W. Hamlin, III.	Limited Partner		11.00 Percent

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6385 FLANK DRIVE, L.P.
AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (the "Agreement") is made this ____ day of October, 1997, by and among FCO Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of Royale Investments, Inc., as General Partner (the "General Partner"), and the persons set forth on the signature page hereof as Limited Partners (the "Limited Partners"). The General Partner and the Limited Partners are collectively referred to herein as the "Partners."

RECITALS:

A. 6385 Flank Drive, L.P. (the "Partnership") was originally formed pursuant to the terms of an Agreement of Limited Partnership dated August 8, 1995 (the "Original Agreement").

B. The Original Agreement has previously been amended to reflect, inter alia, a refinancing of the Partnership's indebtedness, the admission to the Partnership of FCO Holdings, Inc. as a General Partner, the conversion of certain General Partner interests in the Partnership into Limited Partner interests in the Partnership and the transfer to FCO, L.P. of certain Limited Partner interests in the Partnership.

C. The General Partner and the Limited Partners desire to amend and restate the Original Agreement in its entirety as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, agree that the Original Agreement shall be amended and restated in its entirety to provide as follows:

1. ARTICLE I. INTERPRETIVE PROVISIONS

1.1. Certain Definitions.

The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Pennsylvania Revised Uniform Limited Partnership Act, as set forth in Title 15, Chapters 81 and 85 of the Pennsylvania Consolidated Statutes , as amended from time to time.

Additional Limited Partner: A Person admitted to the Partnership as a Limited Partner in accordance with Section 4.2 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(a) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5).

(b) Debit to such Capital Account the items described in Treasury Regulations Section 1.7041(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall be interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or

of any corporation directly or indirectly controlling such Person; and (vi) if the Person in question is a partnership, any general partner of the partnership or any limited partner owning or controlling ten percent (10%) or more of either the capital or profits interest in such partnership. As used herein, 'control' shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreed Value: In the case of any (i) Contributed Property, the allocated value of such property at the time of contribution (exclusive of any related indebtedness assumed by the Partnership), as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (ii) property distributed to a Partner by the Partnership, the Partnership's Book Value of such property at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution as determined under Code Section 752 and the Treasury Regulations thereunder.

Agreement: This Amended and Restated Limited Partnership Agreement and the Schedule attached hereto, as the same may be amended or restated and in effect from time to time.

Bankruptcy: Any of (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any reorganization, composition, readjustment, liquidation, dissolution or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization,

composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Bankruptcy Code: 11 U. S. C. Sections 101 - 1330, as amended from time to time.

Book Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(c), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(c) hereof, (b) the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the Commonwealth of Pennsylvania, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Company: Royale Investments, Inc., a Minnesota corporation.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent is required or solicited, or the act of granting such consent, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership.

Depreciation: For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax

purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner.

General Partner: FCO Holdings, Inc., a Delaware corporation, and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest held by the General Partner that is a general partner interest.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof), (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees), (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership any (vi) any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Each of the Persons set forth on the signature page hereof as a Limited Partner and any Person who becomes an Additional Limited Partner in accordance with the terms of this Agreement.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated and delivered to such Person in accordance with Section 11.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes of this Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the Partnership if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall

be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax year plus any increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner Nonrecourse Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse Deductions shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are hereunder.

Partners: The General Partner and the Limited Partners as a group. The term "Partner" means a General Partner or a Limited Partner. Such terms shall be

deemed to include such other Persons who may become Partners pursuant to the terms of this Agreement.

Partnership: The Pennsylvania limited partnership referred to herein as such partnership may from time to time be constituted.

Partnership Assets: At any particular time, any assets or property (tangible or intangible choate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the and including such Partner's right to distributions under this Agreement and any other rights or benefits such Partner has in the Partnership, together with any and all obligations of such Partner to comply with the provisions of this Agreement.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulation Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a

Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Percentage Interest: As to any Partner, the percentage in the Partnership as initially shown opposite the name of such Partner on Schedule I attached hereto, as such percentage interest may be adjusted from time to time in accordance with the provisions of this Agreement.

Person: Any individual, partnership, corporation, trust or other entity.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)vi , and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of 'Depreciation' herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(c) and 5.2(d), Profit or Loss shall be recomputed without regard to such item.

REIT: A real estate investment trust, as defined in Code Section 856.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests, is owned, directly or indirectly, by such Person.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner. The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer. A transaction in which a Partner assigns all or a portion of its Partnership Interest to another Person and includes any sale, assignment, gift, pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.2. Rules of Construction.

The following rules of construction shall apply to this Agreement:

(a) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(b) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(c) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(d) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or privilege, or other procedure by the General Partner shall mean and refer to the decision, determination, act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

2. ARTICLE II. FORMATION

2.1. Formation.

The Partners hereby continue the Partnership as a limited partnership under the Act and in accordance with the terms and conditions of this Agreement. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all

other jurisdictions in which the Partnership may elect to conduct business, including but not limited to the filing of amendments to the Certificate with the Pennsylvania Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

2.2. Name.

The name of the Partnership is 6385 Flank Drive, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2.1.

2.3. Place of Business; Registered Agent.

The principal office of the Partnership shall be located at such place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Pennsylvania as may be determined by the General Partner.

ARTICLE III. BUSINESS PURPOSE

3.1. Business.

The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling,real property, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that business of the Partnership shall be limited so as to permit the Company to elect and maintain its status as a REIT (unless the Company determines no longer to qualify as a REIT).

3.2. Authorized Activities.

In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the Company to qualify and continue to qualify as a REIT under the Code, (ii) could subject the Company to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or the Company or their securities.

ARTICLE IV. CAPITAL CONTRIBUTIONS

4.1. Capital Contributions.

The Partners, or their predecessors in interest, have contributed cash and property in the aggregate amounts set forth on Schedule 1. No Partner shall be required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner, may, at the option of the General Partner and without an obligation so to do, be contributed by the General Partner as additional Capital Contributions. If the General Partner determines to make any such Capital Contribution, it shall give notice of such determination to the Limited Partners and permit each Limited Partner to contribute a portion of such Capital Contribution equal to the product of such Limited Partner's Percentage Interest and the total amount of such Capital Contribution. The General Partner shall also have the right (but not the obligation) to raise additional funds required for the Partnership by lending the money to the Partnership or by causing the Partnership to borrow the money needed from third parties, in either case on such terms and conditions as the General Partner shall deem appropriate.

4.2. Additional Partnership Interests.

The Partnership may issue additional limited partnership interests for any

Partnership purpose at any time or from time to time, to any Partner or other Person. Any such other Person shall be admitted as an Additional Limited Partner of the Partnership only upon execution, adoption and acknowledgment of this Agreement by such Partner or Person, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 11.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

4.3. No Third Party Beneficiaries.

The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or other Person shall obtain any right under any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

4.4. Capital Accounts.

(a) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.704-1 (b)(2)(iv). The Capital Account of each Partner shall be credited with:

(i) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(ii) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(a), income and gain exempt from tax);

and shall be debited with the sum of:

(i) all losses or deductions of the partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(ii) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B), and

(iii) all cash and the Agreed Value of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(b) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(i) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(ii) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except to the extent required in accordance with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(m);

(iii) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(iv) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(c) below, the amount of such adjustment shall be treated as gain or loss from the disposition of such asset.

(c) Consistent with the provisions of Treasury Regulations Section 1.704-1(b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt.

(d) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations, the General Partner may make such modification if such modification is not likely to have a material effect on the amount distributable to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

4.5. Return of Capital Account; Interest.

Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.6. Preemptive Rights.

No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Interests.

ARTICLE V. ALLOCATIONS AND DISTRIBUTIONS

5.1. Limited Liability.

For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, no Limited Partner (in its capacity as a Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

5.2. Profits, Losses and Distributive Shares.

(a) Profits. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Profits in each Fiscal Year shall be allocated in the following order:

(i) First, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(b)(ii), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(i) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(ii);

(ii) Second, to each Partner in proportion to the cumulative losses allocated to such Partner under Section 5.2(b)(i), until the cumulative Profits allocated to such Partner under this Section 5.2(a)(ii) equal the cumulative Losses allocated to such Partner under Section 5.2(b)(i); and

(iii) Then, the balance, if any, to the Partners in proportion to their respective Percentage Interests.

(b) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(c) and (d), Losses in each Fiscal Year shall be allocated in the following order:

(i) First, to the Partners in proportion to their respective Percentage Interests, but not in excess of the positive Adjusted Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(b)(i);

(ii) Second, to the Partners with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(b)(ii), in proportion to the amount of such balances.

(c) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V. If there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts

required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-(j)(2). This Section 5.2(c) (i) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(2) and (3). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(ii) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(c)(i) which shall be applied before this Section 5.2(c)(ii)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner thereunder. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii). This Section 5.2(c)(ii) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f)(4), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(iii) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d) , the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(c)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(c)(3) were not contained in this Agreement.

(iv) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion to their respective Percentage Interests in the Partnership.

(v) Partner Nonrecourse Deductions. Notwithstanding anything to the contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(vi) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership Asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(vii) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(viii) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect' under Treasury Regulations Section 1.704-1(b)(2)(ii) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(d) Curative Allocations. The allocations set forth in Section 5.2(c)(i) through (viii) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(e) Tax Allocations.

(i) Except as otherwise provided in Section 5.2(e)(ii), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.1 hereof.

(ii) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(A) Depreciation, Amortization and Other Cost Recovery Items. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as

follows: (x) first, to Partners (the 'Non-Contributing Partners') other than the Partners who contributed such property to the Partnership in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.2 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.2 hereof, and (y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(B) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative items of book gain or loss are allocated among the Partners pursuant to Section 5.2 hereof.

(iii) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(c) hereof, and such asset has not been deemed distributed by, and recontributed to the Partnership pursuant to Code Section 708 subsequent thereto, all items of income, gain, loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(e)(ii) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(iv) The General Partner shall have the authority to elect alternative methods to eliminate the Book Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(v) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(e) comply with the requirements of Code Section 704(c) and Treasury Regulations Section 1.704-3.

(vi) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(e) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of 'book' items in respect of Partnership Assets pursuant to Sections 5.2(a) through (d).

(f) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits, Losses and other items:

(i) Except as otherwise provided in this Agreement, all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(ii) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(iii) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(iv) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any Nonrecourse Liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more Nonrecourse Liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess Nonrecourse Liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(g) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(h) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2 and 1.704-3 and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

5.3. Distributions.

(a) The General Partner shall cause the Partnership to make distributions from time to time to the Partners pro rata in accordance with their respective Percentage Interests.

(b) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder;

provided that the General Partner and the Partnership shall not have liability to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

5.4. Distributions upon Liquidation.

Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 9.2.

5.5. Amounts Withheld.

All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to a General Partner or a Limited Partner shall be treated as amounts distributed to a General Partner or aLimited Partner, as applicable, pursuant to Section 5.3 of this Agreement.

ARTICLE VI. PARTNERSHIP MANAGEMENT

6.1. Management and Control of Partnership Business.

(a) The General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage, or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(b) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

6.2. No Management by Limited Partner; Limitation of Liability.

(a) No Limited Partner, in its capacity as a limited partner, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. The Limited Partners shall have no rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners in the business of the Partnership and are not intended to create any inference that a Limited Partner should be classified as a general partner under the Act.

(b) No Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7.6, in connection with a violation of any provision of this Agreement by such Limited Partner or as provided in the Act.

(c) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) to liability as a general partner.

6.3. Limitations on Partners.

(a) No Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(c), or (iii) any act which is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(b) No action shall be taken by a Partner if it would cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded partnership within the meaning of Section 7704 of the Code. A determination of whether such action will have the above described effect shall be based upon a

declaratory judgment or similar relief obtained from a court of competent jurisdiction, a favorable ruling from the IRS or the receipt of an opinion of counsel.

6.4. Business with Affiliates.

The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and any Subsidiaries of the Partnership. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons, or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner in respect of matters of tax or corporate or financial structure and where the Partnership obtains or retains at least a majority interest in the Person to whom such sale, transfer or conveyance is made; provided, in the case of this clause (ii), such sale, transfer or conveyance is not being effected for the primary purpose of materially disadvantaging the Limited Partners.

6.5. Reimbursement of Expenses.

The General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with any issuance of additional Partnership Interests.

6.6. Liability for Acts and Omissions.

(a) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or emission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the Partnership. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any liability as a result of any

income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hereunder and, by its execution of this Agreement, the Limited Partner acknowledges the foregoing.

(b) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

6.7. Indemnification.

(a) The Partnership shall indemnify the General Partner and each director, officer and stockholder of the General Partner and each Person (including any Affiliate) designated as agent by a General Partner in its reasonable discretion (each, an "Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(b) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification pursuant to Section 6.7(a) hereof.

(c) The provisions of this Section 6.7 are for the benefit of the Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

ARTICLE VII. ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

7.1. Books and Records.

The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner shall have, upon written demand and at such Limited Partner's expense, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Pennsylvania law.

7.2. Annual Audit and Accounting.

The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the "Independent Accountants").

7.3. Partnership Funds.

The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in the name of the Partnership in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time, determine.

7.4. Reports and Notices.

(a) The General Partner shall provide all Partners with IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year by March 31 of each year or as soon thereafter as circumstances permit.

7.5. Tax Matters.

(a) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(A). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to each Limited Partner within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection with the conduct of all proceedings pursuant to this Section 7.5(a).

(b) The Tax Matters Partner shall receive no compensation for its services in such capacity. If the Tax Matters Partner incurs any costs related to any tax audit, declaration of any tax deficiency or any administrative proceeding or litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(c) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(d) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax

law. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

7.6. Withholding.

Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner.

ARTICLE VIII. TRANSFER OF PARTNERSHIP INTERESTS

8.1. Transfers Prohibited.

No Partner may voluntarily withdraw or Transfer all or any portion of its Partnership Interest without the prior written consent of the General Partner, provided that a Limited Partner may transfer all or any portion of its Limited partnership Interest to another Partner or to the Company without such consent. Notwithstanding the foregoing, any Partner may pledge its Partnership Interest as collateral for or otherwise in connection with a loan agreement under which the Partnership or an Affiliate of the Partnership is a borrower.

8.2. Obligations of a Prior General Partner.

Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (ii) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

8.3. Successor General Partner.

A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such transferee shall carry on the business of the Partnership without dissolution. In addition, the following conditions must be satisfied:

(a) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner;

(b) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act; and

(c) Any consent required under Section 10.1(a) shall have been obtained.

ARTICLE IX. DISSOLUTION AND LIQUIDATION

9.1. Term and Dissolution.

The Partnership shall continue until December 31, 2047 at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(a) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner;

(b) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(c) The sale, exchange or other disposition of all or substantially all of the Partnership Assets.

If an event of the type described in clause (a) shall occur, the Partnership shall not dissolve unless, by the ninetieth (90th) day following such event, the Limited Partner shall not have elected to continue the

Partnership. If the Limited Partner shall, during such time, elect to continue the Partnership, it may also determine to admit a Successor General Partner.

9.2. Liquidation of Partnership Assets.

(a) Subject to Section 9.2(e), in the event of dissolution pursuant to Section 9.1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(i) First, to the discharge of Partnership debts and liabilities to creditors other than Partners;

(ii) Second, to the discharge of Partnership debts and liabilities to the Partners;

(iii) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions and allocations for all periods.

(b) In accordance with Section 9.2(a), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(c) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 9.2(a). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(d) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 9.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(e) In the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 9.1 (b) or (c), the General Partner shall have the option of either (i) delivering to the Limited Partner, Partnership property approximately equal in value to the value of such Limited Partner's Partnership Interest upon the assumption by such Limited Partner of such Limited Partner's

proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the value of such Limited Partner's Partnership Interest or (ii) in lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, delivering to such Limited Partner unencumbered Partnership property approximately equal in value to the net value of such Limited Partner's Partnership Interest.

9.3. Effect of Treasury Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article IX to the General Partner and the Limited Partners who

have positive Capital Accounts in compliance with Treasury Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership.

(b) In the event the Partnership is "liquidated' within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 9.1 hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a liquidation there shall be deemed to have been a distribution of Partnership Assets in kind to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

9.4. Time for Winding-Up.

Anything in this Article IX notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

ARTICLE X. AMENDMENTS AND MEETINGS

10.1. Amendment Procedure.

(a) Amendments to this Agreement may be made only with the Consent of Partners owning Percentage Interests of no less than eighty eight percent (88%) of all Percentage Interests. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(b) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner, to (i) add to the representations,

duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein; (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify each Limited Partner whenever it exercises its authority pursuant to this Section 10. l(b).

10.2. Meetings and Voting.

(a) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 10.1(a).

(b) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments. Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take the action for which such solicitation was required.

(c) Each Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters on which a Limited Partner may participate. Every Proxy (i) must be signed by the Limited Partner or his attorney-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall

be revocable at the discretion of the Limited Partner granting such proxy.

ARTICLE XI. MISCELLANEOUS PROVISIONS

11.1. Title to Property.

All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership shall hold its assets in its own name.

11.2. Other Activities of Limited Partners.

Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or any Affiliate of a Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or any Affiliate of any Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitations real estate business ventures,

whether or not such other enterprises shall be in competition with-any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

11.3. Power of Attorney.

(a) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 11.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII, dissolution and termination of the Partnership pursuant to Article IX, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; and (e) any document which may be required to effect an amendment to this Agreement to correct any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 10.1(b).

(b) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article X or as may be otherwise expressly provided for in this Agreement.

(c) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Involuntary Withdrawal by a Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

11.4. Notices.

All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner, to the address set forth on Schedule I hereto, or (ii) if to the General Partner, _____, Attn: President.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

11.5. Further Assurances.

The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

11.6. Titles and Captions.

All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

11.7. Applicable Law.

This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Pennsylvania, without regard to its principles of conflicts of laws.

11.8. Binding Agreement.

This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

11.9. Waiver of Partition.

Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

11.10. Counterparts and Effectiveness.

This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

11.11. Survival of Representations.

All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

11.12. Entire Agreement.

This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner FCO HOLDINGS, INC.

By: _____

Limited Partners: FCO, L.P.

By: ROYALE INVESTMENTS, INC
its General Partner

By: _____

CLAY W. HAMLIN, III]

SCHEDULE I

SCHEDULE OF PARTNERS

NAME	INTEREST IN THE PARTNERSHIP	CAPITAL CONTRIBUTION	PERCENTAGE INTEREST
FCO Holdings, Inc.	General Partner		00.10 Percent
FC, L.P.	Limited Partner		88.90 Percent
Clay W. Hamlin, III	Limited Partner		11.00 Percent

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EMPLOYMENT AGREEMENT

CLAY W. HAMLIN, III

This Employment Agreement (this "Agreement"), is made and entered into as of the 14th day of October, 1997 (the "Effective Date"), by and between FCO, L.P., a Delaware limited partnership (the "Employer"), and Clay W. Hamlin, III (the "Executive").

RECITALS

A. The Employer desires to employ the Executive as an officer of the Employer for a specified term, and the Executive is willing to accept such employment upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter contained, it is covenanted and agreed by and between the parties hereto as follows:

AGREEMENTS

1. POSITION AND DUTIES. The Employer hereby employs the Executive as the President and Chief Executive Officer of the Employer, or in such other capacity as shall be mutually agreed between the Employer and the Executive. During the period of the Executive's employment hereunder, the Executive shall devote his best efforts and full business time, energy, skills and attention to the business and affairs of the Employer. The Executive's duties and authority shall consist of and include all duties and authority customarily performed and held by persons holding equivalent positions with business organizations similar in nature and size to the Employer, as such duties and authority are reasonably defined, modified and delegated from time to time by the Board of Directors of the Employer (the "Board"). The Executive shall have the powers necessary to perform the duties assigned to him, and shall be provided such supporting services, staff, secretarial and other assistance, office space and accouterments as shall be reasonably necessary and appropriate in the light of such assigned duties.

2. COMPENSATION. As compensation for the services to be provided by the Executive hereunder, the Executive shall receive the following compensation and other benefits:

(a) BASE SALARY. The Executive shall receive an aggregate annual minimum "Base Salary" at the rate of Ninety Thousand dollars ($90,000) per annum, payable in periodic installments in accordance with the regular payroll practices of the Employer. Such Base Salary shall be subject to review annually by the Compensation Committee of the Board during the term hereof, in accordance with the Employers established compensation policies.

(b) PERFORMANCE BONUS. The Executive shall receive an annual cash "Performance Bonus," payable within forty-five (45) days after the end of the fiscal year of the Employer, which for the initial year shall depend upon achievement of the Company's minimum no - growth budget, and also shall be based upon company-wide and individual performance criteria mutually agreed upon from time to time by the Executive and the Board, and which shall be determined by the Board based upon the recommendation of the Compensation Committee thereof.

(c) BENEFITS. The Executive shall be entitled to all perquisites extended to similarly situated executives, as such are stated in the Employer's Executive Perquisite Policy (the "Perquisite Policy") promulgated for the Board by the Compensation Committee of the Board, and which Perquisite Policy is hereby incorporated by reference, as amended from time to time. In addition, the Executive shall be entitled to participate in all plans and benefits generally, from time to time, accorded to employees of the Employer ("Benefit Plans"), all as determined by the Board from time to time based upon the input of its Compensation Committee.

(d) WITHHOLDING. The Employer shall be entitled to withhold from amounts payable to the Executive hereunder, any federal, state or local withholding or other taxes or charges which it is from time to time required to withhold. The Employer shall be entitled to rely upon the opinion of its independent accountants, with regard to any question

concerning the amount or requirement of any such withholding.

3. TERM AND TERMINATION.

(a) BASIC TERM. The Executive's employment hereunder shall be for a continuous and self-renewing two (2) year term, commencing as of the Effective Date, unless terminated by either party, with or without cause, effec-

tive as of the first (1st) business day after written notice to that effect is delivered to the other party.

(b) PREMATURE TERMINATION.

(i) In the event of the termination of the employment of the Executive under this Agreement by the Employer because of failure to meet the minimum no-growth budget (attached hereto) or for any reason other than expiration of the term hereof or a "for-cause" termination in accordance with the provisions of paragraph (d) of this Section 3, then notwithstanding any actual or allegedly available alternative employment or other mitigation of damages by or available to the Executive, the Executive shall be entitled to a "Lump Sum Payment" equal to the sum of: (w) his monthly Base Salary then payable, multiplied by the remaining number of months or partial months until expiration of the Basic Term or renewal term, if any, and an annualized and proportional amount equal to the average of the two (2) most recent annual Performance Bonuses that the Executive received; For purposes of calculating the Lump Sum Payment amounts due, the Executive's employment with the Employer shall be agreed to have commenced on October , 1997. In the event of a termination governed by this subparagraph (b)(i) of Section 3, the Employer shall also: (y) notwithstanding the vesting schedule otherwise applicable, fully vest all of Executive's options outstanding under any option or stock incentive plan herein after established by Employer ("Option Plan") and allow a period of eighteen (18) months following the termination of employment for the Executive to exercise any such options; and (z) continue for the Executive (provided that such items are not available to him by virtue of other employment secured after termination) the perquisites. plans and benefits provided under the Employer's Perquisite Policy and Benefit Plans as of and after the date of termination, [all items in (z) being collectively referred to as "Post-Termination Perquisites and Benefits"], for the lesser of the number of full months the Executive has theretofore been employed by the Employer or twenty four (24) months following such termination. The payments and benefits provided under (w), (x), (y) and (z) above by the Employer shall not be offset against or diminish any other compensa-

tion or benefits accrued as of the date of termination.

(ii) Payment to the Executive under this Section 3(b) will be made monthly over twelve (12) months.

(c) CONSTRUCTIVE TERMINATION. If at any time during the term of this Agreement, except in connection with a "for-cause" termination pursuant to paragraph (d) of this Section 3, the Executive is Constructively Discharged (as hereinafter defined), then the Executive shall have the right, by written notice to the Employer given within one hundred and twenty (120) days of such Constructive Discharge, to terminate his services hereunder, effective as of thirty (30) days after such notice, and the Executive shall have no rights or obligations under this Agreement other than as provided in Section 5 hereof. The Executive shall in such event be entitled to a Lump Sum Payment of Base Salary and Performance Bonus compensation as well as all of the Post-Termination Prerequisites and Benefits, as if such termination of his employment had been effectuated pursuant to paragraph (b) of this Section 3.

For purposes of this Agreement, the Executive shall be deemed to have been "Constructively Discharged" upon the occurrence of any one of the following events.

(i) The Executive is not re-elected to, or is removed from, both of the positions with the Employer set forth in Section I hereof, other than as a result of the Executive's election or appointment to positions of equal or superior scope and responsibility; or

(ii) The Executive shall fail to be vested by the Employer with

the powers, authority and support services normally attendant to any of said offices; or

(iii) The Employer shall notify the Executive that the employment of the Executive will be terminated or materially modified in the future or that the Executive will be Constructively Discharged in the future; or

(iv) The Employer changes the primary employment location of the Executive to a place that is more

than fifty (50) miles from the primary employment location as of the Effective Date of this Agreement; or

(v) The Employer otherwise commits a material breach of its obligations under this Agreement.

(d) TERMINATION FOR CAUSE. The employment of the Executive and this Agreement may be terminated "for-cause" as hereinafter defined. Termination "for-cause" shall mean the termination of employment on the basis or as a result of: (i) the Executive's death or his permanent disability, which latter term shall mean the Executive's inability, as a result of physical or mental incapacity, substantially to perform his duties hereunder for a period of either six (6) consecutive months, or one hundred and twenty (120) business days within a consecutive twelve (12) month period; (ii) a material violation by the Executive of any applicable material law or regulation respecting the business of the Employer, (iii) the Executive being found guilty of, or being publicly associated with, to the Employer's detriment, a felony or an act of dishonesty in connection with the performance of his duties as an officer of the Employer, or the Executive's commission of an act which disqualifies the Executive from serving as an officer or director of the Employer, or (iv) the willful or negligent failure of the Executive to perform his duties hereunder in any material respect. The Executive shall be entitled to at least thirty (30) days' prior written notice of the Employer's intention to terminate his employment for any cause (except the Executive's death), specifying the grounds for such termination, affording the Executive a reasonable opportunity to cure any conduct or act (if curable) alleged as grounds for such termination and a reasonable opportunity to present to the Board his position regarding any dispute relating to the existence of such cause.

(e) TERMINATION UPON DEATH. In the event payments are due and owing under this Agreement at the death of the Executive, such payments shall be made to such beneficiary, designee or fiduciary as Executive may have designated in writing, or failing such designation, to the executor or administrator of his estate, in full settlement and satisfaction of all claims and demands on behalf of the Executive. Such payments shall be in addition to any other death benefits of the Employer made available for the benefit of the Executive, and in full settlement and

satisfaction of all payments provided for in this Agreement.

(f) TERMINATION UPON DISABILITY. The Employer may terminate the Executive's employment after the Executive is determined to be disabled under the current Employer program or by a physician engaged by the Employer. In the event of a dispute regarding the Executive's "disability," such dispute shall be resolved through arbitration as provided in paragraph (d) of Section 9 hereof except that the arbitrator appointed by the American Arbitration Association shall be a duly licensed medical doctor. The Executive shall be entitled to the compensation and benefits provided for under this Agreement during any period of incapacitation occurring during the term of this Agreement, and occurring prior to the establishment of the Executive's "disability" during which the Executive is unable to work due to a physical or mental infirmity. Notwithstanding anything contained in this Agreement to the contrary, until the date specified in a notice of termination relating to the Executive's disability, the Executive shall be entitled to return to his positions with the Employer as set forth in this Agreement, in which event no disability of the Executive will be deemed to have occurred.

(g) TERMINATION UPON CHANGE OF CONTROL.

(i) In the event of a Change in Control (as defined below) of the Employer and the termination of the Executive's employment by Executive or by the Employer under either 1 or 2 below, the Executive shall be entitled to a Lump Sum Payment equal to the sum of: (w) his monthly Base Salary then payable, multiplied by the lesser of the

number of full months the Executive has theretofore been employed by the Employer or twenty-four (24); plus (x) two (2) times the average of the two (2) most recent annual Performance Bonuses that the Executive received; provided, however, that if the Executive has been employed by the Employer for fewer than two (2) years, then the amount set forth in (x) above shall be equal to two (2) times the average of the annual Performance Bonuses that the Executive has theretofore received from the Employer. The Employer shall also: (y) notwithstanding the vesting schedule otherwise applicable, fully vest all of Executive's options outstanding under any Option Plan and allow a period

of eighteen (18) months following the termination of employment of the Executive for the Executive's exercise of such options; and (z) continue for the Executive (provided that such items are not available to him by virtue of other employment secured after termination) all of the perquisites, plans and benefits provided under paragraph (c) of Section z, for the lesser of the number of full months the Executive has been employed by the Employer or twenty-four (24) months following such termination. The payments and benefits provided under (w), (x), (y) and (z) above by the Employer shall not be offset against or diminish any other compensation or benefits accrued as of the date of termination. The following shall constitute termination under this paragraph:

1. The Executive terminates his employment under this Agreement pursuant to a written notice to that effect delivered to the Board within six (6) months after the occurrence of the Change in Control.

2. Executive's employment is terminated, including Constructively Discharged, by the Employer or its successor either in contemplation of or after Change in Control, other than on a for-cause basis.

(ii) For Purposes of this paragraph, the term "Change in Control" shall mean the following occurring after the date of this Agreement:

1. The Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the " 1934 Act")) of beneficial ownership (within the meaning of Rule l3d-3 promulgated under the 1934 Act) of forty percent (40%) or more of the combined voting power embodied in the then-outstanding voting securities of the Employer; or

2. Approval by the stockholders of the Employer of: (1) a merger or consoli-

dation of the Employer, if the stockholders of the Employer immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (500%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as was represented by their ownership of the combined voting power of the voting securities of the Employer outstanding immediately before such merger or consolidation; or (2) a complete or substantial liquidation or dissolution or an agreement for the sale or other disposition, of all or substantially all of the assets of the Employer.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because forty percent (40%) or more of the combined voting then-outstanding securities is acquired by: (1) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity; or (2) any corporation or other entity which, immediately prior to such acquisition, is owned directly or directly or indirectly by the stockholders of the Employer immediately prior to such acquisition.

(iii) If it is determined, in the opinion of the Employer's independent accountants, in consultation with the Employer's independent counsel, that any amount payable to the Executive by the Employer under this Agreement, or any other plan or agreement under which the executive participates or is a party, would

constitute an "Excess Parachute Payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), the Employer shall pay to the Executive a "grossing-up" amount equal to the amount of such Excise Tax and all federal and state income or other taxes with respect payment of the amount of such Excise Tax, including all such taxes with respect to any such grossing-up amount. If at a later date, the Internal Revenue Service assesses a defi-

ciency against the Executive for the Excise Tax which is greater than that which was determined at the time such amounts were paid, the Employer shall pay to the Executive the amount of such unreimbursed Excise Tax plus any interest, penalties and professional fees or expenses, incurred by the Executive as a result of such assessment, including all such taxes with respect to any such additional amount. The highest marginal tax rate applicable to individuals at the time of payment of such amounts will be used for purposes of determining the federal and state income and other taxes with respect thereto. The Employer shall withhold from any amounts paid under this Agreement the amount of any Excise Tax or other federal, state or local taxes then required to be withheld. Computations of the amount of any grossing-up supplemental compensation paid under this subparagraph shall be made by the Employer's independent accountants, in consultation with the Employer's independent legal counsel. The Employer shall pay all accountant and legal counsel fees and expenses.

4. CONFIDENTIALITY AND LOYALTY. The Executive acknowledges that heretofore or hereafter during the course of his employment he has produced and received, and may hereafter produce, receive and otherwise have access to various materials, records, data trade secrets and information not generally available to the public (collectively, "Confidential Information") regarding the Employer and its subsidiaries and affiliates. Accordingly, during and subsequent to termination of this Agreement, the Executive shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or by any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with the performance by the Executive of his duties hereunder. All records, files, documents, computer diskettes, computer programs and other computer-generated material , as well as all other materials or copies thereof relating to the Employer's business, which the Executive shall prepare or use, shall be and remain the sole property of the Employer, shall not be removed from the Employer's premises without its written consent, and shall be promptly returned to the Employer upon termination of the Executive's employment hereunder. The Executive agrees to abide by the Employer's reasonable policies, as in effect from time

to time, respecting confidentiality and the avoidance of interests conflicting with those of the Employer.

5. NON-COMPETITION OF COVENANT.

(a) RESTRICTIVE COVENANT. The Employer and the Executive have jointly reviewed the tenant lists, property submittals, logs, broker lists, and operations of the Employer, and have agreed that as an essential ingredient of and in consideration of this Agreement and the payment of the amounts described in Sections 2 and 3 hereof, the Executive hereby agrees that, except with the express prior written consent of the Employer, for a period equal to the lesser of the number of full months the Executive has at any time been employed by the Employer or twenty-four (24) months after the termination of the Executive's employment with the Employer (the "Restrictive Period"), he will not directly or indirectly compete with the business of the Employer, including, but not by way of limitation, by directly or indirectly owning, managing, operating, controlling, financing, or by directly or indirectly serving as an employee, officer or director of or consultant to, or by soliciting or inducing, or attempting to solicit or induce, any employee or agent of Employer to terminate employment with Employer and become employed by any person, firm, partnership, corporation, trust or other entity which owns or operates a business similar to that of the Employer (the "Restrictive Covenant"). For purposes of this subparagraph (a) a business shall be considered "similar" to that of the Employer if it is engaged in the acquisition, development, ownership, operation, management or leasing of office or net leased retail property

(i) in any geographic market or territory in which the Employer owns properties either as of the date hereof or as of the date of termination of the Executive's employment; or (ii) in any market in which an acquisition is pending at the time of the termination of the Executive's employment. If the Executive violates the Restrictive Covenant and the Employer brings legal action for injunctive or other relief, the Employer shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of t he full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to have the duration specified in this paragraph (a) computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by the Executive. In the event that a suc-

cessor of the Employer assumes and agrees to perform this Agreement or otherwise acquires the Employer, this Restrictive Covenant shall continue to apply only to the primary service area of the Employer as it existed immediately before such assumption or acquisition and shall not apply to any of the successor's other offices or markets. The foregoing Restrictive Covenant shall not prohibit the Executive from owning directly or indirectly, capital stock or similar securities which are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System which do not represent more than five percent (5%) of the outstanding capital stock of any corporation.

(b) REMEDIES FOR BREACH OF RESTRICTIVE COVENANT. The Executive acknowledges that the restrictions contained in Sections 4 and 5 of this Agreement are reasonable and necessary for the protection of the legitimate proprietary business interests of the Employer, that any violation of these restrictions would cause substantial injury to the Employer and such interests; that the Employer would not have entered into this Agreement with the Executive without receiving the additional consideration offered by the Executive in binding himself to these restrictions; and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer shall be relieved of any further obligations under this Agreement, shall be entitled to any rights, remedies or damages available at law, in equity or otherwise under this Agreement, and shall be entitled to preliminary and temporary injunctive relief granted by a court of competent jurisdiction to prevent or restrain any such violation by the Executive and any and all persons directly or indirectly acting for or with him, as the case may be, while awaiting the decision of the arbitrator selected in accordance with paragraph (d) of Section 9 of this Agreement, which decision, if rendered adverse to the Executive, may include permanent injunctive relief to be granted by the court.

6. INTERCORPORATE TRANSFERS. If the Executive shall be voluntarily transferred to an affiliate of the Employer, such transfer shall not be deemed to terminate or modify this Agreement, and the employing corporation to which the Executive shall have been transferred shall, for all purposes of this Agreement, be construed as standing in the same place and stead as the Employer as of the date of such transfer. For all rele-

vant purposes hereof, the tenure of the Executive shall be deemed to include the aggregate term of his employment by the Employer or its affiliate.

7. INTEREST IN ASSETS. Neither the Executive nor his estate shall acquire hereunder any rights in funds or assets of the Employer, otherwise than by and through the actual payment of amounts payable hereunder; nor shall the Executive or his estate have any power to transfer, assign, anticipate, hypothecate or otherwise encumber in advance any of said payments; nor shall any of such payments be subject to seizure for the payment of any debt, judgment, alimony, separate maintenance or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise of the Executive.

8. INDEMNIFICATION.

(a) The Employer shall provide the Executive (including his heirs, personal representatives, executors and administrators), during the term of this Agreement and thereafter throughout all applicable limitations periods, with coverage under the Employer's then-current directors' and officers' liability insurance policy, at the Employer's expense.

(b) In addition to the insurance coverage provided for in paragraph (a) of this Section 8, the Employer shall defend, hold harmless and indemnify the Executive (and his heirs, executors and administrators) to the fullest extent permitted under applicable law, and subject to the

requirements, limitations and specifications set forth in the Bylaws and other organization documents of the Employer, against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding in which he may be involved by reason of his having been an officer of the Employer (whether of not he continues to be an officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorney's fees and the cost of reasonable settlements.

(c) In the event the Executive becomes a party, or is threatened to be made a party, to any action, suit or proceeding for which other Employer has agreed to provide insurance coverage or indemnification under Section 8, the Employer shall, to the full extent permitted under applicable law, advance all expenses (including the reasonable

attorneys' fees of the attorneys selected by Employer and approved by Executive for the representation of the Executive), judgments, fines and amounts paid in settlement (collectively "Expenses") incurred by the Executive in connection with the investigation, defense, settlement, or appeal of any threatened, pending or completed action, suit or proceeding, subject to receipt by the Employer of a written undertaking from the Executive covenanting: (i) to reimburse the Employer for all Expenses actually paid by the Employer to or on behalf of the Executive in the event it shall be ultimately determined that the Executive is not entitled to indemnification by the Employer for such Expenses; and (ii) to assign to the Employer all rights of the Executive to insurance proceeds, under any policy of directors' and officers' liability insurance or otherwise, to the extent of the amount of Expenses actually paid by the Employer to or on behalf of the Executive.

9. GENERAL PROVISIONS.

(a) SUCCESSORS; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the Executive, the Employer and his and its respective personal representatives, successors and assigns, and any successor or assign of the Employer shall be deemed the "Employer" hereunder. The Employer shall require any successor to all or substantially all of the business and/or assets of the Employer, whether directly or indirectly, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Employer would be required to perform if no such succession had taken place. (b) ENTIRE AGREEMENT; MODIFICATIONS. This Agreement constitutes the entire agreement between the parties respecting the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral. Except as otherwise explicitly provided herein, this Agreement may not be amended or modified except by written agreement signed by the Executive and the Employer.

(c) ENFORCEMENT AND GOVERNING LAW. The provisions of this Agreement shall be regarded as divisible and separate; if any of said provisions should be declared invalid

or unenforceable by a court of competent jurisdiction, the validity and enforceability of the remaining provisions shall not be affected thereby. This Agreement shall be construed and the legal relations of the parties hereto shall be determined in accordance with the laws of the State of Pennsylvania as it constitutes the situs of the corporation and the employment hereunder, without reference to the law regarding conflicts of law.

(d) ARBITRATION. Except as provided in paragraph (b) of Section 5, any dispute or controversy arising under or in connection with this Agreement or the Executive's employment by the Employer shall be settled exclusively by arbitration, conducted by a single arbitrator sitting in Philadelphia, Pennsylvania in accordance with the rules of the American Arbitration Association (the "AAA") then in effect. The arbitrator shall be selected by the parties from a list of eleven (11) arbitrators provided by the AAA, provided that no arbitrator shall be related to or affiliated with either of the parties. No later than ten (10) days after the list of proposed arbitrators is received by the parties, the parties, or their respective representatives, shall meet at a mutually convenient location in Philadelphia, Pennsylvania, or telephonically. At that meeting, the party who sought arbitration shall eliminate one (1) proposed arbitrator and then the other party shall eliminate one (1) proposed arbitrator. The parties shall continue to alternatively eliminate names from the list of proposed

arbitrators in this manner until each party has eliminated five (5) proposed arbitrators. The remaining arbitrator shall arbitrate the dispute. Each party shall submit, in writing, the specific requested action or decision it wishes to take, or make, with respect to the matter in dispute, and the arbitrator shall be obligated to choose one (i) party's specific requested action or decision, without being permitted to effectuate any compromise or "new" position, provided, however, that the arbitrator is authorized to award amounts not in dispute during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Employer shall beat the cost of all counsel, experts or other representatives that are retained by both parties, together with all costs of the arbitration proceeding, including, without limitation, the fees, costs and expenses imposed or incurred by the arbitrator. Judgment may be entered on the arbitrator's award in any court having jurisdiction; including, if applicable, entry of a permanent injunction under paragraph (b) of Section 5-

(e) PRESS RELEASES AND PUBLIC DISCLOSURE. Any press release or other public communication by either the Executive or the Employer with any other person concerning the terms, conditions or circumstances of Executive's employment, or the termination of such employment, shall be subject to prior written approval of both the Executive and the Employer, subject to the proviso that the Employer shall be entitled to make requisite and appropriate public disclosure of the terms of this Agreement, without the Executive's consent or approval, as required under applicable statutes, and the rules and regulations of the Securities and Exchange Commission and the Stock Exchange on which the shares of Employer may from time to time be listed.

(f) WAIVER. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by the other party, shall be deemed a waiver of any similar or dissimilar provisions or conditions at the same time or any prior or subsequent time.

(g) NOTICES. Notices given pursuant to this Agreement shall be in writing, and shall be deemed given when received, and, if mailed, shall be mailed by United States registered or certified mail, return receipt requested, postage prepaid. Notices to the Employer shall be addressed to the principal headquarters of the Employer, Attention: Chairman. Notices to the Executive, shall be sent to the address set forth below the Executives signature on this Agreement, or to such other address as the party to be notified shall have given to the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

FCO, L.P.
a Delaware limited partnership
by its general partner,
Royale Investment Inc.

By: _____

CLAY W. HAMLIN, III

_____
Clay W. Hamlin, III

REGISTRATION RIGHTS AGREEMENT

Dated as of October 1, 1997

of

ROYALE INVESTMENTS, INC.

for the benefit of

HOLDERS OF LIMITED PARTNERSHIP UNITS AND PREFERRED UNITS

of

FCO, L.P.

and

HOLDERS OF COMMON STOCK

of

ROYALE INVESTMENTS, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agmement") is made and entered into as of October 1, 1997 by Royale Investments, Inc., a Minnesota corporation (the "Company"), for the benefit of (w) the persons who own limited partnership units ("Partnership Units") and/or preferred units ("Preferred Units"), whether owned as of the date hereof or hereafter acquired, of FCO, L.P., a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act (the "Partnership"), (x) Vernon Beck, Robert L. Denton, Clay W. Hamlin III, John Parsinen and Jay H. Shidler, (y) persons issued shares of Common Stock of the Company ("Common Stock") pursuant to the Contribution Agreement (as defined below), and (z) the respective successors. assigns, transferees and estates of the persons identified in clauses (w), (x) and (y) (herein referred to collectively as the "Holders" and individually as a "Holder"). The Partnership Units and Preferred Units are herein sometimes collectively called the "Units."

WHEREAS, on the date hereof certain Holden have become the owner of Units in connection with the contributions (the "Contributions") of certain general and limited partnership interests and other assets to the Partnership pursuant to the Formation/Contribution Agreement dated as of September 7, 1997 by and among the Company, H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt investment Corporation and Gateway Shannon Development Corporation, as the same may at any time be amended, modified and supplemented and in effect (the "Contribution Agreement");

WHEREAS, pursuant to the Partnership Agreement the Holders of Preferred Units have the right to convert them into Partnership Units;

WHEREAS, on the date hereof, the Company has become the sole general partner of the Partnership;

WHEREAS, on the date hereof. certain Holders have become the owner of Common Stock pursuant to the Contribution Agreement in consideration of assets transferred to the Company;

WHEREAS, on the date hereof, the Common Stock is publicly held and traded and the Company is an issuer which is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");

WHEREAS, in connection with the foregoing, the Company has agreed, subject to the terms, conditions and limitations set forth in this Agreement, to provide the Holders with certain registration rights in respect of shares of Common Stock either (x) issued pursuant to the Contribution Agreement or (y) upon redemption of Partnership Units as and to the extent set forth in that certain Limited Partnership Agreement of the Partnership dated October 14, 1997 among the sole general and initial limited parties party thereto, as the same may be amended. modified or supplemented from time to time and in effect (the

"Partnership Agreement").

NOW, THEREFORE, the Company and the Partnership for the benefit of the Holders each agrees as follows:

Section 1. Definitions.

As used in this Agreement, the following capitalized defined terms shall have the following meanings:

Commission: The Securities and Exchange Commission.

Common Stock: Shares of common stock, $.01 par value, of the Company.

Contribution Agreement: As set forth in the preamble.

Contributions: As set forth in the preamble.

Exchange Act: As set forth in the preamble.

Holder or Holders: As set forth in the preamble.

Holders Entitled to Registration Rights: As set forth in Section 2(b).

Majority Holders: At any time, Holders of Registrable Securities, Preferred Units then convertible into Units and Units then redeemable for Registrable Securities who, if all such Preferred Units were converted and all such Units were so redeemed, would then hold a majority of the Registrable Securities.

Minimum Registrable Amount: At any date of determination, Registrable Securities having an aggregate fair market value of at least $3 million.

NASD: The National Association of Securities Dealers, Inc.

Partnership: As set forth in the preamble.

Partnership Agreement: As set forth in the preamble.

Person: Any individual, partnership, corporation, trust or other legal entity.

Preferred Units: As set forth in the Partnership Agreement.

Prospectus: A prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, and by all other amendments and supplements to such prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

Registrable Securities: The Shares, excluding (i) Shares as to which a Registration Statement shall have become effective under the Securities Act pursuant to Section 2, 3 or Section 4 of this Agreement and which shall have been disposed of under such Registration Statement, (ii) Shares sold or otherwise distributed pursuant to Rule 144 under the Securities Act and (iii) Shares as to which registration under the Securities Act is not required to permit the sale thereof to the public.

Sale Period: The 45-day period immediately following the filing with the Commission by the Company of an annual report of the Company on Form 10-K or a quarterly report of the Company on Form 10-Q or such other period as the Company may determine.

Securities Act: The Securities Act of 1933, as amended from time to time.

Shares: The shares of Common Stock issued to Holders of Units upon redemption or exchange of their Units pursuant to the Partnership Agreement Or to Holders pursuant to the Contribution Agreement.

Shelf Registration Statement: shall mean a "shelf" registration statement of the Company and any other entity required to be a registrant with respect to such shelf registration statement pursuant to the requirements of the Securities Act which covers all of the Registrable Securities then issued and outstanding or which may thereafter be issued in redemption or exchange of any Units (including, without limitation, Units issuable upon conversion of Preferred Units) on an appropriate form under Rule 415 under the Securities Act, Or any

similar rule that may be adopted by the Commission, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all materials incorporated by reference therein.

Units: Limited partnership interests in the Partnership issued to Holders in connection with the Contributions.

Section 2. Shelf Registration Under the Securities Act.

(a) Filing of Shelf Registration Statement. Within ten months following the date hereof, the Company shall cause to be filed a Shelf Registration Statement providing for the sale by the Holders of all of the Registrable Securities in accordance with the terms hereof and will use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective by the SEC as soon as reasonably practicable. The Company agrees to use its reasonable best efforts to keep the Shelf Registration Statement continuously effective under the Securities Act until such time as the aggregate number of Registrable Securities outstanding (computed for this purpose as if all outstanding Preferred Units have been converted into Units and all thereafter outstanding Units have been redeemed or exchanged for Common Stock) is less than 5% of the aggregate number of Registrable Securities outstanding on the date hereof (after giving effect to the Contributions, including, without limitation, in respect of Retained Interests (as defined in the Contribution Agreement), and further agrees to supplement or amend the Shelf Registration Statement, if and as required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement or by the Securities Act or by any other rules and regulations thereunder for Shelf Registration. Each Holder who sells Shares as part of the Shelf Registration shall be deemed to have agreed to all of the terms and conditions of this Agreement and to have agreed to perform any an all obligations of a Holder hereunder.

(b) Inclusion in Shelf Registration Statement. Not later than 30 days prior to filing the Shelf Registration Statement with the Commission, the Company shall notify each Holder (including any Person who is then entitled to become a Holder pursuant to the Partnership Agreement by reason of owning Units or Preferred Units, including, without limitation, Persons holding Retained Interests) ("Holders Entitled to Registration Rights") of its intention to make such filing and request advice from each such Holder as to whether such Holder desires to have Registrable Securities held by it or which it is entitled to receive not later than the last day of the first Sale Period occurring in whole or in part after the date of such notice included in

the Shelf Registration Statement at such time. Any such Holder who does not provide the information reasonably requested by the Company in connection with the Shelf Registration Statement as promptly as practicable after receipt of such notice, but in no event later than 20 days thereafter, shall not be entitled to have its Registrable Securities included in the Shelf Registration Statement at the time it becomes effective, but shall have the right thereafter to deliver to the Company a Registration Notice as contemplated by Section 3(b).

Section 3. Shelf Registration Procedures.

In connection with the obligations of the Company with respect to the Shelf Registration Statement pursuant to Section 2 hereof, the Company shall:

(a) prepare and file with the SEC, within the time period set forth in Section 2(a) hereof, a Shelf Registration Statement, which Shelf Registration Statement (i) shall be available for the sale of the Registrable Securities in accordance with the intended method or methods of distril4ion by the selling Holders thereof and (ii) shall comply as to form in all material respects with the requirements of the applicable form and include all financial statements required by the Commission to be filed therewith.

(b) subject to the last three sentences of this Section 3(b) and to Section 3(i) hereof, (i) prepare and file with the Commission such amendments and post-effective amendments to the Shelf Registration Statement as may be necessary to keep the Shelf Registration Statement effective for the applicable period; (ii) cause each Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 or any similar rule that may be adopted under the Securities Act; (iii) respond promptly to any comments received from the Commission with respect to the Shelf Registration Statement, or any amendment, post-effective amendment or supplement relating thereto; and (iv) comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Shelf Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the selling Holders thereof. Notwithstanding anything to the contrary contained herein, the Company shall not be

required to take any of the actions described in clauses (i), (ii) or (iii) above with respect to each particular Holder of Registrable Securities unless and until the Company has received either a written notice (a "Registration Notice") from a Holder that such Holder intends to make offers or sales under the Shelf Registration Statement as specified in such Registration Notice or a written response from such Holder of the type contemplated by Section 2(b); provided, however, that the Company shall have 7 business days to prepare and file any such amendment or supplement after receipt of a Registration Notice. Once a Holder has delivered such a written response or a Registration Notice to the Company, such Holder shall promptly provide to the Company such information as the Company reasonably requests in order to identify such Holder and the method of distribution in a post-effective amendment to the Shelf Registration Statement or a supplement to a Prospectus. Offers or sales under the Shelf Registration Statement may be made only during a Sale Period. Such Holder also shall notify the Company in writing upon completion of such offer or sale or at such time as such Holder no longer intends to make offers or sales under the Shelf Registration Statement.

(c) furnish to each Holder of Registrable Securities that has delivered a Registration Notice to the Company, without charge, as many copies of each applicable Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto and such other documents as such Holder may reasonably request, in order to facilitate the public sale or other disposition of the Registrable Securities; the Company consents to the use of such Prospectus, including each preliminary

Prospectus, by each such Holder of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by such Prospectus or the preliminary Prospectus.

(d) use its reasonable best efforts to register or qualify the Registrable Securities by the time the Shelf Registration Statement is declared effective by the SEC under all applicable state securities or "blue sky" laws of such jurisdictions as any Holder of Registrable Securities covered by the Shelf Registration Statement shall reasonably request in writing, keep each such registration or qualification effective during the period the Shelf Registration Statement is required to be kept effective or during the period offers or sales are being made by a Holder that has delivered a Registration Notice to the Company, whichever is shorter, and do any and all other acts and things which may be reasonably necessary or advisable to enable such Holder to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; provided, however, that the Company shall not be required (i) to qualify generally to do business in any jurisdiction or to register as a broker or dealer in such jurisdiction where it would not be required so to qualify or register but for this Section 3(d), (ii) to subject itself to taxation in any such jurisdiction or (iii) to submit to the general service of process in any such jurisdiction.

(e) notify each Holder when the Shelf Registration Statement has become effective and notify each Holder of Registrable Securities that has delivered a Registration Notice to the Company promptly and, if requested by such Holder, confirm such advice in writing (i) when any post-effective amendments and supplements to the Shelf Registration Statement become effective, (ii) of the issuance by the Commission or any state securities authority of any stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of any proceedings for that purpose, (iii) if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose and (iv) of the happening of any event during the period the Shelf Registration Statement is effective as a result of which the Shelf Registration Statement or a related Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading.

(f) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the Shelf Registration Statement at the earliest possible moment.

(g) furnish to each Holder of Registrable Securities that has delivered a Registration Notice to the Company, without charge, at least one conformed copy of the Shelf Registration Statement and any post-effective amendment thereto (without documents incorporated therein by reference or exhibits thereto, unless requested).

(h) cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any Securities Act

legend; and enable certificates for such Registrable Securities to be issued for such numbers of shares and registered in such names as the selling Holders may reasonably request at least two business days prior to any sale of Registrable Securities.

(i) subject to the last three sentences of Section 3(b) hereof, upon the occurrence of any event contemplated by Section 3(e)(iv) hereof, use its reasonable best efforts promptly to prepare and file a supplement or prepare, file and obtain effectiveness of a post-effective amendment to the Shelf

Registration Statement or a related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities, such Prospectus will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) make available for inspection by representatives of the Holders of the Registrable Securities and any counsel or accountant retained by such Holders, all financial and other records, pertinent corporate documents and properties of the Company, and cause the respective officers, directors and employees of the Company to supply all information reasonably requested by any such representative, counsel or accountant in connection with the Shelf Registration Statement; provided, however, that such records, documents or information which the Company determines in good faith to be confidential, and notifies such representatives, counsel or accountants in writing that such records, documents or information are confidential, shall not be disclosed by the representatives, counsel or accountants unless (i) the disclosure of such records, documents or information is necessary to avoid or correct a material misstatement or omission in the Shelf Registration Statement, (ii) the release of such records, documents or information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or (iii) such records, documents or information have been generally made available to the public otherwise than in violation of this Agreement.

(k) a reasonable time prior to the filing of any Prospectus, any amendment to the Shelf Registration Statement or amendment or supplement to a Prospectus, provide copies of such document (not including any documents incorporated by reference therein unless requested) to the Holders of Registrable Securities that have provided a Registration Notice to the Company.

(l) use its reasonable best efforts to cause all Registrable Securities to be listed on any securities exchange on which similar securities issued by the Company are then listed.

(m) obtain a CUSIP number for all Registrable Securities, not later than the effective date of the Shelf Registration Statement.

(n) otherwise use its reasonable efforts to comply with all applicable rules and regulations of the Commission and make available to its security holders, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(o) use its reasonable best efforts to cause the Registrable Securities covered by the Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable Holders that have delivered Registration Notices to the Company to consummate the disposition of such Registrable Securities.

The Company may require each Holder of Registrable Securities to furnish to the Company in writing such information regarding the proposed distribution by such Holder of such Registrable Securities as the Company may from time to time reasonably request in writing.

In connection with and as a condition to the Company's obligations with respect to the Shelf Registration Statement pursuant to Section 2 hereof and this Section 3, each Holder agrees that (i) it will not

offer or sell its Registrable Securities under the Shelf Registration Statement until (A) it has either (1) provided a Registration Notice pursuant to Section 3(b) hereof or (2) had Registrable Securities included in the Shelf Registration

Statement at the time it became effective pursuant to Section 2(b) hereof and (B) it has received copies of the supplemented or amended Prospectus contemplated by Section 3(b) hereof and receives notice that any post-effective amendment has become effective; (ii) upon receipt of any notice from the Company of the happening of anv event of the kind described in Section 3(b)(iv) hereof, such Holder will forthwith discontinue disposition of Registrable Securities pursuant to the Shelf Registration Statement until such Holder receives copies of the supplemented or amended Prospectus contemplated by Section 3(i) hereof and receives notice that any post-effective amendment has become effective, and, if so directed by the Company, such Holder will deliver to the Company (at the expense of the Company) all copies in its possession, other than permanent file copies then in such Holder's possession, of the Prospectus covering such registrable Securities current at the time of receipt of such notice; and (iii) all offers and sales under the Shelf Registration statement shall be completed within forty-five (45) days after the first date on which offers or sales can be made pursuant to clause (i) above, and upon expiration of such forty-five (45) day period the Holder will not offer or sell its Registrable Securities under the Shelf Registration Statement until it has again complied with the provisions of clauses (i)(A)(1) and (B) above, except that if the applicable Registration Notice was delivered to the Company at a time which was not part of a Sale Period, such forty-five (45) day period shall be the next succeeding Sale Period.

Section 4. Piggyback Registration.

(a) Right to Piggyback. Whenever (x) the Company proposes to register any shares of its Common Stock (or securities convertible into or exchangeable or exercisable for such Common Stock) under the Securities Act for its own account or the account of any shareholder of the Company (other than offerings pursuant to employee plans, or noncash offerings in connection with a proposed acquisition, exchange offer, recapitalization or similar transaction) and (y) the registration form may be used for the registration of Registrable Securities (a "Piggyback Registration"), the Company will give prompt written notice to all of the Holders Entitled to Registration Rights of its intention to effect such a registration and will, subject to Section 4(b) and Section 10 hereof, include in such registration all Registrable Securities with respect to which such Holders request in writing to be so included within 20 days after the receipt of the Company's notice.

(b) Priority. If a registration pursuant to this Section 4 involves an underwritten offering and the managing underwriter advises the Company in good faith that in its opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without having an adverse effect on such offering, including the price at which such securities can be sold, then the Company will be required to include in such registration the maximum number of shares that such underwriter advises can be so sold, allocated (x) first, to the securities the Company proposes to sell, (y) second, among the shares of Common Stock requested to be included in such registration by the Holders Entitled to Registration Rights, considered in the aggregate (if such registration was initiated by the Company), and any other shareholder of the Company with shares of Common Stock eligible for registration, pro rata, on the basis of the number of shares of Common Stock such holder requests be included in such registration, and (z) third, among other securities, if any, requested and otherwise eligible to be included in such registration.

(c) Nothing contained herein shall prohibit the Company from determining, at any time, not to file a registration statement or, if filed, to withdraw such registration or terminate or abandon the registration related thereto.

Section 5. Requested Registration.

(a) Right to Request Registration. Upon the written request of Holders Entitled to Registration Rights owning 6% or more of the outstanding Registrable Securities then owned in the aggregate by such Holders (the "Requesting Holders") (computed for these purposes as if all Preferred Units have been converted into Units and an thereafter outstanding Units have been redeemed or exchanged for Common Stock), requesting that the Company effect the registration under the Securities Act of at least the Minimum Registration Amount, the Company shall use its best efforts to effect, as expeditiously as possible, following the prompt (but in no event later than 15 days following the receipt of such written request) delivery of notice to all Holders Entitled to Registration Rights, the registration under the Securities Act of such number of shares of Registrable Securities owned by the Requesting Holders and requested by the Requesting Holders to be so registered (subject to Section 5(c) hereof), together with (x) all other shares of Common Stock entitled to registration, and (y) securities of the Company which the Company elects to register and offer for its own account; provided, however, that the Company shall not be required to (i) subject to Section 5(b) below, effect more than a total of three such registrations pursuant to this Agreement or (ii) file a registration statement relating to a registration request pursuant hereto within a period of six months

after the effective date of any other registration statement of the Company requested hereunder (other than pursuant to Section 2) or pursuant to which the Requesting Holders shall have been given an opportunity to participate pursuant to Section 4 hereof and which opportunity they declined or which registration statement under Section 4 hereof included shares of Registrable Securities owned by Holders Entitled to Registration Rights (so long as such registration statement became and was effective for sufficient, time to permit the sales contemplated thereby); provided further, that the Company shall not be required to file a registration statement relating to an offering of Common Stock on a delayed or continuous basis pursuant to Rule 415 (or any successor rule to similar effect) promulgated under the Securities Act if the Company is not, at the time, eligible to register shares of Common Stock on form S-3 (or a successor form).

Notwithstanding the foregoing, if the Board of Directors of the Company determines in its good faith judgment, (x) after consultation with a nationally recognized investment banking fim, that there will be an adverse effect on a then contemplated public offering of the Company's securities, (y) that the disclosures that would be required to be made by the Company in connection with such registration would be materially harmful to the Company because of transactions then being considered by, or other events then concerning, the Company, or (z) the registration at the time would require the inclusion of pro forma or other information, which requirements the Company is reasonably unable to comply with, then the Company may defer the filing (but not the preparation) of the registration statement which is required to effect any registration pursuant to this Section 5 for a reasonable period of time, but not in excess of 90 calendar days (or any longer period agreed to by the Holders Entitled to Registration Rights), provided that at all times the Company is in good faith using all reasonable efforts to file such registration statement as soon as practicable.

(b) Effective Registration. A registration requested pursuant to this Section 5 shall not be deemed to have been effected (and, therefore, not requested for purposes of Section 5(a) above) (w) unless the registration statement relating thereto has become effective under the Securities Act, (x) if after it has become effective such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason other than a misrepresentation or an omission by a Holder and, as a result thereof, the shares of Registrable Securities requested to be registered cannot be completely distributed in accordance with the plan of distribution, (y) if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied or waived other than by reason of some act or omission by a participating Holder or (z) if with respect to what would otherwise be deemed the fourth, or last, request under Section 5(a) hereof, less

than all of the shares of Common Stock that the Holders Entitled to Registration Rights requested be registered were actually registered due to the operation of Section 5(c) hereof; provided that clause (z) above may not be invoked by the Holders Entitled to Registration Rights unless (I) such request includes at least the Minimum Registration Amount or (II) if such request includes an amount that is less than the Minimum Registration Amount, Rule 144 under the Securities Act is not available to the Holders for the sale of all of the shares of Common Stock owned by the Holders; and provided further that clause (z) above may be invoked only at the request of Holders meeting the foregoing requirements and owning more than 10% of the shares of Registrable then owned (computed as aforesaid) in the aggregate by the Holders.

(c) Priority. If a requested registration pursuant to this Section 5 involves an underwritten offering and the managing underwriter shall advise the Company that in its opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without having an adverse effect on such offering, including the price at which such securities can be sold, then the Company will be required to include in such registration the maximum number of shares that such underwriter advises can be so sold, allocated (x) first, among all shares of Common Stock requested by the Holders Entitled to Registration Rights to be included in such registration, pro rata on the basis of the number of shares of Common Stock then owned by each of them (or, if such holder requests that less than all of the shares of Common Stock owned by such holder be included in such registration, such lesser number of shares) (y) second, to any securities requested to be included in such registration by any other shareholder of the Company having registration rights and (z) third, to any securities the Company proposes to sell.

Section 6. Registration Procedures. If and whenever the Company is required to use its best efforts to effect or cause the registration of any Registrable Securities under the Securities Act as provided in this Agreement pursuant to Section 4 or 5 hereof, the Company shall:

(a) prepare and file with the Commission as expeditiously as possible

but in no event later than 90 days after receipt of a request for registration with respect to such Registrable Shares, a registration statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate, which form shall be available for the sale of the Registrable Securities in accordance with the intended methods of distribution thereof, and use its best efforts to cause such registration statement to become effective; provided that before filing with the Commission a registration statement or prospectus or any amendments or supplements thereto, including documents incorporated by reference after the initial filing of any registration statement, the Company shall (x) furnish to each participating Holder and to one firm of attorneys selected collectively by the participating Holders and the holders of other securities covered by such registration statement, but in no event to more than one such counsel for all such selling securityholders, copies of all such documents proposed to be filed, which documents shall be subject to the review of the participating Holders and such counsel, and (y) notify the participating Holders of any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered;

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for a period of not less than 180 days or such shorter period which shall terminate when all Registrable Securities covered by such registration statement have been sold (but not before the expiration of the 90-day period referred to in Section 4(3) of the Securities Act and Rule 174, or any successor thereto, thereunder, if applicable), and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registra-

tion statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish, without charge, to the participating Holders and each underwriter, if any, such number of copies of such registration statement, each amendment and supplement thereto (including one conformed copy to each participating Holder and one signed copy to each managing underwriter and in each case including all exhibits thereto), and the prospectus included in such registration statement (including each preliminary prospectus), in conformity with the requirements of the Securities Act, and such other documents as the participating Holders may reasonably request in order to facilitate the disposition of the Registrable Securities registered thereunder;

(d) use its best efforts to register or qualify such Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdiction as the participating Holders, and the managing underwriter, if any, reasonably requests and do any and all other acts and things which may be reasonable necessary or advisable to enable the participating Holders and each underwriter, if any, to consummate the disposition in such jurisdiction of the Registrable Securities registered thereunder; provided that the Company shall not be required to (x) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 6(d), (y) subject itself to taxation in any such jurisdiction or (z) consent to general service of process in any such jurisdiction;

(e) use its best efforts to cause the Registrable Securities covered by such registration statement to be registered with or approved by such insurance regulatory authorities may be necessary by virtue of the business and operations of the Company to enable the participating Holders and other holders, if any, of securities covered by such registration statement to consummate the disposition of Registrable Securities registered thereunder;

(f) immediately notify the managing underwriter, if any, and the Company at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event which comes to the Company's attention if as a result of such event the prospectus included in such registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company shall promptly prepare and furnish to the participating Holders and any other holder of securities covered by such registration statement and prospectus a supplement or amendment to such prospectus so that as thereafter delivered, such prospectus shall not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that if the Company

determines in good faith that the disclosure that would be required to be made by the Company would be materially harmful to the Company because of transactions then being considered by, or other events then concerning, the Company, or a supplement or amendment to such prospectus at such time would require the inclusion of pro forma or other information, which requirement the Company is reasonably unable to comply with, then the Company may defer for a reasonable period of time, not to exceed 90 days, furnishing to the participating Holders and any other holder of securities covered by such registration statement and prospectus a supplement or amendment to such prospectus; provided, further, that at all times the Company is in good faith using all reasonable efforts to file such amendment as soon as practicable,

(g) use its best efforts to cause all such securities being registered to be listed on each securities exchange on which similar securities issued by the Company are then listed, and enter into such customary agreements including a listing application and indemnification agreement in customary form (provided that the applicable listing requirements are satisfied), and to provide a transfer agent and register for such Registrable Shares covered by such registration statement no later than the effective date of such registration statement;

(h) make available for inspection by any of the participating Holders and any holder of securities covered by such registration statement, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such persons (collectively, the "Inspectors"), all financial and other records of the Company and its subsidiaries (collectively, "Records"), if any, as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's and its subsidiaries' officers, directors and employees to supply all information and respond to all inquiries reasonably requested by any such Inspector in connection with such registration statement. Notwithstanding the foregoing, the Company shall have no obligation to disclose any Records to the Inspector in the event the Company determines that such disclosure is reasonably likely to have an adverse effect on the Company's ability to assert the existence of an attorney-client privilege with respect thereto;

(i) if requested, use its best efforts to obtain a "cold comfort" letter and a "bring-down cold comfort" letter from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by such letters;

(j) enter into a form of underwriting agreement that contains customary terms and provisions for similar securities offerings;

(k) make available senior management personnel to participate in, and cause them to cooperate with the underwriters in connection with, "road show" and other customary marketing activities, including "one-on-one" meetings with prospective purchasers of the Registrable Securities; and

(l) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earning statement covering a period of at least 12 months, beginning with the first month after the effective date of the registration statement (as the term "effective date" is defined in Rule 158(c) under the Securities Act), which earning statement shall satisfy the provisions of Section 11 (a) of the Securities Act and Rule 158 thereunder.

It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Agreement in respect of Registrable Securities which are to be registered at the request of any of the participating Holders that the participating Holders shall fumish to the Company such information regarding the securities held by the participating Holders and the intended method of disposition thereof as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

Each of the Holders agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 6(f) hereof, the Holders shall discontinue disposition of Registrable Shares pursuant to the registration statement covering such Registrable Securities until receipt of the copies of the supplemented or amended prospectus contemplated by Section 5(c)(vi) hereof or until other-

wise notified by the Company, and, if so directed by the Company, the participating Holders shall deliver to the Company (at the Company's expense)

all copies (including, without limitation, any and all drafts), other than permanent file copies, then in any participating Holder's possession, of the prospectus covering such Registrable Securities at the time of receipt of such notice. In the event the Company shall give any such notice, the period specified in Section 6(b) hereof shall be extended by the greater of (x) three months of (y) the number of days during the period from and including the date of the giving of such notice pursuant to Section 6(f) hereof to and including the date when each of the participating Holders shall have received the copies of the supplemented or amended prospectus contemplated by, Section 6(f) hereof.

Section 7. Selection or Underwriters. If any offering pursuant to a registration statement is to be an underwritten offering, the Company will select a managing underwriter or underwriters to administer the offering, provided that in the case of a registration statement pursuant to Section 5 hereof, the Holders holding more than 50% of the shares of Registrable Securities held by the Holders to be included in such underwritten offering shall select the managing underwriter or underwriters, subject to the consent of the Company which shall not be unreasonably withheld.

Section 8. Registration Expenses. The Company shall pay, in connection with any registration pursuant to Section 2, 4 or 5, the following registration expenses incurred in connection there with: (i) all Commission, stock exchange or NASD registration and filing fees, (ii) all fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with the blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred in connection with the listing of the Registrable Securities on any national securities exchange or interdealer quotation system, (vi) the reasonable fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters), (vii) the reasonable fees and disbursements of not more than one firm of attorneys acting as legal counsel for (x) all of the selling shareholders, collectively, in respect of a registration pursuant to Section 3 hereof or (y) all of the participating Holders, collectively, in respect of a registration pursuant to Section 4 hereof, (viii) the fees and expenses of any registrar and transfer agent for the Common Stock, (ix) the underwriting fees, discounts and commissions applicable to any shares of Common Stock sold for the account of the Company and (x) all expenses of any Person in preparing or assisting in preparing, word processing, printing and distributing any registration statement, prospectus, certificates and other documents relating to the performance of and compliance with this Agreement. Except as otherwise provided in clause (ix) of this Section 4(e), the Company shall have no obligation to pay any underwriting fees, discounts or commissions attributable to the sale of Registrable Shares.

Section 9. Indemnification; Contribution.

(a) The Company agrees to indemnify and hold harmless each Indemnitee from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any prepricing prospectus, registration statement or prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to a participating Holder furnished in writing to the Company by or

on behalf of a participating Holder expressly for use in connection therewith. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against an Indemnitee in respect of which indemnity may be sought against the Company, such Indemnitee shall promptly notify the Company, and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. "The Indemnitee shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnitee unless (x) the Company has agreed in writing to pay such fees and expenses, (y) the Company has failed to assume the defense and employ counsel, or (z) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Indemnitce and the Company, and such Indemnitee shall have been advised by its counsel that representation of such Indemnitee and the

Company by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the Company shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Indemnitee). It is understood, however, that the Company shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnitees not having actual or potential differing interests among themselves, and that all such fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action, suit or proceeding effected without its written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the Company agrees to indemnify and hold harmless such Indemnitee, to the extent provided in the preceding paragraph, from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each of the participating Holders, severally and not jointly, agree to indemnify and hold harmless the Company, its directors, its officers who sign the registration statement, and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to an Indemnitee, but only with respect to information relating to such Holder furnished in writing by or on behalf of such Holder expressly for use in the registration statement, prospectus or any prepricing prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the registration statement, prospectus or any prepricing prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Holder pursuant to this Section 9(c), such Holder shall have the rights and duties given to the Company by Section 9(b) hereof (except that if the Company shall have assumed the defense thereof such Holder shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at the Holder's expense), and the Company, its directors, any such officer, and any such controlling person shall have the rights and duties given to an Indemnitee by Section 9(b) hereof. The foregoing indemnity agreement shall be in addition to any liability which the participating Holders may otherwise have.

(d) If the indemnification provided for in this Section 9 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein. then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities

or expenses in such proportion as is appropriate to reflect the relative fault of the Company and of the participating Holders in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses. The relative fault of the Company on the one hand and a participating Holder on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by such participating Holder on the other hand and the parties' relative intent, knowledge, access or information and opportunity to correct or prevent such statement or omission.

(e) The Company and the participating Holders agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by a pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 9(d) hereof. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in Section 9(d) hereof shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 8, no participating Holder shall be required to contribute any amount in excess of the amount by which the proceeds to such participating Holder exceeds the amount of any damages which such participating Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action,

suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 9 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 9 shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of an Indemnitee, the Company, its directors or officers, or any person controlling the Company, and (ii) any termination of this Agreement.

Section 10. Participation in Underwritten Registrations. A Holder may not participate in any underwritten offering pursuant to Section 4 or 5 hereof unless such Holder (i) agrees to sell its Registrable Securities on the basis provided in any underwriting arrangements which, to the extent applicable solely to the participating Holders, are approved by the participating Holders in their reasonable discretion or which, to the extent applicable to the Company and the participating Holders, are approved by the Company in its reasonable discretion and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents (including lock-up agreements) reasonably required under the terra of such underwriting arrangements which are not inconsistent with the terms of this Agreement.

Section 11. Other Registration Rights. The Company agrees that it shall not enter into any agreement which provides registration rights to any Person that are inconsistent with the provisions contained in this Agreement. If the Company does become a party to such an agreement, the Company agrees

that to the extent that the provisions of such agreement conflict with this Agreement, the provisions of this Agreement shall control.

Section 12. Rule 144 Sales.

(a) The Company covenants that it will file the reports required to be filed by the Company under the Securities Act and the Exchange Act, so as to enable any Holder to sell Registrable Securities pursuant to Rule 144 under the Securities Act.

(b) In connection with any sale, transfer or other disposition by any Holder of any Registrable Securities pursuant to Rule 144 under the Securities Act, the Company shall cooperate with such Holder to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any Securities Act legend, and enable certificates for such Registrable Securities to be for such number of shares and registered in such names as the selling Holders may reasonably request at least two business days prior to any sale of Registrable Securities. ,

Section 13. Miscellaneous.

(a) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given without the written consent of the Company and Holders constituting Majority Holders; provided, however, that no amendment, modification or supplement or waiver or consent to the departure with respect to the provisions of Sections 1 through 12, inclusive, hereof or which would impair the rights of any Holder under such provisions, shall be effective as against any Holder of Registrable Securities, Preferred Units or Units unless consented to in writing by such Holder of Registrable Securities, Preferred Units or Units. Notice of any amendment, modification or supplement to this Agreement adopted in accordance with this Section 13(a) shall be provided by Company to each Holder of Registrable Securities, Preferred Units or Units at least thirty (30) days prior to the effective date of such amendment, modification or supplement.

(b) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier or any courier guaranteeing overnight delivery, (i) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 13(b), which address initially is, with respect to each Holder, the address set forth in the Partnership Agreement, or (ii) if to the Company, at .

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed when answered back, if telexed; when receipt is acknowledged, if telecopied; or at the time delivered if delivered by an air courier guaranteeing overnight delivery.

(c) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of each of the Company and the Holders, including without limitation and without the need for an express assignment, subsequent Holders. If any successor, assignee or transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking

and holding such Registrable Securities such Person shall be entitled to receive the benefits hereof and shall be conclusively deemed to have agreed to be bound by all of the terms and provisions hereof.

(d) Headings. The headings in this Agreement are for the convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(e) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAW PROVISIONS THEREOF.

(f) Specific Performance. The Company and the Holders acknowledge that there would be no adequate remedy at law if any party fails to perform any of its obligations hereunder, and accordingly agree that the Company and each Holder, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to compel specific performance of the obligations of another under this Agreement in accordance with the terms and conditions of this Agreement in any court of the United States or any State thereof having jurisdiction.

(g) Entire Agreement. This Agreement is intended by the Company as a final expression of its agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the Company in respect of the subject matter contained herein. This Agreement supersedes all prior agreements and understandings of the Company with respect to such subject matter.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the date first written above.

ROYALE INVESTMENTS, INC.

By: _____

Name: _____

Title: _____

ROYALE INVESTMENTS, INC.
MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT is entered into between ROYALE INVESTMENTS, INC., a Minnesota corporation (the "Company") and GLACIER REALTY LLC (or another name to be selected prior to execution), a Minnesota limited liability company (the "Manager").

WHEREAS, the Company intends to continue to qualify as a real estate investment trust ("REIT"), as defined in the Internal Revenue Code of 1986, as amended (the "Code"), and to make investments by and through the Company of the type permitted to be made by qualified REITs under the Code; and

WHEREAS, the Manager is a corporation organized for the purpose of managing the assets of the Company. as to its ownership of real estate properties and providing certain management and administrative services in connection with the Company's business affair, and the acquisition, administration, operation and disposition of its net-leased retail properties which is further defined in Section 1.11; and

WHEREAS, the Company plans and intends to continue a business plan for the investing and acquisition of net-leased retail properties and also office properties and in connection with its investments in net-leased retail properties the Company desires to make use of the advice and assistance of the Manager and the sources of information and certain facilities available to the Manager, and to have the Manager undertake the duties and responsibilities hereinafter set forth, on behalf of and subject to the supervision of the Board of Directors of the Company ("Directors"), all as provided for herein; and

WHEREAS, the Manager is willing to render such services, subject to the supervision of the Directors, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the promises and mutual covenants and agreements hereinafter set forth, the parties agree as follows:

ARTICLE I - DUTIES OF THE MANAGER

The Manager shall use its best efforts to present to the Company a continuing and suitable investment program consistent with the investment policies and objectives of the Company for investment in net-leased retail properties, subject to the supervision of the Directors and upon their direction, and to perform the following duties:

1.1. Investment Program. The Manager shall work with the Company to develop and present to the Company a continuing and suitable investment program and opportunities to make investments in net-leased retail properties consistent with the investment policies of the Company.

1.2. Investment Advice. The Manager shall serve as the Company's investment Manager in connection with policy decisions to be made by the Directors and, as requested, furnish the Directors with advice with respect to the making of real estate acquisitions, holdings, and dispositions of net-leased retail real estate assets and investments.

1.3. Investment and General Management. The Manager shall administer the day to-day operations of the Company as they relate to net -eased retail assets and investments and shall investigate and evaluate investment opportunities in net-leased retail properties and recommend them to the Directors and the Company, (subject to the prior approval of the Directors) to investigate, select, and conduct relations with the developers, builders, co-venturers, or partners of or with the Company, sellers and purchasers of real estate, tenants, banks, other lenders, borrowers, consultants, accountants, mortgage loan originators, brokers, participants, property managers, attorneys, appraisers insurers, and person acting in any other capacity relevant to the activities of the Company, and as necessary, negotiate contracts with, retain, and supervise services performed by such parties in connection with net-leased retail assets and investments which have been or may be acquired or disposed of by the Company.

1.4. Financial Administration. The Manager shall administer such day-to-day bookkeeping and accounting functions relating to the income and expenses as are required or reasonably necessary for the proper management of the net-leased retail property portfolio of the Company and prepare or cause to be prepared such reports as may be required by any governmental authority in connection with

the ordinary conduct of the Company's business, but excluding periodic reports, returns, or statements required under the Securities Exchange Act of 1934, as amended (the "Act"), the Code, the securities and tax statutes of any jurisdiction in which the Company is obligated to file such reports or the rules and regulations promulgated under any of the foregoing and excluding any reporting function or reports to the Company's stockholders. The Manager shall maintain the books of account and records relating to services performed for the Company accessible for inspection by the Company at any time during ordinary business hours and shall provide reasonable statements on a monthly basis. The Manager shall also prepare by November 1 of each calendar year, an annual budget of income and expenses which relate to the net-leased retail portion of the Company's portfolio for review and approval of the Company and its Directors and thereafter Manager shall implement such budget for such calendar year provided that the changes in the total expenses of the budget for such year do not increase more than 5%.

1.5. Agent. Subject to prior approval of the Directors, the Manager shall act as agent of the Company in making, acquiring, and disposing of net-leased retail real estate assets and investments. The Manager shall be responsible for disbursing and collecting the income and funds, paying the debts, and fulfilling the obligations of the Company relating to the Company's net-leased retail assets and (subject to approval of the Company and the Directors) handling, prosecuting, and settling any claims of or against the Company. The Manager .shall also investigate, select and conduct relations on behalf of the Company with individuals, corporations, and entities in furtherance of the investment activities of the Company.

1.6. Exchanges, Dealers. The manager shall not conduct relations on behalf of the Company with securities exchanges or with dealers making markets in the Company's securities.

1.7. Investment of Cash. Subject to the prior approval of the Directors, the Manager shall invest and reinvest any monies of the Company generated from net-leased retail assets, , and manage the Company's short-term investments including the acquisition and sale of money market instruments provided such instruments am consistent with the Company's policies and are only those instruments in which a real estate investment trust is permitted to invest under the Code from time to time.

1.8. Bank Accounts. The Manager may establish one or more reasonable bank accounts in the name of the Company reasonably necessary for conducting expected activities of the Company and may deposit into and disburse from such accounts any monies on behalf of the, Company under such terms and conditions as the Directors may approve, provided that no funds in any such account shall be commingled with funds of the Manager, and the Manager shall from time to time as requested by the Directors render appropriate accounting of such deposits and payments to the Directors and to the auditors of the Company.

1.9. Offices and Personnel. Subject to Section 5.2(k), the Manager shall provide, keep and maintain at Minneapolis, Minnesota office space, equipment, personnel, accounting facilities, and other facilities as required for the performance of the foregoing services and operation of the Company's business.

1.10. Reports. The Manager shall, as requested by the Directors, make reports to the Directors on its performance of the foregoing services and furnish advice and recommendations with respect to other aspects of the business of the Company.

1.11. Interest of the Parties and Information Furnished Manager. The Company and the Directors shall at all times keep the Manager fully informed with regard to the investment policy of the Company, the capitalization policy of the Company, and generally their then current intentions as to the future of the Company. the Company's immediate in-

vestment policy for the present and near future is to invest in net-leased retail real estate, properties and office properties. This Management Agreement is an exclusive arrangement by and between the Company and Manager only with respect to the net-leased retail assets of the Company, whether held in the name of the Company or any of its related or affiliated companies, partnerships, trusts, business associations or entities; however this Management Agreement shall not be effective for any office type assets of the Company. Net-Leased retail assets or investments as used in this Agreement shall include any and all such real estate assets or investments of the Company or any of its related or affiliated companies, partnerships, trusts, business associations or entities whose use a reasonable person would conclude are or would be intended primarily for normal retail sales of goods or products to consumers whether or not a net lease exists. If such a property is leased on a net or gross rental basis shall

be irrelevant and if such an asset of investment shall become vacant or unleased shall not affect its inclusion hereunder as a net-leased retail asset or investment and such a classification is further intended to distinguish between other assets and investments primarily for office use. In particular, the Directors shall notify the Manager promptly of their intention to sell or otherwise dispose of any of the Company's net-leased retail assets, or to make any new investment in such assets. The Company shall furnish the Manager with a certified copy of all financial statements, a signed copy of each report prepared by independent certified public accountants, and such other information with regard to its affairs all as is circulated to the officers and Directors or its committees of the Company as and when so circulated or as the Manager may from time to time reasonably request.

1.12. Net-Leased Retail Assets and Investments. Notwithstanding any provision of this Agreement to the contrary, the rights and obligations of the Manager hereunder shall relate and pertain solely to net-leased retail assets and investments and to no other properties, assets or investments of the Company, except for the consideration payable to Manager for referrals of non-net-leased retail assets specified in Section 4.1(a) hereof, and all provisions of this Agreement otherwise relating to the payment of compensation and fees to the Manager shall be specifically limited to and based solely upon net-leased retail properties owned by the Company. The Manager shall have no rights to exercise any power or authority over or with respect to First Commercial, LP.

ARTICLE II - QUALIFICATION AS A REAL ESTATE INVESTAIENT TRUST

2.1. REIT Qualification. Notwithstanding any provision in this Agreement to the contrary, the Manager shall refrain from any action (including without limitation the furnishing or rendering of services to tenants of property or managing any real property) which, in the reasonable business judgment of the Directors of which the Manager has actual notice, would (1) materially and adversely affect the status of the Royale Investments, Inc., an affiliate of the Company, as a REIT, as defined in the Code, or (2) materially violate any law, rule, regulation, or statement of policy of any governmental body or agency having jurisdiction

over the Company or over its securities, or (3) otherwise not be permitted by the corporate governance documents of the Company.

2.2. Preservation of REIT Status. In the event that the terms of this Agreement at any time shall, in the opinion of counsel for the Company, threaten to impair the status of the Company as a REIT in a manner materially adverse to the interests of the members of the Company, the Company shall propose such amendment to or substitute arrangements for this Agreement, with prospective or retroactive effect, as may in its opinion be necessary to protect and preserve the status of the Company as a REIT provided the substantive business terms hereof are not altered.

ARTICLE III - LIMITATION OF LIABILITY

3.1. Fidelity Bond. The Manager need not maintain a fidelity bond.

3.2. Limitation of Liability of the Manager. The Manager assumes no responsibility other than to render the services described herein in good faith and shall not be responsible for any action of theDirectors in following or declining to follow any advice or recommendation of the Manager. The Manager will not be liable to the Company, its partners, or others, except by reason of acts constituting bad faith, misconduct, or negligence. The Company shall reimburse, indemnify, and hold the Manager harmless for and from any and all expenses, losses, damages, liabilities, demands, charges, and claims of any nature whatsoever in respect to or arising from. any acts or omissions of the Manager undertaken in good faith and pursuant to the authority granted to the Manager by this Agreement. The Manager may consult with legal counsel (which may be the regular counsel of the Manager or other counsel), independent public accountants, or other professional Managers and shall not be liable for any action taken or omitted in good faith or by the Manager in accordance with the advice of such counsel, accountants, or Managers, provided such action is not the result of misconduct of negligence.

ARTICLE IV - COMPENSATION

4.1. Compensation. The Company shall pay compensation to the Manager for its services hereunder as follows:

(a) Manager's Acquisition Fee. The Manager shall be paid in connection with and at the time of the acquisition by the Company or any of its affiliated or related companies, partnerships, trusts, business associations or other entities of any net-leased retail real estate asset or investment a fee equal to 1% of the Adjusted Purchase Price of each real estate investment; provided, however, that any other

commissions or points, to be paid to any other entities in connection

with such a purchase shall be the responsibility of the Company, and shall be paid by the Company. Any points, fees or commissions that may be then or thereafter payable in connection with the securing of any financing of the Company or its assets, which shall remain the responsibility of the Company. Adjusted Purchase Price shall include any and all costs relating to the purchase of any real estate investment or asset which is capitalized pursuant to generally accepted accounting principles, including but not limited to, the purchase price paid to sellers, closing costs, legal fees, accounting fees, travel expenses, property acquisition items, fees and/or commissions paid to brokers or dealers (exclusive of the Manager's Acquisition Fee), title insurance premiums and charges, fees and costs of securing engineering, environmental and appraisal reports and/or studies, similar items relating to any such asset acquisition, and any fees or charges for securing any credit enhancement or guarantees; however, it is the intent of the parties that any fees paid to the Manager shall not be included in the Adjusted Purchase Price for purposes of calculating the Manager's Acquisition Fee i.e. 1% of the 1% fee should not be charged as part of the Manager's Acquisition Fee. In the event that Manager refers a non-net-leased retail asset or investment to the Company and such asset or investment is acquired by the Company or any of its affiliated or related companies, partnerships, trusts, business associations or other entities then the Company shall pay the Manager an Acquisition Fee; provided however that it is the intent of the parties that the Manager shall not actively market or search for such properties or investments in the trade areas other than Minnesota, Wisconsin and North Dakota and such fee shall be payable on an ad hoc basis only if such a property or investment would not have otherwise been available to the Company at such time except for the efforts of the Manager. The Acquisition Fee shall be fully earned and payable at the time the closing of a property acquisition occurs. Also, it is contemplated from time to time that the Company may acquire a property and pay all cash for the property before construction completion with a condition that in the event construction is not completed and other matters submitted for approval by the Company in a timely manner by the tenant, the Company may require the tenant or seller of the original property to re-acquire the property back from the Company and in the event such events take place and any property is "put back" to such tenant or seller of the property, the Manager shall refund any Acquisition Fee previously paid by the Company to the Manager.

(b) Annual Management Fee. The Manager shall be paid, for the services the Manager renders to the Company pursuant to this Agreement, an annual management fee, payable monthly, which fee shall be comprised of (i) a net mini-

mum annual amount of $250,000 plus (ii) 1% of the first $35 million of Average Invested Assets relating to net-leased retail assets acquired by or invested in by the Company or its related or affiliated companies, partnerships, rings, business associations, or entities after the date hereof and 6/10 of 1% of the next $40 million of such Average Invested Assets, and 4/10 of 1% of such Average Invested Assets in excess of $75 million (the "Management Fee"). Such annual fee shall be payable monthly in the amount of $20,833 in advance, plus an amount equal to 1/12 of the annual fee referenced in Section 4. 1 (b)(ii) based on the monthly Average Investment Assets. For purposes of this Agreement, monthly "Average Invested Assets" of the Company shall be deemed to mean the aggregate book value of the net-leased retail assets of the Company invested, directly or indirectly, in equity interests in and loans secured by net-leased retail real estate (only for such assets so invested in or acquired by the Company after the date hereof) but all before reserves for depreciation or bad debts or other similar cash or non-cash reserves, computed by taking the monthly average of such values at the beginning and the end of each month during such period. It is the intent of the parties that such $250,000 net minimum annual fee shall continue and such fee shall be increased only pursuant to the schedule specified in Section 4.1(b)(ii) hereof with respect to net-leased retail assets or investments of the Company acquired or invested in after the date hereof.

(c) Disposition Fee. The Manager shall be paid for services rendered in connection with and at the time of the sale or other disposition of any individual net-leased real estate asset or investment a fee equal to 1% of the sale or disposition price with respect to such real

estate asset or investment provided, however, that if all or a substantial portion of all of the net-leased real estate properties, assets or investments of the Company are being sold or disposed of (other than by termination of this Agreement pursuant to Section 7.2 hereof) the Disposition Fee shall be 3% of the sale or disposition price of such real estate investment. It is the intent of the parties that if all or a substantial portion of the net-leased real estate assets, properties or investments are sold in a single transaction or serial or sequential transactions, the Termination Fee specified in Section 7.2 should be due and payable and that the 1% Disposition Fee should be payable only if the individual assets, properties or investments are not part of a course of action, considering all surrounding facts and circumstances, to sell or dispose of all or a substantial portion of the real estate assets, properties or investments. To the extent it is necessary to engage independent real estate brokers to sell any such assets, the aggregate of the Disposition Fee for the Manager and any commission or fee to any independent broker may not exceed

6% of the sale price and to the extent the independent broker's commission is more than 3%, the Manager's Disposition Fee portion shall be reduced accordingly so that the total Disposition Fees to the Manager and any commission or fee to any independent broker are 6%.

The Management Fee payable" monthly and the scheduled percentage portion referenced in Section 4.1(b)(ii) shall be estimated for the upcoming month and shall be finally computed within thirty (30) days following the end of each month by the Company's accountants or by the Manager and shall be then adjusted in the following month as shall be appropriate. A copy of such computations shall promptly be delivered to the Manager or calculated by the Manager and shall be paid as a monthly expense by the Manager out of Company's funds.

4.2. Use of Affiliates. The Manager has the right to use affiliates and personnel of affiliates, in its sole discretion, and is not required to perform all duties with its own employees.

4.3. Additional Services. If the Company shall request the Manager to render services to the Company other than those required to be rendered by the Manager hereunder, such additional services, if performed, shall be compensated separately on terms to be agreed upon from time to time between the Manager and the Company, which terms shall not exceed either (1) the terms under which the Manager or such affiliate is then performing similar services for others or (2) the terms under which qualified unaffiliated persons are then performing such services for comparable organizations.

4.4. Placement and Loan Fees. Subject to the prior approval of the Directors, the Manager may negotiate its own placement fees, loan fees, loan origination fees, or similar fees with developers of properties in which the Company invests. Any such fee may not, however, be higher than such loan fee or other similar fee being paid to the Company on the same transaction unless the Manager discloses such fee to the Company and the Directors approve such fee. The Manager shall be entitled to placement fees, loan fees, loan origination fees, or other similar fees for securing mortgage loan commitments or other secured or unsecured loans to the Company from third parties on terms and fees to be negotiated between the Company and the Manager from time to time on an ad hoc, basis.

4.5. Fees - General. Notwithstanding anything therein to the contrary, the Manager may elect at its sole discretion, to defer (without any accrual of interest) all or any portion of any fees to which it is entitled to such future date as shall be determined by the Manager.

ARTICLE V - EXPENSES AND LIMITATIONS

5.1. Expenses of the Manager. Without regard to the compensation the Manager receives from the Company pursuant to this Agreement, the Manager shall bear the following expenses incurred in connection with the performance of its duties under this Agreement.

(a) employment expenses of the personnel employed by the Manager, including but not limited to salaries, wages, payroll taxes, and the cost of employee benefit plans;

(b) subject to Section 5.2(e), travel and other expenses of directors, officers, and employees of the Manager, except expenses of such persons for travel expenses and other costs of attendance of such officers, directors and employees of the Manager who are also

officers, directors or employees of the Company for attending the National Association of Real Estate Investment Trusts ("NAREIT") conferences, seminars, and meetings and similar conferences, seminars, and meetings of real estate industry associations or other groups relevant to the Company's business;

(c) subject to Section 5.2(k), rent, telephone, utilities, office furniture, equipment and machinery (including computers, to the extent utilized), and other office expenses of the Manager, except to the extent such expenses relate solely to an office maintained by the Company separate from the office of the Manager, and

(d) subject to Section 5.2 (e), miscellaneous administrative expenses incurred in supervising and monitoring real property (other than fees and costs of third parties for inspecting Properties and creating or updating engineers' or environmental reports or appraisals or other reports or analyses relating to the assets of the Company) and other investments of the Company or relating to performance by the Manager of its obligations hereunder.

5.2. Expenses of the Company. Except as otherwise expressly provided in this Agreement, the Company shall pay all its expenses not assumed by the Manager as set forth in Section 5.1, and without limiting the generality of the foregoing it is specifically agreed that the following expenses of the Company (reference in this Section to the Company shall include its related and affiliated companies, partnerships, trusts, business associates or entities) shall be paid by the Company and shall not be paid by the Manager:

(a) the cost of borrowed money, including the repayment of funds borrowed by the Company, interest thereon and all other costs, fees and expenses in connection with such borrowings;

(b) taxes on income and taxes and assessments on real property, if any, and all other taxes applicable to the Company and its investments;

(c) legal, auditing, accounting, underwriting, brokerage, listing, reporting, registration, and other fees, and printing, engraving, and other expenses and taxes incurred in connection with the issuance, distribution, transfer, trading, registration, and stock exchange listing of the Company's, the Directors' or affiliates of the Company's securities or good faith attempts thereof, whether or not such issuance, distribution, transfer, trading, registration or listing shall materialize or be implemented;

(d) fees and expenses paid to the Directors, independent Managers, consultants, managers, local property managers, or management firms, and other agents employed by or on behalf of the Company including third party inspectors, engineers, environmental people or entities, and appraisers who create or update reports or inspections or other reports or analyses relating to the assets of the Company;

(e) expenses directly connected with the acquisition, disposition, and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, brokerage and sales commissions, maintenance, repair, improvement, and local management of property) including but not limited to travel and other expenses incurred by Directors, officers, partners, employees of the Company or Directors, officers, directors or employees of the Manager which shall be deemed expenses directly connected with the acquisition, disposition, inspection and ownership of real estate interests or other property, whether incurred prior to closing of any such acquisition or disposition or thereafter, and even if the closing and acquisition or disposition shall never take place or materialize and shall also include such out-of-pocket costs, and expenses incurred by any such officers, employees or Directors of the Company or Manager (if reasonably necessary or requested by the Company) in establishing or maintaining relationships with underwriters. Any fees or similar costs paid in securing guarantees or other credit enhancement agreements shall be the obligation of the Company. In the event the Manager advances such monies on behalf of the Company, they shall be reimbursable expenses to the Manager upon demand and presentation;

(f) insurance as required by the Directors (including director's liability insurance, if applicable);

(g) expenses connected with payments of dividends or interest or distributions in cash or any other form made or caused to be made by

the Company or the Directors to holders of securities of the Company, the Directors or affiliates of the Company;

(h) all expenses connected with communications to holders of securities of the Company or affiliates of the Company or the Directors and the other bookkeeping and clerical work necessary in maintaining relations with holders of securities including the cost of printing and mailing certificates for securities and proxy solicitation materials and reports to holders of such securities;

(i) transfer agents', registrars' and indenture trustees' fees and charges;

(j) legal, accounting, and auditing fees and expenses of the Company, affiliates of the Company or the Directors; and

(k) a reasonable allocation of the Manager's rent and overhead costs and expenses reasonably necessary for the officers, Directors and agents of the Company to conduct business in space leased or owned by the Manager including storage of documents and files.

ARTICLE VI - OTHER ACTIVITIES OF MANAGER

6.1. Other Activities of Manager. The Manager shall not engage in other activities or businesses similar to those to be performed pursuant hereto for others or as an advisor or manager to any other real estate investment trust without the consent, and approval of the Company which consent and approval shall not be unreasonably withheld. No provision in this Agreement shall limit or restrict the right of any present or future principal, governor, director, officer, employee, member or shareholder of the Manager or an affiliate of the Manager to engage in any other business or to render services of any kind to any other corporation, partnership, individual, or other entity, including but not limited to activities similar to those to be performed pursuant hereto or as an advisor to a real estate investment trust. The Manager shall not, however, disclose any confidential information of the Company to other persons or entities, unless such information is then public knowledge through no fault of Manager, is properly provided to the Manager without restriction by a third party or is already in the Manager's possession at the time of receipt by the company.

6.2. Investment Opportunities. Manager shall act on a basis which is fair and reasonable to the Company in selecting, from among the investment opportunities that come to the attention of the Manager, those investment opportunities which it offers to the Company, it being the intent of the Company and its affiliates to invest in retail net-leased properties and investments and office properties and investments, provided further that any opportunity for real estate investment in a retail net-leased property shall first be offered to the Company or in the case of office properties, they shall be first offered to affiliates of the Company investing in office properties and if the Company or its affiliate declines to so invest, then the Manager shall be free to offer such retail net-leased property to others or the Manager or its present or future principals, Directors, officers, employees, members or shareholders or any of their affiliates may invest in such property. The Manager or its principals, Directors, officers, employees, members or shareholders or any of their affiliates may invest in assets, properties or other investments which are not within the investment objectives of the Company or its affiliates which investments objective is for the acquisition of net-leased retail properties and office properties (which does not include traditional office-warehouse type properties but may include "flex" type office-warehouse facilities which are more than 20 % office space).

6.3. No Partnership or Joint Venture. The Company and the Manager are not partners or joint venturers with each other and neither the terms of this Agreement nor the fact that the Company and the Manager have Joint interests in any one or more investments shall be construed to make them such partners or joint venturers or impose any liability as such on either of them.

6.4. Signing Authority. Directors, officers, employees and agents of the Manager or of its affiliates may serve as directors, officers, employees, agents, nominees, or signatories of the Company. When executing documents or otherwise acting in such capacities for the Company, such persons shall use their respective designation or titles in the Company.

ARTICLE VII - TERM AND TERMINATION

7.1. Term and Renewal. This Agreement shall continue in force from the date hereof for a five (5) year period ending , 2002 and may be terminated by either party by written notice one hundred eighty (180) days prior to the expiration of the initial term or renewal term, as the case may be. Absent written notice of termination and nonrenewal as provided in this section, this Agreement shall be automatically renewed for successive one-year terms upon the expiration of the

initial term and each renewal term. Notice of termination and nonrenewal shall be given in writing by the Company to the Manager not less than one hundred eighty (180) days before the expiration of the initial term of this Agreement or of any renewal term thereof. Notwithstanding anything contained herein to the contrary, the termination or nonrenewal of this Agreement for any- reason, by either party, shall be subject to the Termination Fee specified in Section 7.2.

7.2. Termination Fee. In the event that this Agreement terminates for any reason, including but not limited to nonrenewal, the Company immediately shall pay the Manager, in addition to any other compensation due hereunder, a Termination Fee equal to three percent (3%) of Invested Real Estate Assets of the Company or as related or affiliated companies, partnerships, trusts, business associations or entities as of the date of termination by the Company from the date of termination by the Company (as shown on the books and records of the Company). It is the intent of the parties that the Termination Fee shall not apply to such assets which are or were purchased by the Company, or its related or affiliated companies partnerships, trusts, business associations or entities as of the date hereof but shall only apply to such Invested Real Estate Assets that are then owned and that were acquired or purchased after the date hereof Invested Real P-state Assets shall mean the aggregate book value of the net-leased retail assets or investments of the Company invested directly or indirectly in equity interests in and loans secured by real estate, before reserves for depreciation or bad debts or other similar cash or non-cash reserves.

7.3. Assignment. In the event the Manager assigns or transfers its interest in this Agreement, without the written consent of the Company being first obtained, which consent will not be unreasonably withheld, or if Vernon R. Beck, John Parsinen or John D. Parsinen, Jr. singularly or together, or their estates, families, family members or heirs at law (or a trust, partnership or other legal entity establishment established for the benefit of their estates, families, family members or heirs at law) do not own and control the majority of the voting interests of the Manager, then the Company shall have the right to terminate this Agreement abject to the terms and conditions of Section 7.2 and Section 7.5. Nothing contained herein shall be deemed a default hereunder or permit the termination of this Agreement by the Company because of the transfer or conveyance of either of said individual interest or shares in the Manager to his estate, family, family members, or to his heirs at law, or to a trust, partnership, or other legal entity established for the benefit of his estate, family, family members, or heirs at law, all of which shall be permitted hereunder. This Agreement shall not be assignable by the Company without the prior written consent of the Manager, except in the case of any assignment by the Company to a corporation or other organization which is the successor to the Company, and/or which will hold title to the Company's assets including those which am or become the subject of this Agreement, in which case such successor shall be bound hereby and by the terms of said assignment in the same manner and to the same extent as the Company is bound hereby and the Company shall not be released of its primary obligations hereunder. Nothing contained herein shall prohibit the principal, shareholders or members of the Manager from pledging their interest or shares in the Manager.

7.4. Default or Bankruptcy of the Manager. At the sole option of the Company, this Agreement shall terminate immediately upon written notice of such termination from the Directors of the Company to the Manager if any of the following events shall have occurred:

(a) the Manager shall have materially violated any provision of this Agreement and, after notice of such violation, shall have failed to cure such default within sixty (60) days or in the event such default cannot be reasonably cured within sixty (60) days, then a reasonable period of time if the Manager is diligently pursuing a course of action to so cure;

(b) a petition shall have been filed against the Manager for an involuntary proceeding under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect, and such petition shall not have been dismissed within ninety (90) days of filing; or a court have jurisdiction shall have appointed a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official of the Manager for any substantial portion of its property, or ordered the winding up or liquidation of its affairs; or

(c) the Manager shall have commenced a voluntary proceeding under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect, or shall have made any general assignment for the benefit of creditors,, or shall have failed generally to pay its debts as they became due.

The Manager agrees that, if any of the events specified 'in Section 7.4 (b) or (c) shall occur, the Manager will give written notice thereto to the Directors within twenty business days following the occurrence of such event.

7.5. Action upon Termination. From and after the date of any termination of this Agreement, the Manager shall be entitled to no further compensation for services rendered hereunder in the case of termination pursuant to this Article VII, but shall be paid, on a pro rata basis, all compensation due for services performed prior to such termination and all compensation due pursuant to the Termination Fee and Section 7.2. Upon such termination, the Manager immediately shall:

(a) pay over to the Company all monies collected and held for the account of the Company pursuant to this Agreement, after declining therefrom any accrued compensation and reimbursements for the expenses to which the Manager is then entitled;

(b) deliver to the Directors a full and complete accounting, including a statement showing all sums, collected by the Manager and a statement of all sums held by the Manager for the period commencing with the date following the date of the Manager' s last accounting to the Directors; and

(c) deliver to the Company all property and documents of the Company then in the Manager's custody or possession provided that the Manager shaft have the right to copy and retain copies of all such documents.

Notwithstanding the foregoing, after the termination of this Agreement, the Manager shall, upon reimbursement of its out-of-pocket costs, if any, provide such services and documents to the Company as may be reasonably requested by the Company to enable it to complete accounting reports, tax returns, audit functions, Internal Revenue Service audits and other similar financial and tax accounting functions.

7.6. Rights of Termination Cumulative. The rights of termination specifically provided shall be considered to be cumulative and shall be in addition to the rights of termination for breach of this Agreement otherwise inuring to the parties by operation of law.

ARTICLE VIII - MISCELLANEOUS

8.1. Notices. Any notice, report, or other communication required or permitted to be given hereunder shall be in writing unless some other method of giving such notice, report, or other communication is accepted by the party to whom it is given, and shall be given by being delivered at the following addresses to the parties hereto:

The Directors and/or the Company

One Logan Square
Suite 1105
Philadelphia, PA 19103
Attn: Clay W. Hamlin III The Manager.

The Manager
Glacier Realty LLC
3430 List Place
Minneapolis, Minnesota 55416
Attn: Vernon R. Beck

with a copy to:

Parsinen Kaplan Levy Rosberg & Gotlieb P.A.
100 South Fifth Street, Suite 1100
Minneapolis, Minnesota 55402
Attention: John Parsinen

Either party hereto may at any time give notice to the other party in writing of a change of its address for purposes of this Section 8.1.

8.2. Amendments. This Agreement shall not be amended, changed, modified, terminated, or discharged in whole or in part except by an instrument in writing signed by each of the parties or their respective successors or assigns.

8.3. Successors and Assigns. This Agreement shall be binding upon the parties, their successors or assigns and with respect to the Company shall

relate to and include the assets and/or investments of the Company and its related or affiliated companies, partnerships, trusts, business associations or other entities.

8.4. Governing Law. The provisions of this Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota and Minnesota shall be the place for venuing any and all actions relative to this Agreement. In the event a party commences litigation to enforce the terms and conditions of this Agreement, the party successful in establishing a breach by the other party or successfully defending against an alleged breach of this Agreement shall be entitled to recover reasonable attorneys and witness fees and costs and any such court having jurisdiction over such matter shall so award such fees and costs.

8.5. Captions. The captions included in this Agreement have been inserted for ease of reference only and shall not be construed to affect the meaning, construction, or effect of this Agreement.

8.6. Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes and cancels any preexisting agreements with respect to such subject matter.

8.7. Separability. If any term or provision of this Agreement or the application thereof to any person, property or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons, properties and circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

IN WITNESS WHEREOF, the parties hereto have caused this Management Agreement to be executed by their duly authorized officers.

Dated: October 14, 1997

ROYALE INVESTMENTS, INC.
A Minnesota corporation

By: _____
Its: _____

GLACIER REALTY LLC

By: _____
Its: _____

- ---

SENIOR SECURED CREDIT AGREEMENT
$100,000,000

DATED AS OF OCTOBER 13, 1997

BETWEEN

ROYALE INVESTMENTS, INC.,
FCO, L.P.,
FCO HOLDINGS, INC.,
BLUE BELL INVESTMENT COMPANY, L.P.,
SOUTH BRUNSWICK INVESTORS, L.P.,
COMCOURT INVESTORS, L.P.,
AND
6385 FLANK DRIVE, L.P.
as Loan Parties,

and

BANKERS TRUST COMPANY,
as Lender

- ---

CREDIT AGREEMENT

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SENIOR SECURED CREDIT AGREEMENT

This SENIOR SECURED CREDIT AGREEMENT is dated as of October 13, 1997 and entered into among ROYALE INVESTMENTS, INC., a Minnesota corporation ("Royale"), FCO, L.P., a Delaware limited partnership ("FCOLP"), FCO HOLDINGS, INC., a Delaware corporation ("FCO"), BLUE BELL INVESTMENT COMPANY, L.P., a Delaware limited partnership ("Blue Bell"), SOUTH BRUNSWICK INVESTORS, L.P., a Delaware limited partnership ("South Brunswick"), COMCOURT INVESTORS, L.P., a Delaware limited partnership ("Comcourt"), and 6385 FLANK DRIVE, L.P., a Pennsylvania limited partnership ("Flank Drive", or collectively with the foregoing parties, the"Loan Parties"), and BANKERS TRUST COMPANY ("Lender").

R E C I T A L S

B. Blue Bell, South Brunswick, Comcourt and Flank Drive (collectively, "Borrower") desire to obtain a loan from Lender, among other things, to refinance certain existing financing secured by real and personal property located in Blue Bell, Pennsylvania, Harrisburg Pennsylvania, and Princeton, New Jersey.

C. Borrower desires to grant Liens in certain collateral in favor of Lender to secure its obligations under this Agreement and the other Loan Documents.

D. Immediately following such refinancing the partners of Borrower intend to admit FCO as a general partner of each Borrower and cause to be contributed to FCOLP substantially all other Partnership Interests in Borrower. Following such admission and contribution FCO will be the sole general partner of each Borrower, having a 0.1% Partnership Interest in each Borrower, and FCOLP will own all of the limited Partnership Interests in South Brunswick, and approximately 88% of the limited Partnership Interests in each other Borrower. The remaining limited Partnership Interests in the other Borrowers will be contributed to FCOLP approximately 37 months after the Closing.

E. Royale is the sole general partner, and shall become a limited partner, of FCOLP. Royale is the owner of all of the shares of FCO.

F. In order to induce Lender to make the Loan, Royale has agreed to pledge to Lender as additional security for the Loan all of its interest in FCOLP and FCO, and FCOLP has agreed to pledge to Lender as additional security for the Loan all of its interest in each Borrower.

G. The making of the Loan contemplated by this Agreement is of substantial benefit to all of the Loan Parties, including the facilitation of the transactions described in these Recitals.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the Loan Parties and Lender agree as follows:

ARTICLE 1
INTERPRETATION

This Agreement and the other Loan Documents shall be construed and interpreted in accordance with this Article 1.

1.1 Appendix of Defined Terms

Appendix I to this Agreement, incorporated herein by this reference, defines certain terms contained therein which are used in this Agreement and the other Loan Documents. Such terms shall have the meanings ascribed to them in Appendix I when used in this Agreement or the other Loan Documents with initial capital letters.

1.2 Accounting Terms; Utilization of GAAP for Purposes of Calculations Under Agreement; Pro Forma

Except as otherwise expressly provided in this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to them in conformity with GAAP. Financial statements and other information required to be delivered by the Borrower to Lender pursuant to Section 5.1 shall be prepared in accordance with GAAP as in effect at the time of such preparation. Except as otherwise expressly provided herein, calculations in connection with the definitions, covenants and other provisions of this Agreement shall utilize accounting principles and policies in conformity with those used to prepare the financial statements referred to in Section 5.1.

1.3 Certain References, Captions, Persons, and Expressions.

In any Loan Document, except as otherwise specified therein: (a) all references to Articles, Sections, clauses, Recitals, Exhibits, Schedules or Attachments refer to those contained in or annexed to such Loan Document; (b) all titles or captions are used for convenience and reference only and do not limit or affect the meaning or effect of the provisions following them; (c) all references in a Loan Document to any Person, other than the Borrower or any of its Affiliates, includes the successors and assigns of such Person; (d) "includes", "including" and similar terms mean "includes/including without limitation"; and (e) whenever the context so requires, the neuter gender includes the masculine or feminine and the singular number includes the plural, and vice versa.

1.4 Drafter.

No inference against or in favor of any party to any Loan Document shall be drawn from the fact that such party or its counsel has drafted any portion of any Loan Document.

1.5 Knowledge

As used in this Agreement or in any other Loan Document, the phrases "to the actual knowledge", "to the knowledge of" and any variations thereof shall mean, as of any date of determination and after inquiry that would be made by a prudent operator of a business such as the business of the person making the representation or an owner and manager of properties such as the Properties owning or managing such Properties for its own account, the actual knowledge or awareness, as of such date, of (i) Jay M. Shidler, Clay W. Hamlin III and James K. Davis, (ii) or, at such times as any of such persons are not officers or directors of the relevant entity, the persons who occupy the offices of such person's or such person's sole general partner's Chairman of the Board, Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Senior Executive Vice President-Finance, Executive Vice President-Finance and Development, Senior Vice President-Operations, and such other officers as shall from time to time perform the functions that are performed by the foregoing officers as of the date of this Agreement. Each Loan Party represents and warrants for itself only that the foregoing Persons have executive and administrative responsibility for its operations and assets and that in the performance of their duties in the ordinary course of business one or more of such Persons would customarily have knowledge of the matters referred to herein.

ARTICLE 2
TERMS OF THE LOAN

2.1 Agreement to Lend and Borrow.

Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of Borrower herein, Lender hereby agrees to

lend to Borrower, and Borrower agrees to borrow from Lender, the Loan Amount.

2.2. Disbursement of Funds. The Loan shall be disbursed at the Closing as set forth on Schedule 2.2 hereto.

2.3 Evidence of Indebtedness and Maqturity. The Loan shall be evidenced by the Note in the principal amount of the Loan Amount. The outstanding principal balance of the Loan, together with accrued interest thereon and all other amounts payable by Borrower under the terms of the Loan Documents, shall be due and payable on the Maturity Date.

2.4 Extension of Maturity Date.

2.4.1 At any time prior to the date that is 90 days before the third Anniversary, Borrower may deliver a written notice to Lender requesting

that the Maturity Date be extended from the third Anniversary to the fourth Anniversary and, if such notice is delivered, the Maturity Date shall be so extended if the following conditions are satisfied:

2.4.1.1 as of the third Anniversary, no Event of Default or Potential Event of Default shall have occurred and be continuing and Borrower shall have delivered an Officers' Certificate certifying thereto;

2.4.1.2 Borrower shall obtain Interest Rate Agreements in form and substance reasonably acceptable to Lender (and with security reasonably acceptable to Lender) sufficient to ensure compliance with Section 6.7.5; and

2.4.1.3 on or prior to the third Anniversary, Borrower shall have paid to Lender in immediately available funds a fee equal to 0.25% of the Outstanding Loan Amount on the third Anniversary.

2.4.2 If the Maturity Date has been extended pursuant to Section 2.4.1 above, at any time prior to the date that is 90 days before the fourth Anniversary, Borrower may deliver a written notice to Lender requesting that the Maturity Date be extended from the fourth Anniversary to the fifth Anniversary and, if such notice is delivered, the Maturity Date shall be so extended provided that the following conditions are satisfied:

2.4.2.1 as of the fourth Anniversary, no Event of Default or Potential Event of Default shall have occurred and be continuing and Borrower shall have delivered an Officers' Certificate certifying thereto;

2.4.2.2 Borrower shall obtain Interest Rate Agreements in form and substance reasonably acceptable to Lender (and with security reasonably acceptable to Lender) sufficient to ensure compliance with Section 6.7.5; and

2.4.2.3 on or prior to the fourth Anniversary, Borrower shall have paid to Lender in immediately available funds a fee equal to 0.25% of the Outstanding Loan Amount on the third Anniversary.

2.5 Fees.

Borrower shall pay the fees described in the Fee Letter in accordance with the terms thereof.

2.6 Interest on the Loan.

2.6.1 Rates of Interest. Subject to the provisions of Section 2.6.3, during the Initial Term the Outstanding Loan Amount shall bear interest from the Closing Date to (but not including) the Maturity Date at the Fixed Rate. During any Extension Terms the Outstanding Loan Amount shall bear interest from the third Anniversary to (but not including) the Maturity Date at the Eurodollar Rate.

2.6.2 Interest Payments. Subject to the provisions of Section 2.6.3, interest on the Loan shall be payable monthly in arrears on and to each Payment Date, upon any prepayment of the Loan (to the extent accrued on the amount being prepaid) and at the Maturity Date.

2.6.3 Default Rate Interest. During the continuation of any Event of Default, the Outstanding Loan Amount and, to the extent permitted by applicable

law, any interest payments thereon not paid when due (other than any excess interest payable solely pursuant to this Section) and any fees and other amounts then due and payable hereunder, shall thereafter bear interest (including post-petition interest in any proceeding under the Bankruptcy Code or other applicable bankruptcy or insolvency laws) payable upon demand at a rate selected by Lender at its sole option equal to (i) the sum of 2.0% and the interest rate otherwise payable under this Agreement with respect to the Outstanding Loan Amount (or, in the case of any such fees and other amounts, the sum of 2.0% and the Eurodollar Rate), or (ii) the sum of 2.0% and the Eurodollar Rate, or (iii) the sum of 2.0% and the Base Rate. Payment or acceptance of the increased rates of interest provided for in this Section is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Lender or any Lender.

2.6.4 Computation of Interest. Interest on the Loan shall be computed on the basis of a 360-day year and for the actual number of days elapsed in the period during which it accrues. In computing interest, the date of the making of the Loan or the first day of an Interest Period shall be included, and the date of repayment of the Loan or the expiration date of an Interest Period shall be excluded.

2.7 Repayments and Prepayments; General Provisions Regarding Payments.

2.7.1 Scheduled Payments of the Loan. On each Scheduled Principal Payment Date, Borrower shall make a principal payment in an amount equal to one-twelfth of the Principal Reduction Amount. Borrower shall repay the Outstanding Loan Amount and pay all other Obligations in full no later than the Maturity Date.

2.7.2 Prepayments.Borrower may, without prepayment charge or penalty (but subject to Section 2.10.5), upon not less than three Business Days' prior notice, prepay the Loan on any Payment Date, in whole or in part in a minimum amount of $3,000,000 and integral multiples of $500,000 in excess of that amount (or, if less, the total amount of all outstanding Loans). If a prepayment is made during an Extension Term, such prepayment shall be accompanied by the payment of any amounts payable under Section 2.10.5 if then known, or if not then known, then promptly following Lender's demand therefor. If such notice of prepayment is given, the principal amount of the Loan specified in such notice shall become due and payable on the prepayment date specified therein. Amounts prepaid may not be reborrowed.

2.7.3 Application of Payments to Principal and Interest. All payments in respect of the principal amount of the Loans shall include payment of accrued interest on the principal amount being repaid or prepaid, and all such payments shall be applied to the payment of unpaid interest before application to principal.

2.7.4 General Provisions Regarding Payments

2.7.4.1 Manner and Time of Payment. All payments by Borrower of principal, interest, fees and other Obligations hereunder and under the Note and the other Loan Documents shall be made in same day funds and

without defense, setoff or counterclaim, free of any restriction or condition, and delivered to Lender not later than 12:00 Noon (New York time) on the date due at its office located at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006; funds received by Lender after that time shall be deemed to have been paid on the next succeeding Business Day.

2.7.4.2 Payments on Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of the payment of interest hereunder.

2.8 Releases of Properties.

2.8.1 At any time and from time to time after the Closing Date, in connection with the refinancing, sale or other permanent disposition of any Property, Borrower may obtain a Release of the Lien of the Security Documents on such Property, subject to the following terms and conditions:

2.8.1.1 Borrower shall have delivered written notice to Lender (a) not less than 30 days prior to the proposed Release Date specifying the proposed Release Date and such Property, and (b) not less than 5 days prior to the actual Release Date specifying such actual Release Date and such Property;

2.8.1.2 no Event of Default shall have occurred and be continuing as of the date of the delivery of the release notices (other than an Event of Default or Potential Event of Default that either (x) pertains solely to the Property or portion thereof which is the subject of such Release, or

(y) which will be cured by such Release and the transactions consummated in connection therewith) and no Event of Default shall be continuing as of the Release Date after giving effect to such Release and the transactions consummated in connection therewith;

2.8.1.3 Borrower shall concurrently prepay the Loan in an amount equal to the Release Price for such Property, plus such other amounts, if any, as may be due by virtue of a prepayment of the Loan under Section 2.7.2;

2.8.1.4 Borrower shall have delivered to Lender (a) an Officers' Certificate dated and effective as of the Release Date, certifying as to the matters referred to in Section 2.8.1.2, and (b) an Officer's Certificate, certified by the Chief Executive Officer or Chief Financial Officer of Borrower, in detail reasonably satisfactory to Lender and accompanied by the financial statements and other information used by Borrower to calculate the information contained therein, demonstrating that such Release will not cause violation of the covenants set forth in Section 6.7 of this Agreement.

2.8.1.5 Borrower, at its sole cost and expense, shall have (a) delivered to Lender one or more endorsements to the Title Policy insuring

that, after giving effect to such Release, the insured Liens created by the Mortgages on the Properties which are not being Released are in full force and effect and unaffected by such Release, (b) prepared any and all documents and instruments necessary to effect such Release, all of which shall be reasonably satisfactory in form and substance to Lender, and (c) paid all costs and expenses incurred by Lender and its counsel in connection with the review, execution and delivery of the release documents; and

2.8.1.6 all other proceedings taken or to be taken in connection with such Release and all documents incidental thereto shall be reasonably satisfactory in form and substance to Lender and Lender's counsel, Lender and such counsel shall have received all such counterpart originals or certified copies of such documents as Lender may reasonably request and counsel for Lender shall have received such documents and evidence that such counsel shall require in order to establish compliance with the conditions set forth in this Section.

Borrower may obtain a Release of the Lien of the Security Documents in respect of a portion of any Property, if title to such portion has been permanently Taken, by complying with the foregoing terms and conditions on the applicable Release Date.

2.8.2 Release of Blue Bell Vacant Land. Blue Bell shall be entitled to a release of the portion of the Blue Bell Property described on Schedule 2.8.2 upon compliance with the conditions set forth in Section 2.8.1, except that no prepayment of the Loan shall be required in connection therewith, provided that Blue Bell also provides to Lender evidence reasonably satisfactory to Lender that, after giving effect to such release, the remainder of the Blue Bell Properties may continue to be improved, used and occupied as it is currently improved, used and occupied without restriction or additional improvement or expense, in accordance with applicable law.

2.8.3 Effect of Release. Upon any Release of any Property in accordance with this Section 2.8, such property shall cease to be a Property for the purposes of this Agreement (other than for purposes of any indemnity contained herein or in any of the other Loan Documents to the extent such indemnification applies to such Property). From and after release of all Properties owned by any Borrower, such Borrower shall cease to be a Borrower hereunder and shall thereafter have no liability for obligations of the Loan Parties arising from and after the date of such release.

2.9 Use of Loan Proceeds.

2.9.1 Loans. Subject to the other provisions of this Agreement, the proceeds of the Loans shall be applied by Borrower (i) first, to the repayment (or, in the case of the Blue Bell Properties, provision reasonably acceptable to Lender for the repayment) of existing Indebtedness secured by Liens on the Properties, and (ii) then to such other uses as Borrower shall deem appropriate.

2.9.2 Margin Regulations. No portion of the proceeds of any borrowing under this Agreement shall be used by any Loan Party or any of its Subsidiaries in any

manner that might cause the borrowing to violate Regulation G, Regulation U, Regulation T or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation of such Board or to violate the Exchange Act, in each case as in effect on the date or dates of such borrowing.

2.10 Special Provisions Governing Eurodollar Rate.

Notwithstanding any other provision of this Agreement to the contrary, the following provisions shall govern with respect to the Eurodollar Rate Loans as to the matters covered:

2.10.1 Special Eurodollar Interest Rate Provisions.

2.10.1.1 Applicable Rate. From time to time upon Borrower's request during the Extension Term Lender shall advise Borrower of the interest rate applicable to such Loan. Lender shall advise Borrower of the amount of each interest payment in advance of each Payment Date in accordance with the customary procedures of Lender with respect thereto, but the failure of Lender to provide such advice accurately or timely shall not vary the obligation of Borrower to pay the same in accordance with the terms of this Agreement.

2.10.1.2 Interest Periods. At least five Business Days before the Closing and expiration of each applicable Interest Period, Borrower shall deliver to Lender a Notice of Interest Period Selection selecting an interest period (each an "Interest Period") to be applicable to the Loan, which Interest Period shall be at Borrower's option either a one, three or six month period; provided, however, that:

(a) the initial Interest Period shall commence on the third Anniversary;

(b) each successive Interest Period shall commence on the day on which the next preceding Interest Period expires;

(c) if an Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day, unless the Interest Period would otherwise expire on a day that is not a Business Day but is a day of the month after which no further Business Day occurs in such month, in which case such Interest Period shall expire on the next preceding Business Day;

(d) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(e) no Interest Period with respect to any portion of the Loans shall extend beyond the Maturity Date; and

(f) if Borrower fails to properly select an Interest Period, Borrower shall be deemed to have selected an Interest Period of one month.

2.10.2 Determination of Applicable Interest Rate. As soon as practicable after 10:00 A.M. (New York time) on each Interest Rate Determination Date, Lender shall determine the Eurodollar Rate for the applicable Interest Period and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to Borrower. Lender's determination shall be final, conclusive and binding upon all parties, absent manifest error.

2.10.3 Inability to Determine Applicable Interest Rate; Existence of Default. If on any Interest Rate Determination Date Lender determines in good faith that by reason of circumstances affecting the interbank Eurodollar market, adequate and fair means do not exist for ascertaining the Eurodollar Rate, Lender shall on such date give notice to Borrower of such determination, whereupon any Notice of Interest Period Selection given by Borrower with respect to the Loans in respect of which such determination was made shall be deemed to contain a request that the interest rate applicable to the Loan be the Base Rate. Lender's determination shall be final and conclusive and binding upon all parties hereto, absent manifest error.

2.10.4 Illegality or Impracticability of Eurodollar Rate. If at any time Lender determines in good faith that the application of its Eurodollar Rate (i) has become unlawful as a result of compliance by Lender in good faith with any law, treaty, governmental rule, regulation, guideline or order (or would conflict with any such treaty, governmental rule, regulation, guideline or order not having the force of law even though the failure to comply therewith would not be unlawful) or (ii) has become impracticable, or would cause such Lender material hardship, as a result of contingencies occurring after the date of this Agreement which materially and adversely affect the interbank Eurodollar market, or the position of Lender in that market, then, and in any such event, Lender shall give notice to Borrower of such determination. Thereafter, the Eurodollar Rate shall be suspended until such notice shall be withdrawn by Lender the

applicable interest rate shall automatically convert to the Base Rate. Lender's determination shall be final and conclusive and binding upon all parties hereto, absent manifest error.

2.10.5 Compensation For Breakage or Non-Commencement of Interest Periods. Borrower shall compensate Lender, upon written request by Lender setting forth the basis for requesting such amounts, for all reasonable costs, expenses and liabilities (including any interest paid by Lender to lenders of funds borrowed by it to make or carry its Eurodollar Rate Loans and any costs, expense or liability sustained by Lender in connection with the liquidation or re-employment of such funds) which that Lender may sustain: (i) if for any reason a continuation of the Eurodollar Rate does not occur on a date specified therefor in a Notice of Interest Period Selection, (ii) if any prepayment occurs on a date that is not the last day of an Interest Period, (iii) if any prepayment (including any prepayment pursuant to Section 2.7.2) is not made by Borrower on any date specified in a notice of prepayment given by Borrower or (iv) as a consequence of any other default by Borrower.

2.10.6 Booking of Eurodollar Rate Loans. Lender may make, carry or transfer

the Loan at, to, or for the account of any of its branch offices or the office of an Affiliate of Lender, provided that at the time of such making or transfer Borrower would not thereby be made subject to (x) suspension of the applicability of the Eurodollar Rate under Section 2.10.4, (y) payment obligations under Section 2.10.8, or (z) withholding for Taxes under Section 2.10.9.

2.10.7 Assumptions Concerning Funding of Eurodollar Rate Loans. Calculation of all amounts payable to a Lender under this Agreement shall be made as though Lender had actually funded the Loan through the purchase of a Eurodollar deposit bearing interest at the rate obtained pursuant to clause (i) of the definition of Adjusted Eurodollar Rate in an amount equal to the amount of the Loan and having a maturity comparable to the relevant Interest Period and through the transfer of such Eurodollar deposit from an offshore office of that Lender to a domestic office of that Lender located in the United States of America. Nevertheless, Lender may fund the Loan in any manner it sees fit and the foregoing assumptions shall be utilized only for the purposes of calculating amounts payable under this Agreement.

2.10.8 Increased Costs; Taxes; Capital Adequacy.

2.10.8.1 Compensation for Increased Costs and Taxes. Subject to Section 2.10.9 (which shall be controlling with respect to the matters covered thereby), if Lender shall in good faith determine that any law, treaty or governmental rule, regulation or order, or any change therein or in the governmental interpretation, administration or application thereof (including the adoption of any new law, treaty or governmental rule, regulation or order), or any determination of a Governmental Authority, in each case that becomes effective after the date hereof, or compliance by such Lender with any guideline, request or directive issued or made after the date hereof by any central bank or other Governmental Authority or quasi-governmental authority (whether or not having the force of law):

(a) subjects such Lender (or its applicable lending office) to any additional Tax (other than any Tax on the overall net income of such Lender), with respect to this Agreement or any of its obligations hereunder or any payments to such Lender (or its applicable lending office) of principal, interest, fees or any other amount payable hereunder;

(b) imposes, modifies or holds applicable any reserve (including any marginal, emergency, supplemental, special or other reserve), special deposit, compulsory loan, FDIC insurance or similar requirement against assets held by, or deposits or other liabilities in or for the account of, or advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of Lender (other than any such reserve or other requirements with respect to the Loan that are already reflected in the definition of Adjusted Eurodollar Rate); or

(c) imposes any other condition (other than with respect to a Tax matter) on or affecting Lender (or its applicable lending office) or its obligations hereunder or the interbank Eurodollar market;

and the result of any of the foregoing is to increase the cost to Lender of agreeing to make, making or maintaining Loans hereunder then bearing the Eurodollar Rate or to reduce any amount received or receivable by such Lender (or its applicable lending office) with respect thereto; then, in any such case,

Borrower shall promptly pay to Lender, upon receipt of the statement referred to in the next sentence, such additional amount or amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as such Lender in its sole discretion shall determine) as may be necessary to compensate Lender for any such increased cost or reduction in amounts received or receivable hereunder. Lender shall deliver to Borrower (with a copy to Lender) a written statement setting forth in reasonable detail the basis for calculating the additional amounts owed to Lender under this Section, which statement shall be conclusive and binding upon all parties hereto absent manifest error.

2.10.9 Withholding of Taxes

2.10.9.1 Payments to Be Free and Clear. All sums payable by Borrower under this Agreement and the other Loan Documents shall be paid free and clear of and (except to the extent required by law) without any deduction or withholding on account of any Tax (excluding Taxes imposed on any Lender's or Participant's overall net income) imposed, levied, collected, withheld or assessed by or within the United States of America or any political subdivision in or of the United States of America or any other jurisdiction from or to which a payment is made by or on behalf of Borrower.

2.10.9.2 Grossing-up of Payments. If Borrower or any other Loan Party is required by law to make any deduction or withholding on account of any such Tax from any sum paid or payable by Borrower to Lender under any of the Loan Documents:

(a) Borrower shall notify Lender of any such requirement or any change in any such requirement promptly after Borrower becomes aware of it;

(b) Borrower shall pay any such Tax before the date on which penalties attach thereto, such payment to be made (if the liability to pay is imposed on Borrower) for its own account or (if that liability is imposed on Lender) on behalf of and in the name of Lender;

(c) the sum payable by Borrower in respect of which such deduction, withholding or payment is required shall be increased to the extent necessary to ensure that, after the making of that deduction, withholding or payment, Lender receives on the due date a net sum equal to what it would have received had no such deduction, withholding or payment been required or made; and

(d) within 30 days after paying any sum from

which it is required by law to make any deduction or withholding, and within 30 days after the due date of payment of any Tax which it is required by Section 2.10.9.2(b) above to pay, Borrower shall deliver to Lender evidence satisfactory to Lender of such deduction, withholding or payment and of the remittance thereof to the relevant taxing or other authority;

provided, however, that no such additional amount shall be required to be paid to any Lender except to the extent that any change after the date hereof (in the case of Lender) or after the date a Participant became a Participant pursuant to Section 8.1 (in the case of each Participant) in any such requirement for a deduction, withholding or payment shall result in an increase in the rate of such deduction, withholding or payment from that in effect at the date of this Agreement (in the case of Lender) or at the date a Participant became a Participant pursuant to Section 8.1 (in the case of each Participant) in respect of payments to such Participant.

2.10.9.3 U.S. Tax Certificates. Each Lender or Participant that is organized under the laws of any jurisdiction other than the United States of America or any state or other political subdivision thereof shall deliver to Borrower, on the date on which it becomes a Lender or a Participant pursuant to Section 8.1, and at such other times as may be necessary in the determination of Borrower or Lender (each in the reasonable exercise of its discretion), such certificates, documents or other evidence, properly completed and duly executed by such Lender or Participant (including Internal Revenue Service Form 1001 or Form 4224 or any other certificate or statement of exemption required by Treasury Regulations Section 1.1441-4(a) or Section 1.1441-6(c) or any successor thereto) to establish that such Lender or Participant is not subject to deduction or withholding of United States federal income tax under Section 1441 or 1442 of the Internal Revenue Code or otherwise (or under any comparable provisions of any successor statute) with respect to any payments to such Lender or Participant of principal, interest, fees or other amounts payable under any of the Loan Documents.

2.10.10 Capital Adequacy Adjustment. If any Participant shall have reasonably determined that the adoption, effectiveness, phase-in or applicability (after the date of this Agreement) of any law, rule or regulation (or any provision thereof) regarding capital adequacy, or any change therein or in the interpretation or administration thereof by any Governmental Authority, including any central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Participant (or its applicable lending office) with any guideline, request or directive regarding capital adequacy (whether or not having the force of law (after the date of this Agreement)) of any such Governmental Authority, has or would have the effect of reducing the rate of return on the capital of such Participant or any corporation controlling such Participant as a consequence of, or with reference to, such Participant's interest in the Loan or other obligations hereunder with respect to the Loan to a level below that which such Participant or such controlling corporation could have achieved but for such adoption, effectiveness, phase-in, applicability, change or compliance (taking into consideration the policies of such Participant or such controlling corporation with regard to capital adequacy), then from time to time, within five Business

Days after receipt by Borrower from such Participant of the statement referred to in the next sentence, Borrower shall pay to such Participant such additional amount or amounts as will compensate such Participant or such controlling corporation on an after-tax basis for such reduction. Such Participant shall deliver to Borrower (with a copy to Lender) a written statement, setting forth in reasonable detail the basis of the calculation of such additional amounts, which statement shall be conclusive and binding upon all parties hereto absent manifest error.

2.10.11 Obligation of the Lender to Mitigate.

Lender agrees that, as promptly as practicable after the officer of Lender responsible for administering the Loans becomes aware of the occurrence of an event or the existence of a condition that would entitle Lender to (x) suspend the applicability of the Eurodollar Rate under Section 2.10.4, (y) receive payments under Section 2.10.8, or (z) withhold Taxes under Section 2.10.9, it will, to the extent not inconsistent with its formally-adopted internal policies of general application and any applicable legal or regulatory restrictions, use reasonable efforts to (i) maintain the Loan or interest of Lender through another lending office of Lender, or (ii) take such other measures as such Lender may deem reasonable, if as a result thereof the effect of the matters described in clauses (x), (y) and (z) above would be materially reduced and if, as determined by such Lender in its reasonable judgment, the making, funding or maintaining of the Loan through such other lending office or in accordance with such other measures, as the case may be, would not otherwise materially adversely affect the Loan or the interests of Lender; provided, however, that Lender will not be obligated to utilize such other lending office pursuant to this Section unless Borrower agrees to pay all incremental expenses incurred by Lender as a result of utilizing such other lending office as described in clause (i) above. A certificate as to the amount of any such expenses payable by Borrower pursuant to this Section (setting forth in reasonable detail the basis for requesting such amount) submitted by Lender to Borrower shall be conclusive absent manifest error.

ARTICLE 3
CONDITIONS

3.1 Conditions Precedent to Lender's Obligations.

Lender's obligations under this Agreement are conditioned upon the satisfaction prior to or concurrent with the Closing, at the expense of Borrower, of the conditions specified in this Section 3.1, in each case as reasonably determined by Lender:

3.1.1 Corporate Documents. Each Loan Party that is a corporation and each corporate general partner of a Partnership Loan Party shall deliver or cause to be delivered to Lender (with sufficient originally executed copies for each Lender and Lender's counsel) the following, each dated the Closing Date unless otherwise noted:

3.1.1.1 executed originals of each Loan Document to which it is a party;

3.1.1.2 certified copies of its Certificate of Incorporation, together with a good standing certificate (including verification, where generally available, of tax good standing) from the Secretary of State (or similar official) of its jurisdiction of incorporation and each other state in

which a Property owned by such Loan Party is located), each dated not more than 60 days prior to the Closing Date;

3.1.1.3 copies of its Bylaws, certified as of the Closing Date by its corporate secretary or an assistant secretary;

3.1.1.4 resolutions of its Board of Directors approving and authorizing (a) the execution, delivery and performance of each Loan Document to which it is a party and (b) the consummation of the transactions contemplated hereby and thereby, in each case certified as of the Closing Date by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment; and

3.1.1.5 signature and incumbency certificates of its officers executing this Agreement and the other Loan Documents to which it is a party.

. Each Partnership Loan Party shall deliver to Lender (with sufficient originally executed copies for Lender and Lender's counsel) the following, each unless otherwise noted dated the Closing Date:

3.1.2.1 executed originals of each Loan Document to which it is a party;

3.1.2.2 a conformed copy of its partnership agreement, certified by each general partner of such partnership as of the Closing Date as being in full force and effect without modification or amendment;

3.1.2.3 with respect to each Partnership Loan Party that is a limited partnership, its Certificate of Limited Partnership, certified by the Secretary of State (or similar official) of its jurisdiction of formation and a certificate of existence or good standing, as the case may be, from the Secretary of State (or similar official) of such jurisdiction, each dated not more than 60 days prior to the Closing Date, and a good standing certificate or certificate of existence, as the case may be, from the Secretary of State (or similar official) of each state or other jurisdiction in which a Property owned by such entity is located;

3.1.2.4 all documents of such Partnership Loan Party and its partners (to the extent required by the applicable organizational documents) approving or authorizing (a) the execution, delivery and performance of the Loan Documents to which it is a party, and (b) the consummation of the transactions contemplated hereby and thereby, each certified as of the Closing Date by the general partner of such Partnership Loan Party; and

3.1.2.5 a signature and incumbency certificate of the Person(s) executing on behalf of such Partnership Loan Party any Loan Documents.

3.1.3 Operating Statements. Borrower shall have delivered to Lender the following information, current as of a date not less than 45 days before the Closing, and each in form and substance satisfactory to Lender:

3.1.3.1 quarterly rent roll for each Property;

3.1.3.2 quarterly operating statements for each Property;

3.1.3.3 current operating plans and budgets for each Property, with a year to date analysis of variations from such plans and budgets; and

3.1.3.4 current capital expense budgets for each Property, with a year to date analysis of variations from such budgets.

3.1.4 Officer's Certificates. Each Loan Party shall have delivered to Lender an Officers' Certificate of the Chief Executive Officer or the Chief Financial Officer of such Loan Party, or its general partner certifying as to the following:

3.1.4.1 the accuracy of the financial and operating statements delivered to Lender as of the Closing Date;

3.1.4.2 the Adjusted Consolidated Net Worth of the Loan Parties as of the Closing Date;

3.1.4.3 since January 1, 1997, no Material Adverse Effect has occurred; and

3.1.4.4 compliance of the Loan Parties with all of their obligations hereunder as of such date, together with a calculation testing compliance with financial and monetary covenants attached thereto in a form reasonably satisfactory to Lender, each as of the Closing Date.

3.1.5 Establishment of Rent Reserve Account and Tenanting Costs Account. Borrower shall have established the Rent Reserve Account and Tenanting Costs Reserve Account.

3.1.6 Payment of Fees. Payment of all fees payable as of the Closing Date pursuant to the Fee Letter.

3.1.7 No Material Adverse Effect. Since January 1, 1997, no condition or event has occurred that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

3.1.8 security Interests. Borrower shall have taken or caused to be taken all such actions as may be necessary or reasonably requested by Lender to give Lender a valid, enforceable and perfected first priority Lien (or, in the case of the Blue Bell Properties, provision shall have been made for Lender to obtain a first priority Lien within 60 days after the Closing Date) on or first priority security interest in the Collateral owned by Borrower as of the Closing Date. Such actions shall include the following:

3.1.8.1 the delivery to Lender of fully executed and acknowledged counterparts of the Mortgage, the Assignment of Rents and Leases, the Security Agreement, and all other Security Documents with respect to the Properties and the other Collateral owned by Borrower as of the Closing Date, and the delivery of evidence satisfactory to Lender that counterparts of the Mortgage, the Assignment of Rents and Leases and all other of such documents as Lender desires to have recorded have been or will be recorded in all places necessary or desirable to create and maintain (a) valid and enforceable first priority Liens on the fee simple interests of Borrower in the Properties in favor of Lender, as mortgagee, (b) valid and enforceable first priority Liens on the Rents and Leases in favor of Lender, (c) valid and enforceable first priority Liens in all fixtures at the Properties, in favor of Lender, as secured party, and (d) valid and enforceable first priority Liens in all other items of Collateral owned by Borrower as of the Closing Date in favor of Lender;

3.1.8.2 (a) the delivery to Lender for filing pursuant to the Security Documents of properly executed financing statements under the Uniform Commercial Code (or any equivalent or similar legislation), or any other documents required to be filed by other Applicable Laws, satisfactory in form and substance to Lender in each jurisdiction as may be necessary (in Lender's reasonable judgment) effectively to perfect and maintain the security interests in the Collateral created by the Security Documents executed by Borrower and (b) the delivery of evidence that such financing statements or other documents will have been or will be recorded in all places necessary or desirable, in the reasonable judgment of Lender, to create and maintain valid and enforceable first priority Liens on such Collateral in favor of Lender;

3.1.8.3 the delivery to Lender of a title commitment (together with copies of all documents listed therein as exceptions to title) dated not more than 40 days prior to the Closing Date with respect to each Property and pro forma Title Policies dated not more than 20 days prior to the Closing Date with respect to each such Property, each reasonably satisfactory in form and substance to Lender;

3.1.8.4 the delivery to Lender of the Title Policies or marked title commitments insuring fee simple or leasehold title to each of the Properties vested in Borrower and insuring the first priority of the Liens created under the Mortgages in an aggregate amount not less than $100,000,000, in each case subject only to Permitted Encumbrances, and such other title exceptions as are satisfactory to Lender. Such Title Policies shall be reinsured with title insurance companies acceptable

to Lender in amounts as required by Lender subject to facultative reinsurance agreements in form satisfactory to Lender. Such Title Policies shall also contain such endorsements and affirmative insurance provisions as Lender may reasonably require and to the extent the same are available in the applicable jurisdiction, including "comprehensive" endorsements, revolving credit endorsements, affirmative insurance against mechanic's liens, survey exceptions, violations of covenants, conditions and restrictions, encroachments, gap insurance, contiguity endorsements, tie-in endorsements, access endorsements, "Last-dollar" endorsements, survey endorsements, contingent loss/first loss endorsements, variable rate mortgage endorsements, and any other endorsements reasonably required by Lender to address issues raised by Lender's due diligence or as a matter of Applicable Law. In addition,

Borrower shall have paid to the Title Company and to the appropriate Governmental Authority all expenses and premiums of the Title Company in connection with the issuance of such Title Policies and in connection with any Loan hereunder an amount equal to the recording and stamp taxes (including mortgage recording, intangible and similar taxes) payable in connection with recording each Mortgage, the Assignment of Rents and Leases in the appropriate county land or recorder's offices or otherwise payable in connection with the Loan;

3.1.8.5 the delivery to the Title Company of such certificates and affidavits as the Title Company may reasonably require in connection with the issuance of the Title Policies;

3.1.8.6 the delivery to Lender of a Survey with respect to each of the Properties, dated or re-dated to within 180 days prior to the Closing Date, which Surveys shall be reasonably satisfactory in form and substance to Lender;

3.1.8.7 unless a title insurance zoning endorsement is issued to Lender by the Title Company, the delivery to Lender of a letter, to the extent generally available, from the applicable Governmental Authority with respect to each of the Properties and reasonably satisfactory to Lender stating that all Improvements on each such Property have been constructed and are being used and operated in material compliance with (a) all applicable zoning, subdivision, local environmental, building and land use laws, ordinances, rules and regulations of all Governmental Authorities or quasi-governmental authorities having jurisdiction with respect to each such Property and all applicable fire and building maintenance codes, and (b) all building permits issued in respect of each such Property for work then being conducted and the certificate of occupancy (if available) for each such Property;

3.1.8.8 the delivery to Lender of an opinion of counsel in each state or other jurisdiction in which each Property is located, dated the Closing Date, addressed to Lender and in form and substance reasonably satisfactory to Lender;

3.1.8.9 the delivery to Lender of evidence reasonably satisfactory to Lender that all other filings, recordings and other actions Lender deems necessary or advisable to establish, perfect and preserve the Liens granted to Lender in the Collateral owned by Borrower as of the Closing Date shall have been made.

3.1.9 Insurance. Borrower shall have delivered to Lender (i) duplicate originals or true and complete copies of each policy or other evidence of insurance required by this Agreement evidencing (a) the issuance of such policies, (b) that Borrower is not then in default in the payment of any premium and (c) coverage which meets all of the requirements set forth in this Agreement; and (ii) an Officers' Certificate dated the Closing Date to the effect that the insurance coverage required by this Agreement is in full force and effect and that all premiums therefor have been paid. To the maximum extent permitted by law, Borrower hereby irrevocably waives, releases and discharges any and all rights of action, demands and other claims of any kind or nature against Lender arising from any failure of Lender or the Lenders to comply with the National Flood Insurance Act of 1968 (42 U.S.C. " 4001, et seq.), the Flood Disaster Protection Act of 1973 or the National Flood Insurance Reform Act of 1994, including any failure of Lender or the Lenders to provide Borrower with written notification within ten days prior to the Closing Date whether any Property is in a special flood hazard area or whether federal disaster relief assistance will be available in the event of flood damage to any Property.

3.1.10 Management Agreements. Borrower shall have delivered to Lender executed or conformed, certified copies of each of the Management Agreements and all amendments thereto entered into on or before the Closing Date, which Management Agreements shall be reasonably satisfactory in form and substance to Lender. The Management Agreements shall be in full force and effect and no term or condition thereof shall have been amended or modified, or waived in any material respect after the execution thereof (other than the waiver of any Management Fee previously due and payable).

3.1.11 Material Leases; Tenant Estoppel Certificates. Borrower shall have delivered to Lender (i) a Rent Roll for each Property, accompanied by an Officers' Certificate with respect thereto, (ii) executed or conformed, certified copies of each Material Lease with respect to each Property and all amendments thereto entered into on or before the Closing Date, which Material Leases shall be reasonably satisfactory in form and substance to Lender; the Material Leases, as so amended, shall be in full force and effect and no term or condition thereof shall have been further amended or modified, or waived after the execution thereof; and no Person shall have failed in any material respect to perform any material obligation or covenant or satisfy any material condition

required by the Material Leases to be performed or complied with on or before the Closing Date; and (iii) original counterparts of Tenant Subordination Agreements and estoppel certificates with respect to Leases demising at least 75% of the net rentable square footage of each Property (and including all Material Leases), reasonably satisfactory in form and substance to Lender, duly executed and delivered by each Tenant party to such Material Lease.

3.1.12 Environmental Audits. Borrower shall have delivered to Lender evidence satisfactory to Lender, in its sole discretion, that (i) there are no material pending or threatened claims, suits, actions or proceedings arising out of or relating to the existence of any Hazardous Materials at, in, on, from, around or under any of the Properties; (ii) each such Property is in compliance in all material respects with all applicable Environmental Laws with respect to such Property; and (iii) no Hazardous Materials exist at, in, on, from, around or under any such Property, except in compliance in all material respects with

applicable Environmental Laws and all other Hazardous Materials have been removed from each Property to the extent required by Applicable Law. Such evidence shall include a comprehensive environmental audit (which shall include a Phase I environmental audit and, either if recommended or suggested by an Approved Environmental Consultant or, if not so recommended or suggested, if determined by Lender in its sole discretion to be necessary or desirable after considering factors reasonably related to such determination, a Phase II environmental audit), satisfactory in form and substance to Lender, conducted and certified by an Approved Environmental Consultant. Such evidence shall also include (a) a reliance letter from such Approved Environmental Consultant with respect to each such environmental audit addressed to Lender, which reliance letter shall be satisfactory in form and substance to Lender, (b) certification that all required approvals from all Governmental Authorities having jurisdiction with respect to the environmental condition of the Properties, if any, have been obtained, and (c) such other environmental reports, inspections and investigations as Lender shall in its sole discretion require after considering factors reasonably related to such determination, prepared, in each instance, by an Approved Environmental Consultant, which approvals, reports, inspections and investigations shall be satisfactory in form and substance to Lender, in its sole discretion. On or before the Closing Date, Borrower shall have delivered to Lender evidence satisfactory to Lender, in its sole discretion, that Borrower has complied with the recommendations and suggestions of all environmental consultant(s) referred to above.

3.1.13 Engineering Reports. Borrower shall have delivered to Lender (i) a written Engineering Report with respect to each Property prepared by an Engineer acceptable to Lender, which Engineering Report shall contain current repair recommendations for the first five years, and shall in all other respects be reasonably satisfactory in form and substance to Lender; and (ii) a reliance letter from such Engineer with respect to each such Engineering Report addressed to Lender, which letter shall be in form and substance reasonably satisfactory to Lender.

3.1.14 Appraisals. Lender shall have received (i) an Appraisal of each Property prepared by an Appraiser designated by Lender, which Appraisal shall be reasonably satisfactory in form and substance to Lender and shall satisfy all applicable regulatory requirements; and (ii) copies of all appraisals, market studies, and similar information with respect to each of the Properties in the possession or under the control of the Loan Parties or any of their Subsidiaries or partners.

3.1.15 Opinions of Loan Parties' Counsel; Auditor's Letter. On the Closing Date Borrower shall have delivered to Lender and its counsel executed copies of each of the favorable written opinions, each dated as of the Closing Date, of Saul, Ewing, Remick and Saul, as counsel for Borrower, and Maun & Simon, as counsel for Royale, FCOLP and FCO, which shall be in form and substance reasonably approved by Lender and its counsel.

3.1.16 Opinion of Lender's Counsel. The Lenders shall have received executed copies of the favorable written opinion of O'Melveny & Myers LLP, counsel to Lender, dated as of the Closing Date.

3.1.17 No Adverse Litigation. There shall not be pending or, to the knowledge of Borrower, threatened, any action, suit, proceeding, governmental investigation or arbitration against or affecting Royale or any of its Subsidiaries, or the Controlling Principals or any property of Royale or any of its Subsidiaries that has not been disclosed by Borrower in writing pursuant to Section 4.6 prior to the execution of this Agreement and that is reasonably likely to have a Material Adverse Effect, and there shall have occurred no development not so disclosed in any such action, suit, proceeding, governmental investigation or arbitration so disclosed, that, in either event, in the reasonable opinion of Lender, is likely to have a Material Adverse Effect; and

no injunction or other restraining order shall have been issued and no hearing to cause an injunction or other restraining order to be issued shall be pending or noticed with respect to any action, suit or proceeding seeking to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated by this Agreement or the making of the Loan on the terms and conditions contained in this Agreement and the other Loan Documents.

3.1.18 Existing Indebtedness. Borrower shall have caused the holders of all Indebtedness secured by the Properties to deliver to Lender and the Title Company pay-off or demand letters and other similar materials with respect to such Indebtedness sufficient to enable the Title Company to use the proceeds of the loan to pay off such Indebtedness and obtain releases and reconveyances of mortgages, fixture filings, financing statements and other liens within seventy-five days after the Closing, or, in the case of the Blue Bell Properties, within seventy-five days after the Closing.

3.1.19 Contingent Obligations. Lender shall have received and approved a list of any Contingent Obligations of the Borrower.

3.1.20 Payment of Fees and Expenses. Borrower shall have paid to Lender, for distribution (as appropriate) to the Lenders and Lender, the fees payable pursuant to Section 2.5 and the expenses payable pursuant to Section 8.2.

3.1.21 Completion of Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Lender and its counsel shall be reasonably satisfactory in form and substance to Lender and such counsel, and Lender and such counsel shall have received all such counterpart originals or certified copies of such documents as Lender may reasonably request.

3.1.22 Other Documents. Each Loan Party shall have delivered to Lender such other information and documents as Lender may reasonably request.

3.2 Conditions Subsequent to Lender's Obligations.

Lender's obligations under this Agreement are also conditioned upon the satisfaction after the Closing, at the expense of Borrower, of the conditions specified in this Section 3.2, in each case as reasonably determined by Lender:

3.2.1 Formation of FCOLP and FCO; Assignment of Partnership Interests in Borrowers to FCOLP and FCO. Within one day after the Closing, FCOLP and FCO shall have been duly formed and qualified to do FCO. business in each jurisdiction in which they are to do business, and the Loan Parties shall have delivered to Lender an executed or conformed, certified copy of each of the Formation Documents entered into on or prior to the Closing Date. Such documents, as so amended, shall be in full force and effect and no term or condition thereof shall have been further amended or modified, or waived after the execution thereof. No Person shall have failed in any material respect to perform any material obligation or covenant or satisfy any material obligation or covenant or satisfy any material condition required thereunder to be performed or complied with on or before the Closing Date. Royale shall have delivered to Lender an Officers' Certificate of Royale certifying that, as of the Closing Date, each transaction constituting the Formation has been duly authorized by all necessary action of the parties thereto, and has been consummated in accordance with, and is enforceable pursuant to, all Applicable Laws. The admission of FCO as a general partner, and the assignment of all or substantially all of the limited Partnership Interests, in each Borrower to FCOLP and FCO in accordance with the Formation Agreement shall have occurred, and all other transactions constituting the Formation shall have occurred.

3.2.2 Execution of this Agreement. Within one day after the Closing, Royale, FCOLP and FCO shall have executed and delivered counterpart original execution copies of this Agreement.

3.2.3 Pledge of Partnership Interests. Within one day after the Closing: (a) the delivery to Lender of the Pledges, duly executed by Royale, FCOLP and FCO; (b) the delivery to Lender for filing pursuant to the Security Documents of properly executed financing statements under the Uniform Commercial Code (or any equivalent or similar legislation), or any other documents required to be filed by other Applicable Laws, satisfactory in form and substance to Lender in each jurisdiction as may be necessary (in Lender's reasonable judgment) effectively to perfect and maintain the security interests in the Collateral created by the Pledges; and (c) the delivery of evidence that such financing statements or other documents will have been or will be recorded in all places necessary or desirable, in the reasonable judgment of Lender, to create and maintain valid and enforceable first priority Liens on such Collateral in favor of Lender.

3.2.4 Stock Certificates. Within one day after the Closing, the delivery to Lender pursuant to the Pledges of the stock certificates of FCO (which

certificates shall be accompanied by irrevocable undated stock powers duly endorsed in blank and irrevocable proxies, all satisfactory in form and substance to Lender).

3.2.5 Other Documents. The delivery to Lender of evidence reasonably satisfactory to Lender that all other filings, recordings and other actions Lender deems necessary or advisable to establish, perfect and preserve the Liens granted to Lender in such Collateral (including any uncertificated partnership interests) as of the Closing Date shall have been made.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

In order to induce Lender to enter into this Agreement and to make the Loan and to induce Participants to purchase participations therein, Royale, as to itself only, and each of the other Loan Parties, as to all other Loan Parties (but not as to Royale), represents and warrants to Lender that, as of the Closing Date, the following statements in this Article 4 are true, correct and complete on the Closing Date.

4.1 Organization, Powers, Qualification, Good Standing, Business and Subsidiaries

4.1.1 Organization and Powers. Each Loan Party (other than a Partnership Loan Party or a Trust Loan Party) and each of its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation (which jurisdiction is set forth on Schedule 4.1.1 annexed hereto). Each such Loan Party and each such Subsidiary has the requisite corporate power and authority to own and operate its properties (including the Properties), to carry on its business as now conducted and as proposed to be conducted, to enter into the Loan Documents to which it is a party, to carry out the transactions contemplated hereby and thereby. Each Partnership Loan Party is a limited partnership duly formed and validly existing under the laws of its jurisdiction of organization (which jurisdiction is set forth on Schedule 4.1.1) and each Partnership Loan Party has all requisite partnership power and authority to own and operate its properties (including the Properties), to carry on its business as now conducted and proposed to be conducted, to enter into each Loan Document and Related Document to which it is a party and to carry out the transactions contemplated hereby and thereby and, in the case of Borrower, to issue and pay the Note.

4.1.2 Qualification and Good Stnading. Each Loan Party and each of its Subsidiaries is qualified to do business and in good standing in every jurisdiction necessary to carry out its business and operations, except in jurisdictions where the failure to be so qualified or in good standing has not had and could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. The jurisdictions in which each Loan Party and each of its Subsidiaries owns property or otherwise conducts business as of the Closing Date are set forth on Schedule 4.1.1 annexed hereto.

4.1.3 Conduct of Business. The Loan Parties are engaged only in the businesses permitted to be engaged in by them pursuant to Section 6.14.

4.1.4 Formation. Each of the transactions constituting the Formation has been duly authorized by all necessary corporate or partnership action of Royale, FCOLP, Borrower and other Persons. Each of the transactions constituting the Formation has been consummated in accordance with, and is effective under, all Applicable Laws.

4.2 Authorization of Borrowing, etc.

4.2.1 Authorization of Borrowing. The execution, delivery and performance of this Agreement and the other Loan Documents to which each Loan Party is a party and the issuance, delivery and payment of the Note have been duly authorized by all necessary corporate, partnership or other action on the part of each Loan Party, as the case may be.

4.2.2 No Conflict. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party and the consummation of the transactions contemplated hereby and thereby do not and will not (i) violate any provision of law applicable to any Loan Party, the Certificate of Incorporation or Bylaws, partnership agreement, or other organizational document of any Loan Party or any order, judgment or decree of any court or other agency of government binding on any Loan Party, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of any Loan Party, which default, individually or in the

aggregate, could have a Material Adverse Effect, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of any Loan Party or any of its Subsidiaries (other than Liens securing the Obligations), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of any Loan Party the absence of which could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, other than (i) approvals or consents which will be or have been obtained on or before the Closing Date and disclosed in writing to Lender, and (ii) failure to comply with certain covenants contained in the agreements evidencing and securing the indebtedness secured by the Blue Bell Properties in favor of Blue Bell Funding, Inc., and now held by United States Trust Company of New York.

4.2.3 Governmental Consents. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party and the consummation of the transactions contemplated hereby and thereby do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any Governmental Authority, except for (i) such of the foregoing which will have been made or obtained on or before the Closing Date and (ii) the recordings and filings required to perfect the Liens granted pursuant to the Security Documents. As of the Closing Date, all consents or approvals from or notices to or filings with any federal, state, or other (domestic or foreign) regulatory authorities required to be obtained on or before such date in connection with the documents or transactions described or referred to in the preceding sentence will have been accomplished in all material respects in compliance in all material respects with all Applicable Laws. None of the transactions constituting the Formation or the consummation of the other transactions contemplated by this Agreement, the other Loan Documents violates any Applicable Law or regulation in any respect, which could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

4.2.4 Binding Obligation. This Agreement is, and the other Loan Documents when executed and delivered hereunder will be, the legally valid and binding obligations of the applicable Loan Parties, enforceable against the applicable Loan Parties in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or law).

4.3 Financial Condition; Contingent Obligations

4.3.1 Financial Condition. Borrower has heretofore delivered to Lender, at Lender's request, the following financial statements and information: (i) the audited balance sheet of Royale at June 30, 1997 and the related consolidated statements of income, stockholders' equity and cash flows of Royale for the 12 months then ended, (ii) the unaudited statements of Property Gross Revenues and Operating Expenses for each of the Properties for the calendar year ended December 31, 1994, December 31, 1995 and December 31, 1996, respectively, and (iii) the consolidated financial statements of Royale and its Subsidiaries required to be delivered to Lender pursuant to this Agreement. The statements referred to in clause (i) of the preceding sentence were prepared in conformity with GAAP and fairly present, in all material respects, the consolidated financial position of Royale and its Subsidiaries as at the date thereof and the consolidated results of operations of Royale and its Subsidiaries for the period then ended, subject to changes resulting from audit and normal year end adjustments and there are no material differences between such consolidated financial position and consolidated results of operations of Royale and its Subsidiaries as presented in such consolidated financial statements and the consolidated financial position and consolidated results of operations of Borrower and its Subsidiaries as at the date of such consolidated financial statements and for the period then ended. Royale and its Subsidiaries do not have any Contingent Obligation, contingent liability or liability for taxes, long-term lease or other long-term commitment not customarily involved in their respective businesses that is not reflected in the foregoing financial statements or the notes thereto and which is material in relation to the business, operations, properties, assets or condition (financial or otherwise) of Royale and its Subsidiaries.

4.3.2 Contingent Obligations. On the Closing Date, the Loan Parties and their respective Subsidiaries will not be directly or indirectly liable with respect to any Contingent Obligations. Other than in FCOLP and FCO, there have been no Investments made by the Loan Parties and their respective Subsidiaries, nor any Guaranties with respect to which the Loan Parties and their respective Subsidiaries are liable as of the Closing Date, including all such Investments and Guaranties that would be subject to Sections 6.4 and 6.7 if the same were made or incurred on or after the Closing Date.

4.4 Existing General Partners. The general partners of Borrower who have executed this Agreement as general partner of Borrower have no material assets

other than their respective interests in each Borrower.

4.5 Properties; Agreements; Licenses

4.5.1 Title to Properties; Liens. There are no outstanding options, rights of first refusal, rights of first offer or similar rights to purchase or otherwise acquire Borrower's interest in any Property, other than options and rights owned by Loan Party or Subsidiary thereof, as applicable. Each Borrower has good and marketable fee simple title to the Properties and good title to the

remainder of the Collateral purported to be owned by it, free and clear of all Liens, in each case except Permitted Encumbrances and Liens permitted under the Loan Documents. All material fixtures, furnishings, attachments and equipment necessary for the operation, use and occupancy of each such Property have been installed or incorporated into such Property and each Borrower, as applicable, is the sole owner of all of the same, free and clear of all chattel mortgages, conditional vendor's liens and other liens, and security interests other than Permitted Encumbrances and Liens permitted pursuant to Section 6.3. Except as heretofore disclosed in writing by Borrower to Lender, no tax liens have been filed against any Borrower and/or any of the Properties, other than Liens for non-delinquent real property taxes.

4.5.2 Material Leases. Each Material Lease with respect to each Property and all amendments thereto that have been or shall be entered into on or before the Closing Date are listed on Schedule 4.5.2 annexed hereto. The Material Leases, as so amended, shall be in full force and effect and no term or condition thereof has been further amended or modified, or waived after the execution thereof except in accordance with this Agreement; and no Person will have failed in any respect to perform any obligation or covenant or satisfy any condition required by the Material Leases to be performed or complied with, except where failure to so comply will not then have had and could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.6 Litigation; Adverse Facts.

Except as set forth in Schedule 4.6 annexed hereto, as amended or supplemented from time to time (which amendment or supplement shall be reasonably satisfactory to Lender), there is no action, suit, proceeding, arbitration or governmental investigation at law or in equity or before or by any Governmental Authority, or to the knowledge of any of the Loan Parties, changes to Applicable Law, pending or, to the knowledge of any of the Loan Parties, threatened against or affecting any Loan Party or any of its Subsidiaries, any Property or any other property of Royale or any of its Subsidiaries that has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No Loan Party nor any of its Subsidiaries is (i) in violation in any material respect of any Applicable Law or (ii) subject to or in default with respect to any Applicable Law in either case that has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. To the knowledge of the Loan Parties, there are no pending or threatened actions, suits or proceedings to revoke, attack, invalidate, rescind or modify the zoning affecting any Property or any Authorizations heretofore issued with respect to any Property or asserting that such Authorizations or the zoning affecting any Property or any other property of any Loan Party or any of its Subsidiaries do not permit the continued use of such Property or property as contemplated by the Loan Documents. Except as set forth on Schedule 4.6, to the knowledge of Borrower, no Person has asserted any claimed violation of Applicable Laws arising from the operation, use or occupancy of the Properties which has not been cured which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.7 Taxes.

4.7.1 Payment of Taxes. Except to the extent set forth on the financial statements delivered pursuant to this Agreement, all material federal, state and local Tax returns and reports relating to any Loan Party or any of its Subsidiaries or the Properties required to be filed have been timely filed, and all material Taxes, Impositions, assessments, fees and other governmental charges upon any Loan Party or any of its Subsidiaries or upon the Properties which are due and payable have been paid prior to delinquency. Neither Royale nor Borrower knows of any proposed Tax assessment against any Loan Party or any of its Subsidiaries or the Properties that could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Neither any Loan Party nor any of its Subsidiaries (i) has executed or filed with the Internal Revenue Service or any other Governmental Authority any agreement or other document that remains in effect extending, or having the effect of extending, the period for assessment or collection of any Taxes, assessments,

fees or other governmental charges or (ii) has any obligation under any written Tax sharing agreement or agreement regarding payments in lieu of Taxes (other than obligations pursuant to partnership agreements to make distributions of cash for the payment of taxes).

4.7.2 REIT Status. Except as disclosed in that certain letter of Coopers & Lybrand LLP, dated October 13, 1997, relating to a so-called "demand letter" issue, Royale has at all times maintained its qualification as a REIT under the Internal Revenue Code.

4.7.3 Foreign Person. None of the Loan Parties is a "foreign person" within the meaning of Section 1445 or 7701 of the Internal Revenue Code.

4.7.4 Classification as a Partnership. Each of the Loan Parties that is a Partnership Loan Party is properly classified as a partnership for federal income tax purposes.

4.8 Performance of Agreements; Materially Adverse Agreements.

No Loan Party nor any of its Subsidiaries is in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions contained in any Contractual Obligation, and no condition exists that, with the giving of notice or the lapse of time or both, would constitute such a default, except where the consequences, direct or indirect, of such default or defaults, if any, could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as disclosed on Schedule 4.8 annexed hereto, no Loan Party nor any of its Subsidiaries is a party to or otherwise subject to any agreement or instrument (other than the Loan Documents), any charge or other internal restriction or any Contractual Obligation which by its terms or effect (i) prohibits or restricts such Loan Party or Subsidiary from acquiring, loaning or disposing of any Property or other asset, or any interest therein, or acquiring or entering into, or providing any services under any management agreement or (ii) otherwise restricts the conduct by such Loan Party or any of its Subsidiaries of any business, except in each case where the consequences, direct or indirect, of any violation thereof could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No Loan Party nor any of its Subsidiaries is a party to or is otherwise subject to any agreement or instrument, any charter or other internal restriction or any Contractual Obligation which has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.9 Governmental Regulation; Securities Activities

No Loan Party nor any of its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or the Investment Company Act of 1940 or under any other federal or state statute or regulation which could limit its ability to incur Indebtedness or which could otherwise render all or any portion of the Obligations unenforceable. No Loan Party nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock.

4.10 Employee Benefit Plans.

No Loan Party maintains any Employee Benefit Plan that is subject to any provision of the Employee Retirement Income Security Act of 1974, as amended from time to time.

4.11 Certain Fees.

No broker's or finder's fee or commission will be payable by any Loan Party or any of its Subsidiaries with respect to this Agreement or any of the transactions contemplated hereby (other than the fees payable pursuant to this Agreement), and Borrower hereby indemnifies Lender against, and agrees that it will hold Lender harmless from, any claim, demand or liability for any such broker's or finder's fees or commissions payable by Borrower alleged to have been incurred in connection herewith or therewith and any expenses (including reasonable fees, expenses and disbursements of counsel) arising in connection with any such claim, demand or liability.

4.12 Solvency.

After giving effect to the Formation and the consummation of the other transactions contemplated by this Agreement and the other Loan Documents, as of the Closing Date, with respect to all Loan Parties on a consolidated basis, (i) (a) the then-current fair saleable value of the property of the Loan Parties (including any rights to contribution from the other Loan Parties under the Loan Documents) is (y) greater than the total amount of liabilities (including contingent liabilities) of the Loan Parties and (z) not less than the amount that will be required to pay the probable liabilities on the Loan Parties'

then-existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to the Loan Parties; (b) the Loan Parties' capital is (or will be, as the case may be), not unreasonably small in relation to its business or any contemplated or undertaken transaction; and (c) the Loan Parties do not intend to incur, or believe (nor should they reasonably believe) that they will incur debts beyond their ability to pay such debts as they become due; and (ii) the Loan Parties are (or will be, as the case may be), "solvent" within the meaning given that term and similar terms under Applicable Laws relating to fraudulent transfers and conveyances. For purposes of clause (i) of the preceding sentence, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

4.13 Disclosure.

No representation or warranty of any Loan Party contained in this Agreement, the other Loan Documents and the Related Documents to which it is a party or in any other document, certificate or written statement furnished to Lender or the Lenders by or on behalf of any Loan Party for use in connection with the transactions contemplated by the Loan Documents and the Related Documents contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact (known to such Loan Party, in the case of any document not furnished by it) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made or will be made, as the case may be. The projections and pro forma financial information contained in such materials are based or will be based upon good faith estimates and assumptions believed to be reasonable at the time made, it being recognized by Lender that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ materially from the projected results. There is no fact known to any Loan Party (other than matters of a general economic nature) that has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect and that has not been disclosed in any of the Loan Documents and the Related Documents to which any Loan Party is a party as of the date hereof or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated hereby.

4.14 Liens on the Collateral

4.14.1 General. Except as expressly provided in the legal opinions delivered pursuant to this Agreement, the provisions of this Agreement and the Security Documents are effective to create and maintain, upon proper filing or recording or taking of possession, as applicable, in favor of Lender valid and legally enforceable Liens on all of the Properties and all of the remainder of the Collateral and, when all necessary and appropriate recordings and filings have been effected in all necessary and appropriate public offices, and payment is made of any applicable mortgage recording, intangible and/or similar taxes, this Agreement and the Security Documents will constitute perfected Liens on all of such Properties and all of the remainder of the Collateral prior and superior to all other Liens except Permitted Encumbrances.

4.14.2 Mortgages. Each Mortgage upon execution and delivery by the applicable Loan Party will be a valid and enforceable first priority Lien on the Property that such Mortgage purports to encumber, except for Permitted Encumbrances, and such Mortgage, when such Mortgage is recorded in the real property records of the county in which such Property is located and upon payment of any applicable mortgage recording, intangible and/or similar taxes, will be a perfected, valid and enforceable first priority Lien on such Property in favor of Lender, which Property will then be free and clear of all Liens having priority over the first Lien of such Mortgage, except for Permitted Encumbrances.

4.14.3 Assignments of Rents and Leases. Except as expressly provided in the legal opinions delivered pursuant to this Agreement, each Assignment of Rents and Leases, upon execution and recordation of such Assignment of Rents and Leases in the real property records of the county in which the Property affected by such Assignment of Rents and Leases is located and upon payment of any applicable recording or intangible taxes, will be, as to each Property, a perfected, valid and enforceable first priority present assignment of or Lien on the Leases affecting such Property and of the Rents of and from such Property, which Properties will then otherwise be free and clear of all Liens having priority over the Assignment of Rents and Leases, except for Permitted Encumbrances. As of the Closing Date, Borrower represents that upon recordation of each Assignment of Rents and Leases Lender has taken all actions necessary to

obtain, and as of the Closing Date Lender has, a valid and perfected first priority (or, to the extent described in the immediately preceding sentence, second priority) assignment of or Lien on the Rents from the Properties and of all security for the Leases affecting such Properties, including cash or securities deposited as security under such Leases subject to the prior right of the Tenants making such deposits.

4.14.4 Mechanics' Liens. Except as bonded or contested in accordance with the provisions of this Agreement or as insured over by Title Policies that are then in effect, no mechanic's liens have been filed and remain in effect against any Property.

4.14.5 Filings and Recordings. All filings (including all financing statements and all assignments of financing statements under the Uniform Commercial Code) have been delivered to Lender for filing in each public office in which such filings and recordings are required or advisable to perfect the Liens on each of the Properties and the other Collateral granted by the Loan Parties pursuant to the Security Documents and, except for the filing of continuation statements with respect to such financing statements as may be required or advisable to be filed at periodic intervals, no periodic refiling or periodic recording is presently required to protect and preserve such Liens and security interests.

4.15 Zoning; Authorizations

4.15.1 Zoning. The use and operation by each Borrower of its Property as a multi- or single- tenant office building or buildings, with related uses, separate and apart from any other properties, constitutes a legal use under applicable zoning regulations and complies in all material respects with all Applicable Laws and all applicable Insurance Requirements, and does not violate any Authorizations or other material approvals, material restrictions of record or any material agreement affecting any Property (or any portion thereof) to which such Borrower is a party or by which such Borrower or such Property (or portion thereof) is bound, except for violations and failures to comply which could not reasonably be expected to result, either individually or in the aggregate, in a Material Adverse Effect. Neither the zoning nor any right of access to or use of any Property is to any material extent dependent upon or related to any real property other than such Property.

4.15.2 Authorizations. There have been issued in respect of each Property all Authorizations necessary to own, operate, use and occupy such Property in the manner operated by Borrower as of the Closing Date (including any required

permits relating to Hazardous Materials). No Borrower has any knowledge that any Authorization necessary or required to own, operate, use and occupy any Property in the manner currently operated by the Tenants under any Material Lease and contemplated to be operated by the Tenants on and after the Closing Date (including any required permits relating to Hazardous Materials) has not been issued and is not in full force and effect, other than any such Authorizations which, if not obtained, could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No Borrower, nor, to the knowledge of Borrower, any prior owner thereof, has received any notice of violation or revocation thereof except for those which could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.16 Physical Condition; Encroachment; Capital Expenditures

4.16.1 Physical Condition; Encroachment. Except as disclosed on the Engineering Reports delivered pursuant to this Agreement, each Property is free of material structural defects and is in good repair (normal wear and tear excepted) and all building systems contained therein and all other material items of Collateral are in good working order in all material respects subject to ordinary wear and tear, except as disclosed in the Engineering Reports, and is free and clear of any damage that would affect materially and adversely the value of such Property or the use of such Property for its intended purposes. To the knowledge of Borrower, other than as described in the Title Policy and in any Survey, no Improvement at any Property encroaches upon any building line, setback line, side yard line or any recorded or visible easement.

4.16.2 Capital Expenditures. Neither Borrower nor any Property is subject to any agreement pursuant to which any Borrower shall have incurred or may incur any obligation to make capital improvements to any Property, except as set forth on Schedule 5.7.

4.17 Insurance.

All insurance required to be maintained by the Loan Parties and their respective Subsidiaries pursuant to this Agreement or any other Loan Document is in full force and effect in accordance with the terms thereof. As to each Property located in an area identified by the Federal Emergency Management Agency as having special flood hazards, if flood insurance is available, a flood

insurance policy is in effect. All premiums have been paid with respect to each insurance policy required to be maintained by the Loan Parties and their Subsidiaries pursuant to this Agreement or any other Loan Document.

4.18 Leases

There is no default or event which with notice or lapse of time or both would constitute a default under any of the provisions of any Material Lease affecting any Property that has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No litigation is currently pending or has been threatened by any Tenant in connection with any Material Lease affecting any Property that has had, or could

reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. All Material Leases and other Leases material to the operation of the Properties are in full force and effect, except to the extent such failure could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

4.19 Environmental Reports; Engineering Reports; Appraisals; Market Studies

Borrower has delivered to Lender correct and complete copies of all environmental audits, engineering reports, appraisals and market studies with respect to each Property that any Loan Party or any of its Subsidiaries has in its possession. To Borrower's knowledge, the information contained in such audits, reports, appraisals and market studies remains true, correct and complete.

4.20 No Condemnation or Casualty

No condemnation or other like proceedings (including relocation of any roadways abutting any Property or change in grade of such roadways or denial of access to any Property) that has had, or could reasonably be expected to result in, a Material Adverse Effect, are pending and served nor, to the knowledge of any Loan Party, threatened against any Property in any manner whatsoever. No casualty has occurred to any Property that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.21 Utilities and Access

To the extent necessary for the full utilization of each Property in accordance with its current use, telephone services, gas, steam, electric power, storm sewers, sanitary sewers and water facilities and all other utility services are available to each Property, are adequate to serve each such Property, exist at the boundaries of the Land and are not subject to any conditions, other than normal charges to the utility supplier, which would limit the use of such utilities. All streets and easements necessary for the occupancy and operation of each Property are available to the boundaries of the Land. All necessary rights-of-way for all roads, which are sufficient to permit each Property to be utilized fully for its current use, have been completed and are serviceable, and, to the knowledge of the Loan Parties, all public rights-of-way through or adjacent to the Properties have been acquired and dedicated and accepted for maintenance and public use by the applicable Governmental Authorities.

4.22 Wetlands

Except as disclosed in any of the written environmental audits and reports delivered pursuant to this Agreement, none of the Improvements on any Property are constructed on land designated by any Governmental Authority having land use jurisdiction as wetlands.

4.23 Labor Matters

There are no strikes or other labor disputes against any Loan Party or any of its Subsidiaries, pending or, to the knowledge of any Loan Party, threatened

that have had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Hours worked by and payments made by any Loan Party or any of its Subsidiaries to their respective employees are not in violation in any material respect of the Fair Labor Standards Act or any other applicable law dealing with such matters.

4.24 Employment and Labor Agreements

Each Loan Party and each of its Subsidiaries is in compliance in all material respects with the terms and conditions of any employment agreements to which it is party.

ARTICLE 5
AFFIRMATIVE COVENANTS

Each Loan Party covenants and agrees that, from and after the Closing Date and until payment in full of the Loan and the other Obligations (other than indemnification obligations with respect to claims that have not been asserted at the time that the Loan and all other Obligations have been paid in full), each Loan Party shall perform and shall cause each of their respective Subsidiaries to perform all covenants made by it in this Article 5.

5.1 Financial Statements and Other Reports.

Royale shall maintain and cause each of its Subsidiaries to maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of consolidated and consolidating financial statements in conformity with GAAP. Borrower shall deliver to Lender:

5.1.1 Quarterly Property Operating Statements: as soon as available and in any event within 60 days after the end of each calendar quarter, commencing with respect to the calendar quarter ending December 31, 1997, a current Rent Roll and a statement of Property Income and Property Operating Expenses and any other expenses with respect to each Property separately, in each case for the 12 month period ending on the last day of such calendar quarter, in reasonable detail satisfactory to Lender and certified by the Chief Executive Officer or Chief Financial Officer of Royale and Borrower stating that, subject to normal adjustments following the preparation of the financial statements referred to below in clauses (iii) and (iv), respectively, (x) such statements of Property Income and Operating Expenses and other expenses fairly present, in all material respects, the results of operations of the Properties indicated for the periods indicated and (y) all Property Operating Expenses and any other expenses with respect to each Property which have become due and payable as of the last day of the calendar month next preceding the delivery of such income statement have been fully paid or recognized by Borrower;

5.1.2 Quarterly Financial Statements of Royale and Its Subsidiaries: as soon as available and in any event within 60 days after the end of each calendar quarter of each calendar year, commencing with respect to the calendar quarter ending December 31, 1997, (a) the consolidated balance

sheet of Royale and its Subsidiaries as at the end of such calendar quarter and the related consolidated statements of income, reconciliation of surplus, stockholders' equity and cash flows of Royale and its Subsidiaries for such calendar quarter and for the period from the beginning of the then current calendar year to the end of such calendar quarter, setting forth in each case in comparative form the corresponding figures for the corresponding periods of the previous year and the corresponding figures from the plan and financial forecast for the current year delivered pursuant to this Section, and (b) the consolidating financial statements of Royale and its Subsidiaries (including balance sheets and income statements segmenting any Subsidiaries of Royale or groups of Subsidiaries of Royale, as requested by Lender in its reasonable discretion) together with any adjustments and/or eliminations needed to reconcile such Subsidiary financial statements to the consolidated financial statements of Royale, all in reasonable detail (it being understood and agreed that, to the extent Royale's quarterly report filed on Form 10-Q with the Securities and Exchange Commission for such period contains the foregoing information, such quarterly report shall be deemed to comply with the foregoing requirements) and certified by the Chief Executive Officer or the Chief Financial Officer of Royale and Borrower stating that (x) such consolidated and consolidating financial statements fairly present, in all material respects, the financial condition of Royale and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments and (y) except as noted, there are no material differences between such consolidated financial statements of Royale and its Subsidiaries and the consolidated financial statements of Borrower and its Subsidiaries with respect to such quarter;

5.1.3 Year-End Financial Statements: as soon as available and in any event within 90 days after the end of each calendar year, commencing with respect to the calendar year ending December 31, 1997, (a) the consolidated balance sheet of Royale and its Subsidiaries as at the end of such calendar year and the related consolidated statements of income, stockholders' equity and cash flows of Royale and its Subsidiaries for such calendar year, setting forth in each case in comparative form the corresponding figures for the previous calendar year and the corresponding figures from the plan and financial forecast delivered pursuant to this Section for the calendar year covered by such consolidated financial statements, (b) the balance sheets and related income statements of each Property, (c) the

consolidating financial statements of Royale and its Subsidiaries (including balance sheets and income statements segmenting any Subsidiaries of Royale or groups of Subsidiaries of Royale, as requested by Lender in its reasonable discretion) together with any adjustments and/or eliminations needed to reconcile such Subsidiary financial statements to the consolidated financial statements of Royale, all of the foregoing in reasonable detail and certified by the Chief Executive Officer or Chief Financial Officer of Royale and Borrower stating that they present fairly, in all material respects, the financial condition of Royale and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, and (d) in the case of the consolidated financial statements referred to in clause (a), a report thereon of [Royale's accountants] or other independent accountants of recognized national standing selected by Royale and reasonably satisfactory to Lender, which report shall be unqualified, shall express no doubts about the ability of Royale and its Subsidiaries to continue as a going concern and shall state that such consolidated financial statements fairly present, in all material respects, the financial position of Royale and its

Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise disclosed in such financial statements) and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards;

5.1.4 Annual Operating Plan: as soon as available and in any event within 45 days after the end of each calendar year, an annual operating plan and budget for each Property, showing all anticipated operating revenues and expenses, capital expenditures, leasing activity, repairs and improvements, and such other matters as Lender shall reasonably require;

5.1.5 Officers' Certificates: together with each delivery of financial statements of Royale and its Subsidiaries pursuant to this Section, an Officers' Certificate of Royale and Borrower stating that (1) the signer has reviewed the terms of this Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the transactions and condition of Royale and its Subsidiaries and the Collateral during the accounting period covered by such financial statements, (2) such review has not disclosed the existence during or at the end of such accounting period, (3) the signer does not have knowledge of the existence as at the date of such Officers' Certificate, of any condition or event that constitutes an Event of Default or Potential Event of Default, or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action Royale and Borrower have taken, are taking and propose to take with respect thereto and (4) except for the minority interest reflected on the balance sheet of Borrower, such financial statements do not differ in any material respect from the corresponding consolidated financial statements of Borrower and its Subsidiaries;

5.1.6 Compliance Certificates: a Compliance Certificate demonstrating in reasonable detail compliance during and at the end of the applicable accounting periods with the covenants set forth in Section 6.7;

5.1.7 Accountants' Certification: together with each delivery of financial statements of Royale pursuant to Section 5.1.3 above, a written statement by the Loan Parties' Accountants or other independent accountants of recognized national standing selected by Royale and reasonably satisfactory to Lender giving the report thereon (a) stating in substance that their audit examination has included a review of the terms of this Agreement and the other Loan Documents as they relate to accounting matters, and (b) stating whether, in connection with their audit examination, any condition or event that constitutes an Event of Default or Potential Event of Default has come to their attention and, if such a condition or event has come to their attention, specifying the nature and period of existence thereof; provided, however, that such accountants shall not be liable by reason of any failure to obtain knowledge of any such Event of Default or Potential Event of Default that would not be disclosed in the course of their audit examination;

5.1.8 Accountants' Reports: promptly upon receipt thereof (unless restricted by applicable professional standards), copies of all reports submitted to Royale or any of its Subsidiaries by the Loan Parties' Accountants or any other independent accountants in connection with each annual, interim or special audit of the consolidated financial statements of Royale and its Subsidiaries made by such accountants, including any comment letter submitted by such accountants to management in connection

with their annual audit;

5.1.9 Reconciliation Statements: if, as a result of any change in accounting principles and policies from those used in the preparation of the audited financial statements referred to in Section 5.1.3, the consolidated financial statements of the Royale and its Subsidiaries delivered pursuant to this Section differ in any material respect from the consolidated financial statements that would have been delivered pursuant to such subdivisions had no such change in accounting principles and policies been made, then (a) together with the first delivery of such financial statements following such change, consolidated financial statements of Royale and its Subsidiaries for (1) the current calendar year to the effective date of such change and (2) the two full calendar years immediately preceding the calendar year in which such change is made, in each case prepared on a pro forma basis as if such change had been in effect during such periods, and (b) together with each delivery of such financial statements following such change, a written statement of the Chief Financial Officer or Chief Executive Officer of Royale and Borrower setting forth the differences which would have resulted in the calculation of the Borrowing Base and the covenants set forth in Section 5 if such Borrowing Base Certificate or financial statements, as the case may be, had been prepared without giving effect to such change;

5.1.10 Evidence of Insurance: together with the delivery of the foregoing statements, evidence reasonably satisfactory to Lender that the monthly premiums with respect to the insurance required to be maintained pursuant to the Loan Documents have been paid for the current month; provided that evidence previously delivered pursuant to this Section with respect to the prior payment of premiums for the current month need not be redelivered;

5.1.11 SEC Filings and Press Releases: promptly upon their becoming available, copies of (a) all financial statements, reports, notices and proxy statements sent or made available generally by Royale to its security holders, (b) all regular and periodic reports and all registration statements (other than on Form S-8 or a similar form) and prospectuses, if any, filed by Royale or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any Governmental Authority or private regulatory authority, and (c) all press releases and other statements made available generally by Royale or any of its Subsidiaries to the public or to the security holders of Royale;

5.1.12 Events of Default, etc.: promptly upon any Loan Party obtaining knowledge (a) of any condition or event that constitutes an Event of Default or Potential Event of Default, or becoming aware that Lender has given any notice or taken any other action with respect to a claimed Event

of Default or Potential Event of Default, (b) that any Person has given any notice to Royale or any of its Subsidiaries or taken any other action with respect to a claimed default or event or condition of the type referred to in Article 7 of any condition or event that constitutes or may (upon the giving or receiving of notice or the lapse of time, later, or otherwise) a default, a potential event of default, an event of default (in each case, as defined in the agreement or instrument creating, evidencing or governing any such Indebtedness) under or with respect to any Indebtedness of Royale and its Subsidiaries (other than the Indebtedness hereunder), or becoming aware that any agent, trustee, lender or security holder with respect thereto has given any notice or taken any other action with respect to such condition or event, (d) of any condition or event that would be required to be disclosed in a current report filed by Royale with the Securities and Exchange Commission on Form 8-K (Items 1, 2, 4, and 6 of such Form as in effect on the date hereof) if Royale were required to file such reports under the Exchange Act, or (e) of the occurrence of any event or change that has had, or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect, an Officers' Certificate specifying the nature and period of existence of such condition, event or change, or specifying the notice given or action taken by any such Person and the nature of such claimed Event of Default, Potential Event of Default, default, event or condition, and what action Royale and Borrower have taken, are taking and propose to take with respect thereto;

5.1.13 Litigation or Other Proceedings: (a) promptly upon Royale or Borrower obtaining knowledge of (x) the institution of any action, suit, proceeding (whether administrative, judicial or otherwise), governmental investigation or arbitration against or affecting Royale or any of its Subsidiaries, or any property of Royale or such Subsidiary (collectively, "Proceedings") not previously disclosed in writing by Royale or Borrower to the Lenders or (y) any material development in any Proceeding that, in any case:

(i) if adversely determined, could reasonably be expected to have, either individually or in the aggregate, a Material Adverse

Effect; or

(ii) seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated hereby; or

(iii) threatens the validity or priority of the Liens granted pursuant to the Loan Documents;

written notice thereof together with such other information as may be reasonably available to Royale or Borrower to enable Lender and its counsel to evaluate such matters; and (b) within 20 days after the end of each calendar quarter of Royale, a schedule of all Proceedings involving an alleged liability of, or claims against or affecting, Royale and its Subsidiaries which, if adversely determined, could reasonably be expected to result in a money judgment in excess of $1,000,000 individually or $5,000,000 in the aggregate (in either case

not adequately covered by insurance as to which a solvent and unaffiliated insurance company has accepted coverage), and promptly after request by Lender, such other information as may be reasonably requested by Lender to enable Lender and its counsel to evaluate any of such Proceedings;

5.1.14 Financial Plans: as soon as practicable and in any event no later than November 30 of each year, projected financial statements for each Property for the three next succeeding calendar years setting forth in detail each line item appearing in the form of financial statement set forth in Schedule 5.1.14 annexed hereto, together with an explanation of the assumptions on which such forecasts are based, and such other information and projections as Lender may reasonably request for any Property, all the Properties or Royale or any of its Subsidiaries; 5.1.15 Insurance: as soon as practicable and in any event by the last day of each calendar year, a report in form and substance reasonably satisfactory to Lender outlining all material insurance coverage maintained as of the date of such report by Royale and its Subsidiaries or, in lieu thereof, copies of such policies, and a report as to all material insurance coverage planned to be maintained by Royale and its Subsidiaries in the next succeeding calendar year to the extent varying from the description of that delivered or described;

5.1.16 Environmental Audits and Reports: as soon as practicable following receipt thereof, copies of all environmental audits and reports, whether prepared by personnel of Royale or any of its Subsidiaries or by independent consultants, with respect to material environmental matters at any Property or which relate to an Environmental Claim which could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect;

5.1.17 Board of Directors: with reasonable promptness, written notice of any change in the Board of Directors of Royale;

5.1.18 Change in Name or Chief Place of Business: (a) notification of any change in any Loan Party's name, identity or corporate structure within 60 days of such change and (b) 60 days' prior written notice of any change in any Loan Party's executive office or chief place of business;

5.1.19 Reduction of Property Amount or Property Adjusted Net Income: promptly after Borrower's acquiring actual knowledge of the same, an Officers' Certificate with respect to the occurrence or effectiveness of any event or condition that could reasonably be expected to cause the Property Amount or Property Adjusted Net Income with respect to any Property, as of any date of determination thereafter, to be reduced by more than the greater of (a) 10% as of such later date of determination or for any period and (b) $100,000; and

5.1.20 Other Information: with reasonable promptness, (a) information and other data revised to correct any erroneous information and other data previously delivered by Royale or Borrower to Lender pursuant to this

Agreement or included in any statement, report or certificate previously delivered by Royale or Borrower to Lender pursuant to this Agreement, together with such statement, report or certificate that shall have been revised to reflect such revised information and data, and (b) such other information and data with respect to the Loan Parties and their respective Subsidiaries, the Properties (separately and for all Properties), the Leases, the Management Agreements, the other Collateral and the other assets and liabilities of the Loan Parties and their respective Subsidiaries, all in form reasonably satisfactory to Lender, as from time

to time may be reasonably requested by Lender.

5.2 Entity Existence; Financial Matters; Control.

5.2.1 Entity Existence. Each Loan Party shall, and shall cause each of its Subsidiaries to, at all times preserve and keep in full force and effect its corporate or limited partnership existence and all Authorizations, rights and franchises material to its business.

5.2.2 Financial Matters. Royale and its subsidiaries, taken as a whole, shall (i) maintain financial statements, payroll records, accounting records and other corporate records and other documents separate from any other Person; (ii) maintain bank accounts in their own name or names, separate from any other Person; (iii) pay their own expenses and other liabilities from their own assets and incur (or endeavor to incur) obligations to other Persons based solely upon their own assets and creditworthiness and not upon the creditworthiness of any other Person; and (iv) file their own tax returns or join in the consolidated tax return of such group as a separate member thereof.

5.2.3 Change in Control. Without Lender's prior written consent, the Controlling Principals, in the aggregate, shall not cease at any time or for any reason to maintain, free of any Lien, beneficial ownership (as defined under Section 13(d) of the Exchange Act) of, and a direct economic interest in, at least the number of shares of common stock of Royale set forth on Schedule 5.2.3. For purposes of this Section, the computation of such number of common shares owned shall include the maximum number of such common shares into which the Controlling Principals are entitled to convert Partnership Interest units in FCOLP, without giving effect to applicable time limits and other restrictions on such conversion, or to any right given to Royale or FCOLP to deliver cash in lieu of shares upon any such conversion. The number of shares set forth on Schedule 5.2.3 shall be appropriately adjusted for stock splits or similar adjustments to the capitalization of Royale.

5.2.4 Employment of Controlling Principals. Prior to the first Anniversary, Royale shall not fail to appoint, or remove from office, Clay W. Hamlin III as its chief executive officer or other officer having substantially similar authority with respect to the operations and direction of Royale, except by reason of the death or disability of Clay W. Hamlin III.

5.3 Qualified Income Covenant; Common Stock.

5.3.1 Royale will conduct its affairs and the affairs of its Subsidiaries in a manner so as to (i) continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code and (ii) permit FCO to qualify as a "qualified REIT subsidiary" under Section 856(i) of the Internal Revenue Code.

5.3.2 Royale shall at all times hereafter (i) cause its Common Stock to be duly listed on the NASDAQ (Small Cap Exchange) or NYSE and (ii) shall timely file all reports required to be filed by it in connection therewith.

5.4 Taxes and Claims; Tax Consolidation.

5.4.1 Taxes and Claims. Each Loan Party shall, and shall cause each of its Subsidiaries to, pay or discharge or cause to be paid or discharged all Taxes and Impositions imposed upon any Loan Party or any of its Subsidiaries, or payable by any Loan Party or any of its Subsidiaries with respect to any Property or other assets or in respect of any of the franchises, business, income or other property of any Loan Party or any of its Subsidiaries before the same shall become delinquent and before any penalty accrues thereon, and will pay, discharge or otherwise satisfy or cause to be paid, discharged or otherwise satisfied at or before maturity or before they become delinquent, all Indebtedness, obligations and other claims (including claims for labor, supplies, materials and services that, if unpaid, might become a Lien on the property of any Loan Party or any of its Subsidiaries) of any Loan Party and its Subsidiaries; provided, however, that no such charge or claim needs to be paid if (i) such charge or claim is being diligently contested in good faith by appropriate proceedings, (ii) reserves reasonably required by Lender shall have been made therefor by such Loan Party or such Subsidiary, (iii) none of the Collateral is in jeopardy of being sold, forfeited or lost during or as a result of such contest, (iv) none of any Loan Party, or any of its Subsidiaries, Lender or any Lender is reasonably likely to become subject to any civil fine or penalty not adequately reserved against (in the case of any Loan Party or Subsidiary thereof) or criminal fine or penalty, in each case as a result of non-payment of such charge or claim and (v) such contest has not had and could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Each Loan Party shall, and shall cause each of its Subsidiaries to, deliver to Lender all receipts evidencing the payment of all such Taxes and Impositions with respect to any Property and, upon written request by Lender, all other Taxes, Impositions, assessments, levies, permits, fees, rents and other public charges imposed upon or in respect of or assessed against any Loan Party, any of its Subsidiaries or any of their respective

properties or assets except for those being paid or contested as described in the provisos above.

5.4.2 Tax Consolidation. Each Loan Party will not, and will not permit any of its Subsidiaries to, file or consent to the filing of any consolidated income tax return with any Person other than Royale and its Subsidiaries.

5.5 Maintenance of Properties; Repair; Alteration.

Borrower shall (i) maintain or cause to be maintained each Property and all other items of Collateral in a manner consistent for suburban office properties and related property, and shall keep or cause to be kept every part thereof in good condition and repair, reasonable wear and tear excepted, and make all reasonably necessary repairs, renewals or replacements thereto as may be reasonably necessary to conduct the business of Borrower; (ii) not remove,

demolish or structurally alter, or permit or suffer the removal, demolition or structural alteration of, any of the Improvements in respect of a Property except as required of Borrower or permitted for Tenants, or otherwise as permitted with the prior written consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed; (iii) complete promptly and in a good and workmanlike manner any Improvements which may be now or hereafter constructed on any Property and promptly restore in like manner any portion of the Improvements in respect of a Property which may be damaged or destroyed thereon from any cause whatsoever, and pay when due all claims for labor performed and materials furnished therefor (subject to the right to contest the amount of validity thereof in good faith); (iv) comply in all material respects with all Applicable Laws, applicable Insurance Requirements and all covenants, conditions and restrictions now or hereafter affecting any Property or other item of Collateral or any part thereof or requiring any alterations or Improvements; (v) not commit or permit any waste of the Collateral; and (vi) not remove any item of the Collateral constituting tangible personal property or fixtures without replacing it with a comparable item of equal or greater quality, value and usefulness, except that Borrower may sell or dispose of in the ordinary course of business any property which is obsolete or no longer useful in its business.

5.6 Rent Reserve Account.

Pursuant to a separate agreement between Borrower and its constituent partners, Borrower hereby directs Lender to fund the Rent Reserve Account by disbursing a portion of the proceeds of the Loan in the amount shown on Schedule 5.6 as the "Initial Deposit" and depositing such proceeds into the Rent Reserve Account. Lender shall have sole control over such account, and no Loan Party shall have any right to withdraw funds therefrom except as set forth in this Section. For so long as no Event of Default has occurred, Lender shall release funds from the Rent Reserve Account and apply the released funds directly to scheduled monthly payments of interest on the Loan the amounts shown on Schedule 5.6 at the times shown therein.

5.7 Tenanting Costs Reserve Account.

Borrower hereby directs Lender to fund the Tenanting Costs Reserve Account by disbursing a portion of the proceeds of the Loan in the amount shown on Schedule 5.7 as the "Initial Deposit" and depositing such proceeds into the Tenanting Costs Reserve Account. Lender shall have sole control over such account, and no Loan Party shall have any right to withdraw funds therefrom except as set forth in this Section. Lender shall release funds to Borrower from the Tenanting Costs Reserve Account following delivery to Lender of invoices and such supporting documentation as Lender shall reasonably require for Tenanting Costs which have been actually incurred by Borrower. Amounts on deposit in the Tenanting Costs Reserve Account shall be disbursed upon the request of Borrower only for the payment of expenses for capital improvements (including tenant improvements) in space within the Property and leasing commissions with respect to which funds have been budgeted for under the then-current approved capital expenditures budget, made in accordance with the terms hereof (collectively, the "Work") upon satisfaction of the following conditions:

(i) Prior to the commencement of any such Work, the plans and specifications for such Work, and the budgeted costs, shall be submitted to Lender for Lender's approval, which shall not be unreasonably withheld, conditioned or delayed.

(ii) Disbursements of such funds shall be made to Borrower within thirty days after Borrower delivers to Lender a properly completed request certificate in a form reasonably approved by Lender (the "Request Certificate"), signed on behalf of Borrower by a duly authorized representative of the general partner of Borrower, which

shall, among other things, certify (i) that Borrower has paid the amounts being required or shall pay such amounts out of the disbursement to the applicable general contractor, subcontractor of materialman, accompanied by any conditional lien waivers or other conditional releases it may reasonably request and (ii) that the amounts being requested, together with the amounts disbursed to date from the Tenanting Costs Reserve Account, do not exceed the budgeted cost thereof as set forth in the then-current approved capital expenditures budget.

(iii) Upon completion of such Work, final lien waivers shall have been obtained from the applicable general contractor and Borrower shall have furnished evidence reasonably satisfactory to Lender that the subcontractors and materialmen and subcontractors and submaterialmen have been paid in full.

5.8 Inspection; Lenders' Meeting; Appraisals.

5.8.1 Inspection and Lender Meeting. As often as may be reasonably requested, each Loan Party shall, and shall cause each of its Subsidiaries to, permit (i) any authorized representatives designated by Lender to visit and inspect any Property, subject to the rights of Tenants, and (ii) any authorized representatives designated by Lender to inspect the financial and accounting records, tenant leasing files and other management books and records of such Loan Party or Subsidiary, and to make copies and take extracts therefrom, and to discuss its and their affairs, operations, finances and accounts with its and their officers, property managers and independent accountants; provided that each such visit, inspection and discussion shall be made upon reasonable notice and at such reasonable times during normal business hours, with as little disruption of Borrower's and Tenants' business and operations as is reasonably practical.

5.8.2 Appraisals. If Lender shall advise Borrower by written notice that Lender believes that the value of one or more Properties has been adversely affected, for any reason, since the date of the most recent Appraisal thereof, promptly thereafter Borrower shall, at its expense, cause the preparation and delivery to Lender of an Appraisal of each such Property dated not more than 30 days prior to the date of such delivery, which Appraisal shall be prepared by an Appraiser reasonably designated by Lender and shall be satisfactory in form and substance to Lender; provided that, unless an Event of Default shall have occurred and be continuing, no Property shall be appraised pursuant to this Section more than once each calendar year. If any Loan Party or any of its Subsidiaries obtains an appraisal of one or more of the Properties other than pursuant to this Section, Borrower shall deliver a copy of such appraisal to Lender promptly upon the completion thereof and Lender shall, subject to Applicable Laws and provided that the Appraiser is satisfactory to Lender and the appraisal is satisfactory in form and substance to Lender, treat such appraisal as an "Appraisal."

5.9 Compliance with Laws, Authorizations, etc.

Each Loan Party shall, and shall cause each of its Subsidiaries and all Persons occupying any Properties to, comply in all material respects with the requirements of all Applicable Laws. Each Loan Party shall, and shall cause each of its Subsidiaries to, keep all material Authorizations which are from time to time required for the use and operation of each Property in full force and effect.

5.10 Performance of Loan Documents and Related Documents

Each Loan Party shall, and shall cause each of its Subsidiaries to, observe and perform, or cause to be observed and performed, all its covenants, agreements, conditions and requirements contained in each of the Loan Documents to which it is or will be a party in accordance with the terms thereof and will maintain the validity and effectiveness of such Loan Documents.

5.11 Payment of Liens

5.11.1 Removal by Loan Parties. If a Lien not permitted under this Agreement may encumber any Property or other item of Collateral or any portion thereof, Borrower shall promptly discharge or cause to be discharged by payment to the lienor or lien claimant or promptly secure removal by bonding or deposit with the county clerk or otherwise or, at Lender's option, promptly obtain insurance against, any such Lien or mechanics' or materialmen's claims of lien filed or otherwise asserted against any Property or any other item of Collateral or any portion thereof within 60 days after the date of notice thereof, but compliance with the provisions of this Section shall not be deemed to constitute a waiver of the provisions of Section 6.3. Borrower shall exhibit to Lender upon request all receipts or other satisfactory evidence of payment, bonding, deposit of taxes, assessments, Liens or any other item which may cause any such Lien to

be filed against any Property or other item of Collateral of any Borrower. Each Borrower shall fully preserve the Lien and the priority of each of the Mortgages and the other Security Documents without cost or expense to Lender.

5.11.2 Removal of Lender. If any Borrower fails to promptly discharge, remove or bond off any such Lien or mechanics' or materialmen's claim of lien as described above within 60 days after the receipt of notice thereof, then Lender may, but shall not be required to, procure the release and discharge of such Lien, mechanics' or materialmen's claim of lien and any judgment or decree thereon, and in furtherance thereof may, in its sole discretion, effect any settlement or compromise with the lienor or lien claimant or post any bond or furnish any security or indemnity as Lender, in its sole discretion, may elect. In settling, compromising or arranging for the discharge of any Liens under this Section, Lender shall not be required to establish or confirm the validity or amount of the Lien. Borrower agrees that all costs and expenses expended or otherwise incurred pursuant to this Section (including reasonable attorneys' fees and disbursements) by Lender shall be paid by Borrower in accordance with the terms hereof.

5.11.3 Title Searches. Lender may, at any time and at the expense of Borrower, obtain an updated title and/or lien search regarding any Property or Collateral, or any portion thereof; provided that, unless Lender reasonably believes that a Lien not otherwise permitted under this Agreement may encumber any Property or Collateral or any portion thereof or an Event of Default shall have occurred and be continuing, Lender may so obtain such search with respect to such Property or Collateral or portion thereof not more than once each calendar year.

5.12 Insurance

5.12.1 Risks to be Insured. With respect to each Property, each Borrower shall procure and maintain continuously in effect, insurance coverage issued by an insurer (i) authorized to issue such insurance in all applicable jurisdictions, (ii) rated "A" (or its equivalent) or better by Alfred M. Best Company, Inc., (iii) with a financial size rating of VIII (or its equivalent) or better, by Alfred M. Best Company, Inc., and (iv) otherwise satisfactory to Lender; provided, however, that (1) each insurer of Royale's or any of its Subsidiaries' umbrella liability insurance policies as of the Closing Date (and any renewal thereof by such insurers), may be rated "A-" (or its equivalent) by Alfred M. Best Company, Inc.; it being understood and agreed that such carrier(s) shall comply with the requirement set forth in clause (ii) above, and (2) as of the Closing Date, the insurers of Royale's or any of its Subsidiaries' earthquake, flood and wind insurance policies (and any renewals thereof by such insurers, respectively) may be rated "A-" (or its equivalent) by Alfred M. Best Company, Inc. and have a financial size rating of "VIII" (or its equivalent) by Alfred M. Best Company, Inc.; it being understood and agreed that, in the event Royale or any of its Subsidiaries procures any earthquake, flood or wind insurance from a carrier other than the carrier providing such insurance on the Closing Date, such carrier shall comply with the requirements set forth in clauses (ii) and (iii) above unless otherwise approved by Lender. Each Loan Party shall pay, and shall cause each of its Subsidiaries to pay, in a timely manner all premiums due in connection therewith. All insurance policies shall be issued by insurers doing business as admitted licensed carriers in the state where such Property is located, and shall be authorized and licensed to issue insurance in such state unless otherwise approved by Lender in its sole discretion. The insurance to be procured and maintained by Royale and its Subsidiaries is the following:

5.12.1.1 Casualty. Borrower shall keep each Property insured for the benefit of Lender, in each case, as follows:

(a) All Risk of Physical Loss. Insurance with respect to the Improvements now or hereafter located on the Properties and any alterations or additions thereto and the furniture, fixtures and equipment against any peril included within the classification "All Risks of Physical Loss" with extended coverage (including fire, lightning, windstorm, sprinkler, hail, explosion, riot, riot attending a strike, civil commotion, vandalism, malicious mischief, terrorist

acts, aircraft, vehicle, sinkholes and smoke) in an amount equal to the full insurable value of such Improvements and such furniture, fixtures and equipment. The term "full insurable value" shall mean the actual replacement cost of such Improvements and such furniture, fixtures and equipment (without taking into account any depreciation, and exclusive of excavations, footings and foundations, landscaping and paving) determined every five years by an insurer upon the request of Lender, a recognized independent insurance broker or an appraiser selected (and approved by Lender) and paid by the applicable Loan

Party or its Subsidiary; provided, however, that such amount shall be sufficient to prevent such Loan Party or such Subsidiary from becoming a co-insurer, and the policy shall contain a stated value endorsement to that effect.

(b) Builder's Risk. During any period of construction of Improvements and any repair, Restoration, Renovation or replacement thereof, a standard builder's all risk policy (completed value non-reporting form) or equivalent coverage under the policy described in subclause (i)(a) above for an amount at least equal to the full insurable value of the work to be performed and equipment, supplies and materials to be furnished, as shall be reasonably approved by Lender for such purpose, the coverage of which shall include the hazards described in Section 5.12.1.1(a) and building collapse; provided, however, that such policy may be obtained by a contractor if it names Lender and Borrower as additional named insureds and if it otherwise complies with this Agreement. Such policy shall contain a stated value endorsement so that no co-insurance provision shall be applicable to any loss thereunder. Such policy shall contain the provision that "permission is hereby granted to complete and/or occupy" upon the earlier to occur of substantial completion of any discrete increment of the work or a Tenant taking occupancy of any Property (or portion thereof) as to which work was being performed.

(c) Flood. Insurance against damage or loss by flood as to any Property that is located in an area now or subsequently designated as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968 or the Flood Disaster Protection Act of 1973,or the National Flood Insurance Reform Act of 1994, as such Acts may be amended, modified, supplemented or replaced from time to time, on such basis and not less than such amounts as shall be reasonably approved by Lender, but not less than the amount required by law. If any Loan Party or any of its Subsidiaries fails to obtain flood insurance as required, Lender may purchase such flood insurance, and Borrower shall pay all premiums and other costs and expenses incurred by Lender.

(d) Boilers. Broad form boiler and machinery insurance (without exclusion for explosion) covering all boilers, boiler tanks, heating and air conditioning equipment, pressure vessels, auxiliary piping and similar apparatus, machinery and equipment located in, on or about each Property insuring against damage or loss from boilers, boiler

tanks, heating and air conditioning equipment, pressure vessels, auxiliary piping and similar apparatus, machinery and equipment and insurance against loss of occupancy or use arising from any such breakdown in such amounts as are generally available at reasonable premiums and are generally required by institutional lenders for properties comparable to the Properties.

(e) Business Interruption or Rental Income Insurance. Business interruption and/or loss of rental value or use and occupancy insurance insuring against business interruption at and against loss of rental income from each Property due to any of the hazards listed in Section 5.12.1.1(a) above in an amount sufficient to avoid any co-insurance penalty and to provide proceeds for a period not less than one year of loss.

5.12.1.2 Workers' Compensation. Each Loan Party shall maintain, and shall cause each of its Subsidiaries to maintain, for itself and for each Property at which such Loan Party or such Subsidiary maintains employees, statutory workers' compensation insurance (to the extent the risks to be covered thereby are not already covered by other policies of insurance maintained by such Loan Party or such Subsidiary), in statutory amounts as required by law (including employer's liability insurance), except in those states where such Loan Party elects to not subscribe to the workers' compensation statute. If the applicable Loan Party elects to not subscribe to the workers' compensation statute, such Loan Party shall have a benefit program and employees' legal liability coverage to respond to claims that would otherwise be covered by a standard policy of workers' compensation.

5.12.1.3 Liability. Royale and its Subsidiaries shall procure and maintain:

(a) Comprehensive General Liability Insurance. Comprehensive general liability insurance, on an occurrence basis in the amount of $1,000,000 per occurrence per Property and $3,000,000 in the aggregate per Property covering each Loan Party, each of its Subsidiaries and Lender against claims for bodily injury, death and property damage (including claims and legal liability to the extent insurable imposed upon Lender and all court costs and attorneys' fees and expenses), arising out of or connected with the possession, use, leasing,

operation, maintenance or condition of each Property or occurring in, upon or about or resulting from each Property, or any drive, sidewalk, curb or passageway adjacent thereto (to the extent insurable), which insurance shall include blanket contractual liability coverage which insures contractual liability (to the extent insurable) under the indemnification set forth in Section 8.3 of this Agreement (but such coverage or the amount thereof shall in no way limit such indemnification), garage liability (if applicable), products liability (if applicable) and elevator liability (if applicable) coverage and during any period of construction of any Improvements, owner's and contractor's protective liability coverage, including completed operations liability coverage. If any of the coverages referred to in this Section are obtained under a so called "blanket" policy with more

than one Property covered, the policy shall contain an "individual aggregate per location/project" endorsement.

(b) General Liability and Property Damage. Commercial general liability and property damage insurance on an occurrence basis in connection with any construction being performed at any Property, to be carried by any contractor or construction manager or by any Person, including any Loan Party or any of its Subsidiaries, performing a similar function, including "Builders Risk" coverage in the amount of $1,000,000 per occurrence and $3,000,000 in the aggregate.

(c) Liquor Liability and Dram Shop Insurance. For any Property on which Borrower operates a liquor business in which liquor is served, liquor liability and dram shop insurance on such basis and in such amounts as shall be reasonably required by Lender in a minimum amount of $1,000,000 per occurrence and $3,000,000 in the aggregate for Properties.

(d) Umbrella or Excess Liability Insurance. Umbrella or excess liability insurance, on an incurrence basis in the amount of at least $50,000,000 per occurrence and in the aggregate per year covering each Loan Party, each of its Subsidiaries and Lender against claims for damages in excess of all primary liability policies.

5.12.1.4 Additional Insurance. Each Loan Party shall procure and maintain, and shall cause each of its Subsidiaries to procure and maintain, such other insurance with respect to the Properties against loss or damage of the kinds from time to time customarily insured against and in such amounts as are generally available at reasonable premiums and are generally required by institutional lenders for properties comparable to the Properties.

5.12.2 Policy Provisions. Each policy of insurance maintained in respect of Borrower and/or any Property pursuant to this Section shall (a) in the case of each category of public liability insurance, name Borrower as insured and name Lender as an additional insured, and in the case of all other insurance required under this Agreement, as an additional insured or as a loss payee, as Lender shall require; (b) except in the case of public liability insurance and workers' compensation insurance, provide that all proceeds thereunder shall be payable to Lender pursuant to a standard first mortgagee endorsement, without contribution, that all losses with respect to each Property shall be paid directly to Lender, without contribution by any similar insurance carried by Lender and that adjustment and settlement of any material loss shall be subject to the reasonable approval of Lender; (c) include effective waivers by the insurer of all rights of subrogation against any loss payee, additional insured or named insured; (d) permit Lender to pay the premiums and continue any insurance upon failure of such Loan Party or such Subsidiary, as the case may be, to pay premiums when due, upon the insolvency of such Loan Party or such Subsidiary, as the case may be, or through foreclosure; (e) to the extent such provisions are

reasonably obtainable, provide that such insurance shall not be impaired or invalidated by virtue of (i) any act, failure to act, negligence of, or violation of declarations, warranties or conditions contained in such policy by Borrower, Lender, or any other named insured, additional insured or loss payee, except for the willful misconduct of Lender knowingly in violation of the conditions of such policy, (ii) the occupation or use of such Property for purposes more hazardous than permitted by the terms of the policy, (iii) any foreclosure or other proceeding or notice of sale relating to such Property or (iv) any change in the possession of such Property without a change in the identity of the holder of actual title to such Property; (f) be subject to a deductible, if any, not greater than $100,000 (or, with respect to coverage for wind damage, such greater amount as shall not exceed 5.0% of the affected Property's agreed value); (g) contain an endorsement providing that neither Lender nor Borrower shall be, or shall be deemed to be, a co-insurer with respect to any risk insured by such policy; and (h) provide that if all or any

part of such policy shall be canceled or terminated, or shall expire, the insurer will forthwith give notice thereof to Lender and each additional insured and loss payee and that no cancellation, termination, expiration, reduction in amount of, or material change (other than an increase) in, coverage thereof shall be effective until at least 30 days after receipt by Lender and each additional insured and loss payee of written notice thereof.

5.12.3 Increases in Coverage.. The policy limits of any policy of insurance required hereunder shall be increased from time to time to reflect what a reasonable prudent owner of land and improvements similar in type and locality to each Property would carry.

5.12.4 Payment of Proceeds. If any such insurance proceeds required to be paid to Lender are instead made payable to Borrower, Royale or any Subsidiary thereof, each of Borrower and Royale hereby appoints Lender as its attorney-in-fact, irrevocably and coupled with an interest, to endorse and/or transfer any such payment to Lender.

5.12.5 Delivery of Counterpart Policies; Evidence. Each Loan Party shall deliver, and shall cause each of its Subsidiaries to deliver, to Lender on or before the Closing Date evidence acceptable to Lender for the valid policies of insurance required by this Agreement or any other Loan Document to be carried evidencing (i) the issuance of such policies, (ii) the payment of all premiums payable for the period ending not earlier than the first Anniversary and (iii) coverage which meets all of the requirements set forth in this Agreement. At each time after the Closing Date that any Loan Party or any of its Subsidiaries is required by this Agreement or by any Security Document or any other Loan Document to deliver evidence of insurance, such Loan Party shall deliver, or shall cause such Subsidiary to deliver, such evidence of valid policies of insurance acceptable to Lender evidencing (a) the issuance of the policies of insurance required by this Agreement or other Loan Document to be carried, (b) the payment of all premiums then due to the applicable insurer, (c) coverage which meets all of the requirements set forth in this Agreement or other Loan Document, and (d) that the required policies are in full force and effect.

5.12.6 Replacement or Renewal Policies. Not less than 30 days prior to the expiration, termination or cancellation of any insurance policy which any Loan Party or any of its Subsidiaries is required to maintain hereunder, such Loan Party shall obtain, or shall cause such Subsidiary to obtain, a replacement or renewal policy or policies (or a binding commitment for such replacement or

renewal policy or policies), which shall be effective no later than the date of the expiration, termination or cancellation of the previous policy, and shall deliver to Lender a valid binder in respect of such policy or policies in the same form and containing the same information as the expiring policy or policies required to be delivered by each Loan Party and its Subsidiaries pursuant to this Section or a copy of the binding commitment for such policy complying with all the requirements of this Section, followed by a certified true copy of the policy or policies when issued.

5.12.7 Material Change in Policy. Each Loan Party shall deliver, and shall cause each of its Subsidiaries to deliver, to Lender concurrently with each material change in any insurance policy covering any part of the Properties required to be maintained by each Loan Party and its Subsidiaries hereunder, a valid binder or policy endorsement with respect to such changed insurance policy certified by the insurance company issuing such policy, in the same form and containing the same information as the original evidence of insurance required to be delivered by each Loan Party and its Subsidiaries pursuant to this Section.

5.12.8 Separate Insurance. No Loan Party will take out, nor will it permit any of its Subsidiaries to take out, separate insurance concurrent in form or contributing in the event of loss with that required to be maintained pursuant to this Section unless such insurance complies with all of the requirements of this Section.

5.13 Casualty and Condemnation; Restoration

5.13.1 Notice of Casualty. Upon the occurrence of any damage to or loss or destruction of all or any portion of any Property, whether or not covered by insurance, which will cost (or may reasonably be expected to cost) more than $500,000 to Restore, as reasonably determined by Borrower and so certified in an Officers' Certificate delivered to Lender, (i) Borrower shall promptly deliver to Lender written notice of the same which shall, among other things, describe such casualty, and (ii) as soon as practicable but in any event prior to the commencement of Restoration of such Property, Borrower shall deliver to Lender a notice of its intended course of action with respect to such Restoration, in such detail as Lender shall reasonably require.

5.13.2 Insurance Proceeds. All Insurance Proceeds in respect of a Property and the right thereto are hereby irrevocably assigned and pledged by each Loan Party to Lender for the benefit of the Lenders, and Lender on behalf of the

Lenders is authorized, at its option, to collect and receive all of the same and to give proper receipts and acquittances therefor; provided, however, that if no Event of Default shall have occurred and be continuing such Loan Party shall have the right to direct Lender to apply Insurance Proceeds in accordance with Sections 5.13.6. If no Event of Default shall have occurred and be continuing, to the extent not inconsistent with the requirements of Sections 5.13.5 and 5.13.6, such Loan Party shall have the right to direct Lender (1) to pay to such Loan Party all Insurance Proceeds with respect to such casualty affecting a Property which will cost (or may reasonably be expected to cost) less than $500,000 to Restore and (2) to pay to such Loan Party all proceeds of any

related business interruption insurance. Each Loan Party agrees to execute and to cause each of its Subsidiaries to execute such further assignments and pledges of any Insurance Proceeds in respect of the Properties as Lender may reasonably require and shall otherwise cooperate with Lender in obtaining for Lender the benefit of any Insurance Proceeds lawfully or equitably payable in respect of any such Property, subject to the provisos above. If, prior to the receipt by Lender of such Insurance Proceeds, any Property shall have been transferred upon foreclosure of the applicable Mortgage (or by deed in lieu thereof), Lender shall have the right to receive such Insurance Proceeds to the extent (x) such Insurance Proceeds are attributable to a casualty occurring prior to foreclosure or delivery of any deed in lieu thereof and (y) of any deficiency found to be due upon such sale, with legal interest thereon, and reasonable counsel fees, costs and disbursements incurred by Lender in connection with the collection of such Insurance Proceeds. Lender may, but shall not be obligated to, make proof of loss if not made promptly by the applicable Loan Party or Subsidiary thereof. During the continuance of an Event of Default, Lender is hereby authorized and empowered by each of Royale and Borrower to settle, adjust or compromise any claims for damage, destruction or loss thereunder, with or without the consent of any Loan Party or any of its Subsidiaries (and each of Royale and Borrower hereby irrevocably appoints and constitutes Lender as Royale's and Borrower's lawful attorney-in-fact, coupled with an interest and with full power of substitution, for such purpose). In no event shall any Loan Party or any of its Subsidiaries settle, adjust or compromise any claim for Insurance Proceeds in respect of any Property in excess of $500,000 without the prior written consent of Lender, which shall not be unreasonably withheld, conditioned or delayed. If any Loan Party or any of its Subsidiaries receives any Insurance Proceeds resulting from such casualty in respect of any Property, such Loan Party or Subsidiary shall promptly endorse and transfer, or cause such Subsidiary to endorse and transfer, such excess Insurance Proceeds to Lender and each Loan Party covenants that until so paid over to Lender, such Loan Party or such Subsidiary, as applicable, shall hold such Insurance Proceeds in trust for the benefit of Lender and shall not commingle such Insurance Proceeds with any other funds or assets of such Loan Party or Subsidiary or any other Person.

5.13.3 Notice of Condemnation; Negotiation and Settlement of Claims. The Loan Parties shall, and shall cause their respective Subsidiaries to, promptly deliver written notice to Lender upon obtaining knowledge of the institution, or the proposed institution, of any bona fide action or proceeding for the Taking of all or any portion of any Property. Lender shall have the right to participate in any negotiation, action or proceeding relating to any such action or proceeding affecting any Property, and no settlement or compromise of any claim in connection with any such action or proceeding shall be made without the consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed. Upon the occurrence of any Taking with respect to a Property which will cost (or may reasonably be expected to cost) more than $500,000 to Restore, as reasonably determined by Borrower and so certified in an Officers' Certificate delivered to Lender, as soon as practicable thereafter but in any event not less than 20 days prior to the commencement of any Restoration of such Property, Borrower shall deliver to Lender a notice of its intentions with respect to such renovation in such detail as Lender shall require.

5.13.4 Condemnation Proceeds. All Condemnation Proceeds in respect of each of the Properties and the right thereto are hereby irrevocably assigned and pledged by each Loan Party to Lender for the benefit of the Lenders, and Lender on behalf of the Lenders is authorized, at its option, to collect and receive

all such Condemnation Proceeds and to give proper receipts and acquittances therefor; provided, however, (x) if no Event of Default shall have occurred and be continuing, such Loan Party shall have the right to direct Lender to apply Condemnation Proceeds in accordance with Section 2.7.2 (without application of the minimum amount requirements contained therein) and (z) if no Event of Default shall have occurred and be continuing, such Loan Party shall have the right to direct Lender to pay such Loan Party all Condemnation Proceeds with respect to a Taking affecting a Property which will cost (or may reasonably be expected to cost) less than $500,000 to Restore. Each Loan Party agrees to execute, and to cause each of its Subsidiaries to execute, such further assignments of any Condemnation Proceeds in respect of any Property as Lender

may reasonably require and shall otherwise cooperate with Lender in obtaining for Lender the benefit of any Condemnation Proceeds lawfully or equitably payable in respect of such Property, subject to the provisos above. If, prior to the receipt by Lender of such Condemnation Proceeds, the portion of the Property, subject to such action or proceeding shall have been sold on foreclosure of the applicable Mortgage (or by deed in lieu thereof), Lender shall have the right to receive such Condemnation Proceeds to the extent (x) such Condemnation Proceeds are attributable to a Taking occurring prior to foreclosure or delivery of any deed in lieu thereof and (y) of any deficiency found to be due upon such sale, with legal interest thereon, and reasonable counsel fees, costs and disbursements incurred by Lender in connection with the collection of such Condemnation Proceeds. Lender may, but shall not be obligated to, make proof of loss if not made promptly by the applicable Loan Party or Subsidiary thereof. Upon the occurrence and during the continuance of an Event of Default (but not otherwise), Lender is hereby authorized and empowered by each Loan Party to settle, adjust or compromise any claims for Condemnation Proceeds with or without the consent of such Loan Party or any of its Subsidiaries (and each of the Royale and Borrower hereby irrevocably appoints and constitutes Lender as its lawful attorney-in-fact, coupled with an interest and with full power of substitution, for such purpose). In no event shall any Loan Party or any of its Subsidiaries settle, adjust or compromise any claim for Condemnation Proceeds in respect of any Property without the prior written consent of Lender, which shall not be unreasonably withheld, conditioned or delayed. Each condemnor concerned is hereby authorized and directed to make payment of all Condemnation Proceeds in respect of each of the Properties payable by it directly to Lender. If any Loan Party or any of its Subsidiaries receives any Condemnation Proceeds resulting from such condemnation in respect of any Property, such Loan Party or such Subsidiary shall promptly endorse and transfer such excess Condemnation Proceeds to Lender and each Loan Party covenants that until so paid over to Lender, such Loan Party or Subsidiary, as the case may be, shall hold such Condemnation Proceeds in trust for the benefit of Lender and shall not commingle such Condemnation Proceeds with any other funds or assets of such Loan Party or Subsidiary or any other Person.

5.13.5 Repayment of Loan; Payment of Release Price; Conditions to Restoration. In the event of any casualty or Taking with respect to a Property, which will cost (or may reasonably be expected to cost) more than $500,000 to Restore, as reasonably determined by Borrower and so certified in an Officers' Certificate delivered to Lender, Borrower shall elect by written notice delivered to Lender as soon as practicable thereafter, but in any event before the earlier of (x) 30 days after the occurrence of such casualty or Taking and (y) the commencement of the Restoration of such Property, either:

5.13.5.1 to prepay the Loan in an amount equal to the Net Insurance/Condemnation Proceeds with respect to such Property; or

5.13.5.2 if all the following conditions shall be satisfied, to Restore such Property in accordance with Section 5.13.6:

(a) the Maturity Date shall then not have occurred;

(b) no Potential Event of Default (other than any Potential Event of Default caused solely by an event or condition with respect to another Property) or Event of Default shall have occurred and be continuing or would be caused by such Restoration;

(c) Lender shall have determined, in its reasonable discretion and after considering such written opinions of architects and engineers and other written information as Borrower shall timely deliver to Lender, that Restoration of such Property is, under the circumstances then existing, physically and economically feasible and can be completed on or before a date not less than three months prior to the Maturity Date;

(d) Borrower shall have business interruption or rental income insurance complying with this Agreement in an amount at least equal to the reduction in Property Adjusted Net Income with respect to such Property, if any, which Borrower reasonably expects to suffer during the period of Restoration;

(e) either (1) the Net Insurance/Condemnation Proceeds shall be sufficient to complete the costs of such Restoration, as determined by Lender in its reasonable discretion, or (2) Borrower shall have provided, at Borrower's option, a cash deposit or a letter of credit satisfactory to Lender, in its reasonable discretion (or other collateral reasonably satisfactory to Lender), for the amount of any shortfall in the amount of Net Insurance/Condemnation Proceeds necessary to cover the costs to complete such Restoration; and

(f) Lender shall have received an Appraisal satisfactory to Lender demonstrating that the aggregate Appraised Values of all

Properties following such Restoration shall not be less than the then-current Outstanding Loan Amount.

If the Loan Parties and their respective Subsidiaries shall fail to satisfy the conditions set forth herein with respect to the related Property, or shall fail to diligently and continuously prosecute the Work to completion (other than as a result of Excusable Delay), as determined by Lender, in its reasonable discretion, then Borrower shall prepay the Loan in an amount equal to the Release Price with respect to such Property and Lender shall apply any or all remaining Insurance Proceeds or Condemnation Proceeds, as applicable, towards such prepayment.

5.13.6 Restoration with Net Insurance/Condemnation Proceeds. In the event of any casualty or Taking with respect to a Property, which will cost (or may reasonably be expected to cost) more than $500,000 to Restore, as reasonably determined by Borrower and so certified in an Officers' Certificate delivered to Lender, if any of the Loan Parties and their respective Subsidiaries elects to Restore a Property, pursuant to this Section and the conditions set forth in Section 5.13.5.2 are satisfied, all Net Insurance/Condemnation Proceeds shall be held by Lender in an interest-bearing account at Lender, with all interest to be held therein until completion and final inspection of the Work, and shall be applied by Lender to the payment of the cost of Restoring such Property so damaged or destroyed or of the portion or portions of such Property not so Taken (the "Work") and shall be paid out from time to time to Borrower as the Work progresses, subject to retainage as reasonably determined by Lender in accordance with construction lending practices and otherwise in accordance with any conditions reasonably imposed by Lender but subject to each of the following conditions:

5.13.6.1 Subject to Excusable Delays, Borrower shall promptly (and in any event within 120 days after the applicable casualty or Taking) commence, or cause the commencement of, Restoration of such Property.

5.13.6.2 If the Work is structural or if the cost of the Work, as estimated by Borrower, shall exceed 15% of the Property Amount with respect to such Property the Work shall be in the charge of an architect or Engineer (who may be an employee or Affiliate of Borrower only if the cost of the Work does not exceed such lesser amount), and before Borrower commences any Work, other than temporary work to protect property or prevent interference with business, Lender shall have approved the plans and specifications and the general contract for the Work to be submitted by Borrower, which approval shall not be unreasonably withheld, conditioned or delayed. Such plans and specifications shall provide for such Work that, upon completion thereof, the Improvements shall (x) be in compliance in all material respects with all legal requirements such that all representations or warranties of the Loan Parties relating to the compliance of such Property with Applicable Laws in this Agreement or any of the other Loan Documents would then be true and correct, and (y) be at least equal in value and general utility to the Improvements which were on such Property prior to the damage, destruction or Taking. Such plans and specifications shall be accompanied by (1) a signed estimate of Borrower, or, if an architect or Engineer is required to supervise the Work, such architect or Engineer, stating the estimated cost of completing the Work, which estimate shall bear the architect's or Engineer's seal if not made by Borrower and (2) to the extent necessary at such stage of the Work, certified copies of all Authorizations required in connection with the commencement and performance of the Work.

5.13.6.3 Each request for payment shall be made on seven days' prior notice to Lender and shall be accompanied by paid invoices and by (a) a certificate to be made by such architect or Engineer, if one be required under clause (ii) above, otherwise by an Officers' Certificate of Borrower, stating that (1) all of the Work completed has been done in substantial

compliance with the approved plans and specifications, if any be required under said clause (ii) above, and (2) the sum requested is justly required to reimburse Borrower for payments made by Borrower to, or is justly due to, the contractor, subcontractors, materialmen, laborers, engineers, architects or other Persons rendering services or materials for the Work (giving a brief description of such services and materials), and that when added to all sums previously paid out by Lender does not exceed the cost of the Work done to the date of such certificate, and (b) an Officers' Certificate of Borrower stating either that (x) the amount of such proceeds remaining in the hands of Lender, or (y) the amount of such funds, plus funds in the hands of the applicable Loan Party or Subsidiary thereof from other sources irrevocably committed to the completion of the Work in a manner reasonably satisfactory to Lender (including delivery of such funds to Lender for application to pay the costs of the Restoration), will be

sufficient on completion of the Work to pay for the same in full (giving in such reasonable detail as Lender may require an estimate of the cost of such completion). Lender may require that any such statements be independently verified by an inspector approved by Lender.

5.13.6.4 Each request shall be accompanied by waivers of lien satisfactory to Lender covering that part of the Work for which payment or reimbursement has been made (or other evidence as shall be satisfactory to Lender in its sole discretion confirming that no rights of mechanics, contractors, subcontractors, materialmen or suppliers are outstanding in respect of such Work) and by a search prepared by the Title Company reasonably satisfactory to Lender establishing that there has not been filed with respect to such Property any mechanics' or other lien or instrument for the retention of title in respect of any part of the Work not discharged of record or bonded to the reasonable satisfaction of Lender and evidencing the continued priority of the Mortgage and Assignment of Rents and Leases on such Property.

5.13.6.5 The available Insurance Proceeds or Condemnation Proceeds which are paid or will be payable by the insurance company (together with any cash, irrevocable letter of credit, payment or performance bond or United States government obligation assigned to Lender as collateral, in each case reasonably acceptable to Lender as to amount, obligor and maturity) are, in the reasonable judgment of Lender, sufficient to pay in full the costs of the Restoration.

5.13.6.6 There shall be no Event of Default or Potential Event of Default (other than any Potential Event of Default caused solely by an event or condition with respect to another Property).

5.13.6.7 The request for any payment after the Work has been completed shall be accompanied by (a) a copy of any certificate or certificates required by law to render occupancy of the improvements being rebuilt, repaired or restored legal; and (b) final lien waivers for all labor, materials and supplies from all contractors, subcontractors and materialmen, except with respect to claims or rights being contested or bonded in accordance with the provisions hereof.

5.13.6.8 After commencing the Work, Borrower shall, subject to Excusable Delays, perform the Work diligently and in good faith in a good and workmanlike manner to completion in accordance with the approved plans and specifications, if any.

5.13.6.9 Lender shall have received "agreements to complete" of the general contractor and any independent architects or Engineers, which agreements to complete shall be in form and substance reasonably satisfactory to Lender.

5.13.6.10 Borrower shall have obtained and maintained, or shall have caused the applicable Loan Party or Subsidiary thereof to obtain and maintain, completed value builders' risk (all risk) insurance in accordance with this Agreement.

All costs and expenses of any Restoration, including, without limitation, any Work, Engineer's fees, architect's fees or contractors fees and the cost and expenses of complying with this Section, shall be for the account of Borrower. Upon completion of the Work and payment in full therefor, Borrower shall promptly deliver to Lender a Completion Certificate with respect thereto, together with all final lien waivers in form and substance reasonably satisfactory to Lender, and Lender shall return to Borrower the amount of any unspent Insurance Proceeds or Condemnation Proceeds then or thereafter in the hands of Lender on account of the casualty or Taking that necessitated such Work, together with all undisbursed accrued interest thereon. Nothing in this Section shall prevent Lender from applying at any time all or any part of the Insurance Proceeds or Condemnation Proceeds to the curing of any Event of Default under this Agreement or any other Loan Document.

5.13.7 Engineer's Inspection. At any time after Lender becomes aware of a casualty or Taking involving an aggregate amount in excess of $500,000 (as reasonably determined by Borrower and so certified in an Officers' Certificate delivered to Lender) Lender may hire an independent engineer to inspect the applicable Property and Lender may deem any related Restoration not complete unless the engineer reasonably determines that the Restoration was completed in accordance with this Agreement. The cost of such inspection shall be for the account of Borrower.

5.14 Brundage Clause

In the event of the enactment of or change in (including a change in interpretation of) any Applicable Law (i) deducting or allowing any Loan Party or any of its Subsidiaries to deduct from the value of any Property for the

purpose of taxation any Lien thereon, (ii) subjecting any Lender to any tax in respect of, or changing the basis of taxation in respect of, the Mortgages, or the manner of collection of such taxes (other than Taxes on net income, franchise taxes and doing business taxes), or (iii) for the taxation of mortgages or debts secured by mortgages or in the means of collection of any such tax, in each such case, so as to affect any Lender or the Note or the Mortgages or any other Loan Document, and the result is to increase the taxes imposed upon or the cost to any Lender of maintaining the Loan, or to reduce the amount of any payments receivable under the Note, the Mortgages or any other Loan Document, or to invalidate the Lien created by any Security Document, then,

in any such event, Borrower shall, within twenty Business Days of receipt of a request therefor, accompanied by documentation verifying the nature, amount and due date, pay to such Lender additional amounts to compensate for such increased costs or reduced amounts; provided, however, that if any Lender makes such a request, or if the Lien created by any Security Document may be invalidated, then Borrower shall have the right, and, in the case of such invalidation, shall have the obligation, to prepay the Loan, in accordance with the provisions of this Agreement and the Note; provided further, however, that if any such payment or reimbursement shall be unlawful or would constitute usury or render the Loan wholly or partially usurious under Applicable Law, then Lender may, in its sole discretion, declare the Loan so affected immediately due and payable (without premium or penalty) and/or require Borrower to pay or reimburse the Lenders for payment of the lawful and non-usurious portion thereof not less than 180 days after notice of such declaration.

5.15 Further Assurances

5.15.1 Assurances. Without expense or cost to Lender or the Lenders, each Loan Party shall, and shall cause each of its Subsidiaries to, from time to time hereafter execute, acknowledge, file, record, do and deliver all and any further acts, deeds, conveyances, mortgages, deeds of trust, deeds to secure debt, security agreements, hypothecations, pledges, charges, assignments, financing statements and continuations thereof, notices of assignment, transfers, certificates, assurances and other instruments as Lender may from time to time reasonably require in order to carry out more effectively the purposes of this Agreement or the other Loan Documents, including to subject any Property or other items of Collateral, intended to now or hereafter be covered, to the Liens created by the Security Documents, to perfect and maintain such Liens, and to assure, convey, assign, transfer and confirm unto Lender the property and rights hereby conveyed and assigned or intended to now or hereafter be conveyed or assigned or which any Loan Party or any such Subsidiary may be or may hereafter become bound to convey or to assign to Lender or for carrying out the intention of or facilitating the performance of the terms of this Agreement, or any other Loan Documents or for filing, registering or recording this Agreement or any other Loan Documents. Without limiting the foregoing, each Borrower shall deliver to Lender, promptly upon receipt thereof, all instruments received by Borrower after the Closing Date and take all actions and execute all documents necessary or reasonably requested by Lender to perfect Lender's security interest in any such instrument or any other Investment acquired by Borrower. Promptly upon request or, in an emergency, upon demand, each Loan Party shall execute and deliver, and hereby authorizes Lender to execute and file in the name of such Loan Party, to the extent Lender may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the Lien hereof upon the Collateral.

5.15.2 Filing and Recording Obligations. Each Loan Party shall pay all filing, registration and recording fees and all expenses incident to the execution and acknowledgement of any Mortgage or other Loan Document, including any instrument of further assurance described in Section 5.15.1 and shall pay all mortgage recording taxes, transfer taxes, general intangibles taxes and governmental stamp and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution, delivery, filing, recording

or registration of any Mortgage or other Loan Document, including any instrument of further assurance described in Section 5.15.1 or by reason of its interest in, or measured by amounts payable under, the Note, the Mortgages or any other Loan Document, including any instrument of further assurance described in Section 5.15.1, and shall pay all stamp taxes and other taxes required to be paid on the Note or any other Loan Document, but excluding in the case of each Lender and Lender, Taxes imposed on its income by a jurisdiction under the laws of which it is organized or in which its principal executive office is located or in which its applicable lender office for funding or booking its Loan hereunder is located. If any Loan Party fails to make any of the payments described in the preceding sentence within 10 days after notice thereof from Lender (or such shorter period as is necessary to protect the loss of or diminution in value of any Collateral by reason of tax foreclosure or otherwise, as determined by Lender, in its sole discretion) accompanied by documentation verifying the nature and amount of such payments, Lender may (but shall not be

obligated to) pay the amount due and the Loan Parties shall reimburse all amounts in accordance with the terms hereof upon demand. If Applicable Law prohibits any Loan Party from paying such taxes, charges, filing, registration and recording fees, excises, levies, stamp taxes or other taxes, then Lender may declare the Loan immediately due and payable in accordance with the terms of this Agreement, without premium or penalty not less than 30 days after such declaration in a principal amount equal to the Property Amount with respect to the applicable Property.

5.15.3 Costs of Defending and Upholding the Lien. Lender may, upon at least five days' prior notice to Borrower, (i) appear in and defend any action or proceeding, in the name and on behalf of Lender or Borrower in which Lender is named or which Lender in its sole discretion determines is reasonably likely to materially adversely affect any Property, any other Collateral, any Mortgage, the Lien thereof or any other Loan Document and (ii) institute any action or proceeding which Lender reasonably determines should be instituted to protect the interest or rights of Lender in any Property or other Collateral or under this Agreement or any other Loan Document. Borrower agrees that all reasonable costs and expenses expended or otherwise incurred pursuant to this Section (including reasonable attorneys' fees and disbursements) by Lender shall be paid by Borrower or reimbursed to Lender, as the case may be, promptly after demand.

5.15.4 Costs of Enforcement. Borrower agrees to bear and shall pay or reimburse Lender in accordance with the terms of this Agreement for all reasonable sums, costs and expenses incurred by Lender (including reasonable attorneys' fees and the expenses and fees of any receiver or similar official) of or incidental to the collection of any of the Obligations, any foreclosure (or Transfer in lieu of foreclosure) of any Mortgage or any other Loan Document or any sale of all or any portion of any Property or all or any portion of the other Collateral.

ARTICLE 6
NEGATIVE COVENANTS

Each Loan Party covenants and agrees that, until payment in full of the Loan and the other Obligations (other than indemnification obligations with respect to claims that have not been asserted at the time that the Loan and all other Obligations have been paid in full), the Loan Parties shall perform and shall cause each of their respective Subsidiaries to perform all of their covenants in this Article 6.

6.1 Indebtedness of Borrower.

Borrower shall not directly or indirectly create, incur, assume, Guarantee, refinance, exchange, refund or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

6.1.1 the Obligations; and

6.1.2 Interest Rate Agreements otherwise required or permitted under this Agreement; and

6.1.3 unsecured intercompany Indebtedness owed to Loan Parties, if all such Indebtedness is evidenced by one or more promissory notes that are pledged to Lender pursuant to the Security Documents to secure the Obligations.

6.2 Indebtedness of FCOLP.

FCOLP shall not directly or indirectly create, incur, assume, Guarantee, refinance, exchange, refund or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

6.2.1 the Obligations;

6.2.2 recourse Indebtedness to which Lender has given its prior written consent, which it may give or withhold in its sole discretion;

6.2.3 non-recourse Indebtedness secured by property other than the Collateral to which Lender has given its prior written consent, which shall not be unreasonably withheld, delayed or conditioned;

6.2.4 non-recourse Guarantees of the Indebtedness of Subsidiaries of FCOLP secured by pledges of FCOLP's interest in such Subsidiaries;

6.2.5 Interest Rate Agreements otherwise required or permitted under this Agreement; and

6.2.6 unsecured intercompany Indebtedness owed to Loan Parties, if all such Indebtedness is evidenced by one or more promissory notes that are

pledged to Lender pursuant to the Security Documents to secure the Obligations.

6.3 Liens and Related Matters.

6.3.1 Prohibition on Liens. Borrower shall not directly or indirectly, create, incur, assume or permit to exist any Lien on or with respect to any

property or asset of any kind (including any document or instrument in respect of goods, furniture, fixtures, equipment or accounts receivable) of Borrower, whether now owned or hereafter acquired, or any income or profits therefrom, or file or permit the filing of, or permit to remain in effect, any financing statement or other similar notice of any Lien with respect to any such property, asset, income or profits under the Uniform Commercial Code of any State or under any similar recording or notice statute, except Permitted Encumbrances.

6.3.2 No Further Negative Pledges. Except with respect to agreements entered into in the ordinary course of business which by their terms restrict the assignment of rights thereunder (but not any other rights or interests and otherwise consistent with industry practices) as security for the Obligations or otherwise, Borrower shall not, directly or indirectly, enter into any agreement prohibiting the creation or assumption of any Lien upon any of its properties or assets, whether now owned or hereafter acquired, except to the extent that Liens to secure the Obligations are excluded therefrom.

6.4 Investments.

Borrower shall not, directly or indirectly, make any Investment in any Person, including any Affiliate or Joint Venture, or any expenditure to acquire any real property, except (i) any transaction permitted under Sections 6.1, 6.2 and 8.13, (ii) any renovations or improvements permitted under Section 5.5 or elsewhere in this Agreement, (iii) Investments in wholly-owned Subsidiaries of FCOLP or in other Borrowers or their wholly-owned Subsidiaries, or (iv) Investments in Cash or Cash Equivalents. For the purpose of this Section and without limiting any other method of making an Investment, Borrower and its Subsidiaries shall be deemed to make an Investment in each Investment owned by a Person at the time such Person becomes a Subsidiary of Borrower or any of its Subsidiaries.

6.5 Contingent Obligations

Borrower shall not, directly or indirectly, create or become liable with respect to any Contingent Obligation, except that:

6.5.1 Borrower may become liable with respect to Contingent Obligations in respect of the Obligations and the Indebtedness;

6.5.2 Borrower may in the ordinary course of Borrower's business enter into interest rate hedging agreements with respect to Indebtedness otherwise permitted under this Agreement;

6.5.3 Borrower may become liable with respect to indemnification agreements and Guaranties (whether now or existing or hereafter entered into) with respect to performance, surety and similar bonds or guaranties of completion provided in the ordinary course of business consistent with past practices in respect of the restoration or renovation of any Property, in an aggregate maximum amount not at any time exceeding $1,000,000;

6.5.4 Borrower may become liable to make Investments permitted by, and in accordance with the terms of, this Article 6.

6.6 Distributions.

Notwithstanding the terms of any agreement, articles or bylaws to the contrary, neither FCOLP nor FCO shall, directly or indirectly, declare, order, pay, make, give or publish notice or fix a date in respect of or set apart any sum for any Distribution, except, if no Event of Default has occurred and is then continuing, (i) to the extent the aggregate amount of such Distributions over the preceding twelve months is less than 90% of Funds From Operations, or (ii) as may otherwise be required in order to comply with Section 5.3.1.

6.7 Financial Covenants

6.7.1 Adjusted Consolidated Net Worth. The Loan Parties shall not permit at any time the Adjusted Consolidated Net Worth of Royale and its Subsidiaries to be less than (i) the Adjusted Consolidated Net Worth of Royale and its Subsidiaries as of the Closing Date, plus (ii) 80% of any Equity Proceeds received by Royale and its Subsidiaries (other than from Royale and its

Subsidiaries) after the Closing Date.

6.7.2 Minimum Property Interest Coverage. As of the last day of any calendar quarter, Borrower shall not permit the ratio of Total Property Adjusted Net Income to Property Interest Expense to be less than 1.4:1.0 (such amounts to be determined with reference to the preceding 12-month period ending on such last day, or, before the first Anniversary, with reference to the period from the Closing Date to such last day).

6.7.3 Minimum Property Hedged Interest Coverage. As of the last day of any calendar quarter, Borrower shall not permit the ratio of (i) Property Adjusted Net Income for all Properties subject to Interest Rate Agreements, to (ii) Property Hedged Interest Expense to be less than 1.15:1.0 (such amounts to be determined with reference to the preceding 12-month period ending on such last day, or, before the first Anniversary, with reference to the period from the Closing Date to such last day).

6.7.4 Minimum Consolidated Interest Coverage. As of the last day of any calendar quarter, the Loan Parties shall not permit the ratio of Total Consolidated Adjusted Net Income to Consolidated Interest Expense to be less than 1.4:1.0 (such amounts to be determined with reference to the preceding 12-month period ending on such last day, or, before the first Anniversary, with reference to the period from the Closing Date to such last day).

6.7.5 Maximum Consolidated Unhedged Floating Rate Debt. The Loan Parties shall not at any time permit Consolidated Total Indebtedness subject to a variable interest rate that is not subject to Interest Rate Agreements to exceed 15% of Consolidated Total Assets.

6.7.6 Maximum Consolidated Total Indebtedness. The Loan Parties shall not at any time permit Consolidated Total Indebtedness to exceed 70% of Consolidated Total Assets.

6.8 Fundamental Changes.

Except for the Formation, without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, the Loan Parties shall not alter the legal structure of any Loan Party, or enter into any transaction of merger or consolidation, or liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution), or make or permit any Transfer or acquire by purchase or otherwise, directly or indirectly, all or substantially all the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any Person, make any Acquisition, acquire or enter into any overall property management agreement with respect to any Property or Transfer any Property, except that, from time to time after the Closing Date:

6.8.1 the Loan Parties and their Subsidiaries may lease space in Improvements and remove, sell or otherwise dispose of items of Collateral and other property as expressly permitted under the Loan Documents;

6.8.2 Royale and FCOLP may incorporate or otherwise organize, and, subject to Section 6.4 in the case of FCOLP, capitalize, one or more Subsidiaries, provided that Royale or FCOLP, as the case may be, shall within thirty days after such organization deliver to Lender a notice informing Lender of such organization, the name and state of organization of such Subsidiary, and such other information as Lender shall reasonably require; and

6.8.3 the Loan Parties and their respective Subsidiaries may make Acquisitions and transfer Properties to the extent expressly permitted in Section 6.4 or otherwise in this Agreement.

6.9 Zoning and Contract Changes and Compliance

Without the prior written approval of Lender, which approval shall not be unreasonably withheld, conditioned or delayed, Borrower shall not and shall not initiate or consent to any zoning reclassification of any Property or seek any material variance under any existing zoning ordinance or use or permit the use of any Property in any manner that could result in such use becoming a non-conforming use under any zoning ordinance or any other applicable land use law, rule or regulation. Borrower shall not initiate or consent to any change in any laws, requirements of Governmental Authorities or obligations created by private contracts and Material Leases which now or hereafter could reasonably be likely to materially and adversely affect the ownership, occupancy, use or operation of any Property without the prior written consent of Lender.

6.10 No Joint Assessment; Separate Lots

Without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, Borrower shall

not suffer, permit or initiate the joint assessment of any Property (i) with any other real property constituting a separate tax lot (other than another Property) and (ii) with any portion of any Property which may be deemed to constitute personal property, or any other procedure whereby the lien of any

Taxes which may be levied against any such personal property shall be assessed or levied or charged to any Property as a single lien. Borrower represents and warrants that each Property is comprised of one or more parcels, each of which, to the knowledge of Borrower, constitutes a separate tax lot (except with respect to any lot constituting another Property) and none of which constitutes a portion of any other tax lot, except that the portion of the Property to be released from the Lien of the Loan Documents pursuant to Section 2.8.2 may not be a separate tax lot until local property tax authorities have accounted for the subdivision of such land from the remaining Blue Bell Properties.

6.11 Transactions with Affiliated Persons.

Without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, the Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property, the rendering of any service or the making of any Investment or Guaranty, or the amendment, restatement, supplement or other change of, or waiver or failure to enforce any obligations under, any agreement) with any holder of 5% or more of any class of equity Securities of Borrower or Royale or any Affiliate or Subsidiary of Royale unless the terms thereof are not less favorable to such Loan Party or Subsidiary, as the case may be, than those that might be obtained in a comparable transaction at the time on an arms-length basis from Persons who are not such a holder or Affiliate.

6.12 Sale or Discount of Receivables

The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, directly or indirectly, sell with recourse or, except in the ordinary course of business and consistent with past practices, discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable.

6.13 Ownership of Subsidiaries.

The Loan Parties shall not permit any of their respective Wholly Owned Subsidiaries to cease to be Wholly Owned Subsidiaries. Borrower shall not cease to be a Subsidiary of Royale and the financial statements of Borrower shall not cease to be consolidated with the financial statements of Royale in accordance with GAAP.

6.14 Conduct of Business

6.14.1 Conduct of Business. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, directly or indirectly, do the following:

6.14.1.1 engage in any business other than (a) the acquisition, ownership, renovation, Restoration, management, operation and disposition of real properties and related assets that are office and retail properties located in the United States of America, (b) any business that is ancillary, in purpose and extent, to any business referred to in the preceding clause; or

6.14.1.2 terminate, modify, amend, waive any material provision of, or enter into any Material Lease without Lender's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, or enter into any other agreement, or take any other action, if such other agreement or action would materially change the business conducted at any Property, including any such Material Lease, agreement or other action, that would convert or reposition any Property into any office building of a quality less than as of the Closing Date; or

6.14.1.3 materially deviate from the annual business plan submitted to Lender pursuant to Section 5.1.4 without first notifying Lender in writing and providing to Lender an explanation of the reasons for such deviation, in such detail as Lender shall reasonably require.

6.15 Properties

6.15.1 Acquisition of Properties. Borrower shall not, and shall not permit any of their respective Subsidiaries to, make an Acquisition of a fee or

leasehold interest in any real property after the Closing Date.

6.15.2 Transfer of Properties. Borrower shall not, and shall not permit any of their respective Subsidiaries to, Transfer any Property, except to the extent (i) required in connection with the Formation; or (ii) otherwise expressly permitted under the Loan Documents, and Borrower complies with the provisions set forth in Section 2.8 with respect to such Property, including the payment of any Release Price required thereby.

6.16 Management Agreements

Borrower shall not enter into or otherwise be or become obligated with respect to, any management agreement with respect to any Property after the Closing Date, except (i) management agreements that Lender has approved in writing, and (ii) that may be terminated by Lender without compensation upon the occurrence of an Event of Default hereunder.

6.17 Changes in Certain Obligations and Documents; Issuance of Equity Securities

6.17.1 Credit Agreement. Without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, the Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, enter into any agreement (other than this Agreement) prohibiting or restricting the ability of any of the Loan Parties and any of their respective Subsidiaries to amend or otherwise modify this Agreement or any other Loan Document.

6.17.2 Royale Preferred Stock. Without the prior written approval of Lender, which approval may not be unreasonably withheld, conditioned or delayed if no optional redemption thereof is permitted until after the fifth Anniversary, Royale shall not amend, restate, supplement or otherwise change its

articles of incorporation if the effect of such amendment, restatement, supplement or change is to provide for the issuance of any preferred stock of Royale or the filing of any certificate of designation with respect thereto.

6.17.3 Equity Securities. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, issue any Capital Stock or other Security which, by its terms (or by the terms of any Security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund or otherwise, or redeemable in Cash at the option of the holder thereof, in whole or in part, before the date that is 91 days after the Maturity Date.

6.17.4. Without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, except as expressly permitted hereunder, the Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, amend or otherwise modify their respective charters or partnership agreements in any material respect except as expressly permitted under the Loan Documents.

6.18 Fiscal Year

Without the prior written approval of Lender, which approval may be granted, withheld, conditioned or delayed in its sole discretion, neither Royale nor any of its Subsidiaries shall change its fiscal year-end from December 31.

ARTICLE 7
EVENTS OF DEFAULT; REMEDIES

7.1 Events of Default.

If any of the following conditions or events ("Events of Default") shall occur:

7.1.1 Failure to Make Payments When Due. Failure to pay any installment of principal of any Loan or any Release Price when due, whether at stated maturity, by acceleration in accordance with the provisions of the applicable Loan Document, by notice of voluntary prepayment, by mandatory prepayment or otherwise; or failure to pay interest or any other amount due under this Agreement within (i) two Business Days after the date of receipt of notice that such payment has not been received as of the date due, until three such notices have been delivered under this Agreement, or (ii) thereafter, five days after the date due; or

7.1.2 Other Defaults Under Loan Documents. Any Loan Party or any of its Subsidiaries shall default in the performance of or compliance with any term contained in this Agreement or any other Loan Document other than any such term in this Agreement or other Loan Document that is referred to in any other clause of this Section and such default shall not have been remedied or waived within 30 days after the earlier of (i) such Loan Party's or such Subsidiary's obtaining knowledge of such default or (ii) receipt by such Loan Party or such Subsidiary of notice from Lender of such default; provided, however, that if such default cannot be cured solely by the payment of money and the cure of such default requires a period in excess of 30 days, and such default may reasonably be expected to be cured on or before the 90th day after such Loan Party or such Subsidiary obtains knowledge or notice thereof, and if and so long as such Loan Party or such Subsidiary is diligently and continuously prosecuting such cure, then such default shall not be an Event of Default unless such Loan Party or such Subsidiary fails to cure such default before the 90th day after any Loan Party or any of its Subsidiaries obtains knowledge or notice thereof, as the case may be; or

7.1.3 Failure of Blue Bell Defeasance. The Mortgage encumbering the Blue Bell Properties shall fail to become a first priority lien on or before the sixtieth day following the Closing.

7.1.4 Failure of Formation. The Formation shall not occur within one day of the Closing, or a court shall enter a judgment terminating or unwinding the Formation.

7.1.5 Default in Other Agreements. (i) Failure of any Loan Party or any of its Subsidiaries to pay when due any principal of or interest on any Indebtedness the aggregate principal amount of which is equal to or greater than $250,000, in each case beyond the end of any grace period provided therefor (without extension); (ii) occurrence of any other event or condition (other than an event or condition expressly described in another paragraph or provision of this Section 7.1) which, with the giving of notice or the lapse of time or both,

with respect to (a) any Indebtedness the aggregate principal amount of which is equal to or greater than $250,000 or any Contingent Obligation(s) the aggregate amount of which is equal to or greater than $250,000 or (b) any loan agreement, mortgage, indenture or other agreement relating to such Indebtedness or Contingent Obligation(s), would cause, or would permit the holder or holders of that Indebtedness or Contingent Obligation(s) (or a trustee on behalf of such holder or holders) to cause, that Indebtedness or Contingent Obligation(s) to become or be declared due and payable (upon the giving or receiving of notice, lapse of time, both, or otherwise) prior to its stated maturity or the stated maturity of any underlying obligation, as the case may be, in each case beyond the end of any cure period therefor (without any extension thereof) or (iii) any principal amount of Indebtedness of any Loan Party or any of its Subsidiaries becoming or being declared due and payable prior to its stated maturity; or

7.1.6 Breach of Warranty. Any representation, warranty, certification or other statement of any Loan Party or any of its Subsidiaries made in this Agreement or in any other Loan Document or in any statement or certificate at any time given in writing pursuant hereto or thereto or in connection herewith or therewith shall be false in any material respect on the date as of which made and such default shall not have been remedied or waived within 30 days after the earlier of (i) such Loan Party's or such Subsidiary's obtaining knowledge of such default and (ii) receipt by such Loan Party or such Subsidiary of notice from Lender of such default; provided, however, that if such default cannot be cured solely by the payment of money and the cure of such default requires a period in excess of 30 days, and if such Loan Party or such Subsidiary, as applicable, is diligently and continuously prosecuting such cure, then such default shall not be an Event of Default unless such Loan Party or such Subsidiary fails to cure such default within 90 days, after such Loan Party or such Subsidiary obtain knowledge or notice thereof, as the case may be; or

7.1.7 Invalidity of Loan Document; Failure of Security; Repudiation of Obligations. At any time after the execution and delivery thereof, (i) any Loan Document (other than a Security Document) or any material provision thereof shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared null and void; (ii) any Security Document or any material provision thereof shall cease to be in full force and effect (other than by reason of a release of Collateral thereunder in accordance with the terms hereof or thereof or any other termination of such Security Document in accordance with the terms hereof or thereof) or shall be declared null and void, or Lender shall not have or shall cease to have a valid and perfected first priority Lien or security interest, subject only to the Permitted Encumbrances, in any material Collateral purported to be covered, in each case for any reason other than the failure of Lender to take any action within its control; or (iii) any Loan Party shall contest in writing the validity or enforceability of any Loan Document in writing or deny in writing that it has any further liability, including with respect to future advances by the Lenders, under any Loan

Document to which it is a party; or

7.1.8 Prohibited Transfers. Any Loan Party attempts to assign its rights under this Agreement or any other Loan Document or any interest herein or therein; or

7.1.9 Involuntary Bankruptcy; Appointment of Receiver, etc. (i) A court having jurisdiction shall enter a decree or order for relief in respect of any Loan Party or any of its Subsidiaries in an involuntary case under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect, which decree or order is not stayed; or any other similar relief shall be granted under any applicable federal or state law; or (ii) an involuntary case shall be commenced against any Loan Party or any of its Subsidiaries under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over any Loan Party or any of its Subsidiaries, or over all or a substantial part of its property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of any Loan Party or any of its Subsidiaries for all or a substantial part of its property; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of any Loan Party or any of its Subsidiaries, and any such event described in this clause (ii) shall continue for 60 days unless dismissed, bonded or discharged; or

7.1.10 Voluntary Bankruptcy; Appointment of Receiver, etc. (i) Any Loan Party or any of its Subsidiaries shall have an order for relief entered with respect to it or commence a voluntary case under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or any Loan Party or any of its Subsidiaries shall make any assignment for the benefit of creditors; or (ii) any Loan Party or any of its Subsidiaries shall be unable, or shall fail generally, or shall admit in writing its inability, to pay its debts as such debts become due; or the Board of Directors of any Loan Party or any of its Subsidiaries (or any committee thereof) shall adopt any resolution or otherwise authorize any action to approve any of the actions referred to in clause (i) above or this clause (ii); or

7.1.11 Judgments and Attachments. Any money judgment, writ or warrant of attachment or similar process involving individually or in the aggregate at any time an amount in excess of $250,000 (in either case not adequately covered by insurance as to which a solvent and unaffiliated insurance company has acknowledged coverage) shall be entered or filed against Borrower or any of its Subsidiaries or any of their respective assets and shall remain undischarged, unvacated, unbonded or unstayed for a period of 60 days (or in any event later than five days prior to the date of any proposed sale thereunder); or

7.1.12 Dissolution. Any order, judgment or decree shall be entered against any Loan Party or any of its Subsidiaries decreeing the dissolution or split up of such Loan Party or that Subsidiary and such order shall remain undischarged or unstayed for a period in excess of 30 days; or

7.1.13 Material Adverse Effect. Any event or change (including, without

limitation, any event or condition expressly described in another paragraph or provision of this Section) shall occur that has caused or evidences, either in any case or in the aggregate, a Material Adverse Effect;

THEN (i) upon the occurrence of any Event of Default described in Sections 7.1.9 or 7.1.10, the unpaid principal amount of and accrued interest on the Loan and all other Obligations shall automatically become immediately due and payable, without notice, presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by Borrower and the obligations of Lender hereunder shall thereupon terminate, and (ii) during the continuance of any other Event of Default, Lender may, in its sole discretion, by written notice to Borrower, declare all or any portion of the amounts described in clauses (i) above to be, and the same shall forthwith become, immediately due and payable and the obligations of Lender hereunder shall thereupon terminate.

The occurrence of any condition or event may constitute an Event of Default (or a Potential Event of Default) under more than one provision of this Section 7.1.

7.2 Certain Remedies

7.2.1 During the continuance of an Event of Default, all or any one or more of the rights, powers, privileges and other remedies available to Lender or the Lenders against Borrower under this Agreement, the Note, the Mortgages, the Security Documents or any of the other Loan Documents, or at law or in equity, may be exercised by Lender, acting in its own sole discretion at any time and from time to time, whether or not all or any portion of the Obligations shall be declared due and payable, and whether or not Lender shall have commenced any foreclosure proceeding or other action for the enforcement of its rights and remedies under any of the Loan Documents with respect to any Property or all or any portion of the Mortgaged Property. Any such actions taken by Lender shall be cumulative and concurrent and may be pursued independently, singly, successively, together or otherwise, at such time and in such order as Lender in its sole discretion may determine, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Lender permitted by law, equity or contract or as set forth herein or in the other Loan Documents.

7.2.2 In the event of the foreclosure or other action by Lender to enforce its remedies in connection with one or more of the Properties or any other Collateral or all or any portion of the Properties, whether such foreclosure (or other remedy) yields net proceeds in an amount less than, equal to or more than the Property Amount with respect to such Property, Lender shall apply all net proceeds received to repay the Obligations, the Obligations shall be reduced to the extent of such net proceeds and the remaining portion of the Obligations shall remain outstanding and secured by the Mortgages and the other Loan Documents, it being understood and agreed by Borrower that Borrower is liable for the repayment of the Obligations and that any "excess" foreclosure proceeds are part of the cross-collateralized and cross-defaulted security granted to

Lender on behalf of the Lenders pursuant to the Mortgages; provided, however, that, if Lender so elects, at its sole discretion, the Loan and the Note shall be deemed to have been accelerated only to the extent of the net proceeds actually received by the Lenders with respect to any individual Property (or, in the event that Lender on behalf of the Lenders is the purchaser of such Property by Credit Bid at a foreclosure sale, the Loan and the Note shall be deemed to have been accelerated only at such time as Lender subsequently disposes of such Property and then only to the extent of the amount of such Credit Bid) and applied in reduction of the Obligations in accordance with the provisions of this Agreement and the Note, after payment by Borrower of all transaction costs and expenses and costs of enforcement.

7.2.3 It is intended that the Liens of the Mortgages shall each be construed and treated as a separate, distinct Lien for the purpose of securing the entire Obligations secured thereby and each Loan Party acknowledges and agrees that each Property is mortgaged and transferred to Lender on behalf of the Lenders by a separate and distinct mortgage and security agreement, so that if it should at any time appear or be held that any Mortgage fails to mortgage, and transfer to Lender on behalf of the Lenders a Lien upon and the title to any Property, or any part thereof, as against creditors of Borrower other than the Lenders or otherwise, such failure shall not operate to affect in any way the transfer of the other Properties or Mortgaged Property or any part thereof to Lender on behalf of the Lenders; but nothing contained herein or in the Mortgages shall be construed as requiring Lender on behalf of the Lenders to resort to any Property for the satisfaction of the Obligations secured thereby in preference or priority to any other Mortgaged Property thereby conveyed, but Lender, acting in its sole discretion may seek satisfaction out of all of the Mortgaged Property or any part thereof.

7.2.4 In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default Lender is hereby authorized by Borrower at any time or from time to time, without notice to Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including Indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other Indebtedness at any time held or owing by Lender to or for the credit or the account of Borrower against and on account of the obligations and liabilities of Borrower to Lender under this Agreement and the Note, including all claims of any nature or description arising out of or connected with this Agreement or any other Loan Document, irrespective of whether or not (i) Lender shall have made any demand hereunder or (ii) the principal of or the interest on the Loan or any other amounts due hereunder shall have become due and payable pursuant to Section 7.1 and although said obligations and liabilities, or any of them, may be contingent or unmatured.

7.2.5 During the continuance of an Event of Default, Lender, in its sole discretion, shall have the right, to the extent permitted by law, to impound and take possession of books, records, notes, and other documents evidencing Borrower's deposit accounts, accounts receivable and other claims for payment of money (including Rents) arising in connection with the Properties, to give

notice to the obligors thereunder of Lender's interest therein, and to make direct collections on such deposit accounts, accounts receivable and claims.

7.2.6 During the occurrence of an Event of Default and upon the occurrence and during the continuance of a default in the payment of any principal or interest of any Indebtedness owed or alleged to be owed by the Loan Parties or any of their respective Subsidiaries, and following the initiation of any proceeding or the taking of any other action to collect the payment thereof by the Person entitled to such payment, Lender may, in its sole discretion, advance either to such Person or to Borrower, for payment to such Person, all or any portion of the amount of such payment, whether or not the existence of such obligation or amount thereof shall be disputed by Borrower or such Subsidiary. Each such advance, to the extent not paid out of from funds of Royale, Borrower or any of their respective Subsidiaries, shall be deemed a Loan hereunder and shall be subject to the provisions of this Agreement.

7.2.7 The rights, powers and remedies of Lender under this Agreement shall be cumulative and not exclusive of any other right, power or remedy which Lender or the Lenders may have against any Loan Party pursuant to this Agreement or the other Loan Documents executed by or with respect to such Loan Party, or existing at law or in equity or otherwise. The rights, powers and remedies of Lender may be pursued singly, concurrently or otherwise, at such time and in such order as Lender, acting in its own sole discretion, may determine. No delay or omission to exercise any remedy, right or power accruing upon an Event of Default shall impair any such remedy, right or power or shall be construed as a waiver thereof, but any such remedy, right or power may be exercised from time to time and as often as may be deemed expedient. A waiver of any Event of Default or Potential Event of Default with respect to any Loan Party shall not be construed to be a waiver of any subsequent Event of Default or Potential Event of Default by such Loan Party or to impair any remedy, right or power consequent thereon.

7.3 Limitation on Recourse Against Non-Recourse Parties.

The Non-Recourse Parties shall not be personally liable for the payment of any sums now or hereafter owing Lender under the terms of the Loan Documents, nor subject to mandatory or injunctive relief for enforcement of their Obligations hereunder. If any Event of Default should occur under the Loan Documents, Lender agrees that its rights, as to the Non-Recourse Parties only, shall be limited to proceeding against any Collateral pledged by the Non-Recourse Parties as security for the Obligations pursuant to the Security Documents, and that it shall have no right otherwise to proceed directly against the Non-Recourse Parties for the satisfaction of any monetary obligation of or enforcement of any monetary claim hereunder, or for other equitable relief. Nothing contained in this Section shall in any manner constitute or be deemed a release of the Obligations or otherwise affect or impair the enforceability against the other Loan Parties or the Collateral of the Loan Documents. Nothing in this Section shall impair, in any manner, any right, remedy or recourse Lender may have against the Non-Recourse Parties for fraud or any other claim that is not to enforce a provision of the Loan Documents against the Non-Recourse Parties.

ARTICLE 8
MISCELLANEOUS

8.1 Assignments and Participations in Loan.

8.1.1 General. Lender shall have the right at any time to (i) sell, assign, transfer or negotiate to any Eligible Assignee, or (ii) sell to any Eligible Assignee participations in, all or any part of the Loan and the Loan Documents or participations therein or any other interest herein or in any other Obligations owed to it. In such event, Borrower shall be entitled to rely on notices, waivers, consents and other communications from Lender or such other single Lender or Participant as Lender may designate from time to time by notice to Borrower. Wherever in this Agreement it is provided that Lender may take an action or appear in or defend a proceeding, Lenders shall do so by and through Lender or another single duly appointed agent, and then only under Lender's or such agent's authority or with the consent of not less than 51% in interest of the Lenders.

8.1.2 Participations. Borrower and each Lender hereby acknowledge and agree that, to the extent specified by Lender in writing to the Loan Parties, (i) any participation will give rise to a direct obligation of Borrower to the participant and (ii) the participant shall thereafter be considered to be a "Lender".

8.1.3 Assignments to Federal Reserve Banks. In addition to the assignments

and participations permitted under the foregoing provisions of this Section, Lender may assign and pledge all or any portion of its Loan and the other Obligations owed to such Lender to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any operating circular issued by such Federal Reserve Bank. No Lender shall, as between Borrower and such Lender, be relieved of any of its obligations hereunder as a result of any such assignment and pledge.

8.1.4 Information. Lender agrees to exercise commercially reasonable efforts to keep any non-public information delivered or made available to it pursuant to the Loan Documents, which any Loan Party or its authorized representative has identified as confidential information, confidential from any Person other than Persons employed by or retained by Lender who are or are expected to become engaged in evaluating, approving, structuring or administering the Loan and other extensions of credit or Obligations hereunder; provided that nothing herein shall prevent Lender from disclosing such information to any Eligible Assignee that has agreed to be bound by the provisions of this Section 8.1.4 in connection with the contemplated assignment or transfer of any interest or participation in the Loan or other Obligations hereunder or as required or requested by any Governmental Authority or representative thereof or pursuant to legal process or in connection with the exercise of any remedy under the Loan Documents.

8.2 Expenses.

Whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to pay promptly (i) all the costs of furnishing all opinions of counsel for Borrower and the other Loan Parties (including any opinions

reasonably requested by Lender) as to any legal matters arising hereunder and of each Loan Party's performance of and compliance with all agreements and conditions on its part to be performed or complied with under this Agreement and the other Loan Documents including with respect to confirming compliance with environmental, insurance and solvency requirements and with respect to the Security Documents and the Liens created pursuant thereto; (ii) all the actual costs and expenses of creating, perfecting and maintaining Liens in favor of Lender for the benefit of the Lenders pursuant to any Loan Document, including filing and recording fees and expenses, mortgage recording taxes, intangible taxes and transfer and stamp taxes, title searches, title insurance premiums, UCC search and filing charges and expenses (including charges and expenses for UCC searches evidencing the proper filing, recording and indexing of UCC financing statements and listing all other effective financing statements that name such Loan Party as debtor, and copies of all such other financing statements); (iii) all reasonable out-of-pocket costs and expenses incurred by Lender (including the reasonable fees, expenses and disbursements of any auditors, accountants, architects, engineers or appraisers and any environmental or other consultants, advisors and agents employed or retained by Lender or its counsel) in connection with performing due diligence, including obtaining and reviewing any Appraisals, any environmental audits or reports, market surveys, title reports, surveys and similar information; (iv) all reasonable out-of-pocket fees, expenses and disbursements of counsel for Lender and its Affiliates (including allocated costs of internal counsel) in connection with the negotiation, preparation, execution, participation, marketing and syndication of the Loan Documents and any consents, amendments, waivers or other modifications thereto and any other documents or matters requested by any Loan Party; (v) all reasonable out-of-pocket costs and expenses incurred by Lender in connection with (a) the negotiation, preparation and execution of the Loan Documents, the syndication of the Loan and due diligence, (b) any consents, amendments or waivers of or other modifications to any of the Loan Documents, (c) any Acquisition, Transfer or release of any Property or other Collateral or any proposal with respect to any of the foregoing, (d) the custody or preservation of any of the Collateral and (e) the preparation, delivery or review of other documents or matters requested by any Loan Party, including, without limitation, all instruments, documents, boundary surveys, footing or foundation surveys, certificates, plans and specifications, Appraisals, title and other insurance reports and agreements, and each and every other document, certificate, agreement and instrument required to be furnished pursuant to the terms of the Loan Documents; and (vi) after the occurrence of an Event of Default, all costs and expenses, including reasonable attorneys' fees (including allocated costs of internal counsel) and costs of settlement, incurred by Lender in enforcing any Obligations of or in collecting any payments due from Borrower hereunder or under the other Loan Documents by reason of such Event of Default or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or pursuant to any insolvency or bankruptcy proceedings. Except as expressly provided to the contrary in this Agreement or any other Loan Document, costs or expenses that are payable by Borrower after the Closing Date shall be payable by Borrower within five Business Days after Borrower's receipt of written demand from Lender to pay same, accompanied by documentation in reasonable detail sufficient to verify the nature and amount.

8.3 Indemnity.

8.3.1 Indemnity. In addition to the payment of expenses as required by Section 8.2, whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to defend, indemnify and hold harmless Lender and its Affiliates and Persons deemed to be "controlling persons" thereof within the meaning of the Securities Act or the Exchange Act and the respective directors, officers, employees, agents, attorneys and representatives of the foregoing (collectively, "Indemnified Persons" and individually, an "Indemnified Person"), to the full extent lawful, from and against any and all losses, claims, damages, liabilities, costs and expenses or other obligations of any kind or nature whatsoever incurred by each such Indemnified Person (including fees, charges and disbursements of counsel and the allocated costs and expenses of internal counsel for such Indemnified Person) which are related to, arise out of or result from (a) any untrue statements or alleged untrue statements or omissions or alleged omissions to state therein a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case made or, to the extent contemplated by the Loan Documents, to be made, by or on behalf of any Loan Party or any of its Affiliates, (x) in the representations and warranties of the Loan Parties contained in the Loan Documents, (b) information provided by or on behalf of any Loan Party or any of their Affiliates for use in connection with any syndication, assignment or participation of any portion of Loan, the Note, the other Loan Documents or the Obligations, or in connection with any Loan Document or any transactions contemplated hereby or thereby, (c) the transactions contemplated by the Loan Documents (including Lender's agreements to make the Loan or the use or intended use of the proceeds thereof) or any enforcement of any of the Loan Documents (including any sale of, collection from, or other realization upon any of the Collateral or the enforcement of the Affiliate Guaranty), (d) any actions taken or omitted to be taken by an Indemnified Person with the consent of Borrower or in conformity with the instructions of Borrower, or (e) any other transactions contemplated by the Loan Documents, and Borrower will reimburse each Indemnified Person for all reasonable costs and expenses, including fees and disbursements of both outside and internal counsel for such Indemnified Person, as they are incurred, in connection with investigating, preparing for, or defending any formal or informal claim, action, suit, investigation, inquiry or other proceeding, whether or not in connection with pending or threatening litigation, caused by or arising out of or in connection with the foregoing, whether or not such Indemnified Person is named as a party thereto and whether or not any liability results therefrom. Borrower shall not, however, be responsible for any losses, claims, damages, liabilities, costs or expenses pursuant to clauses (c), (d) or (e) of the preceding sentence which have resulted from the bad faith or recklessness of such Indemnified Person as determined by a final judgment of a court of competent jurisdiction. Neither Lender nor any other Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to any of the Loan Parties and their respective Affiliates or any director, officer, employee, agent or representative of any of the foregoing, or any other person, for or in connection with the foregoing, or otherwise arising out of or in any way relating to the matters contemplated by the Loan Documents or any commitment to lend except for such liability for losses, claims, damages, liabilities, costs or expenses of any Indemnified Person pursuant to clauses (c), (d) or (e) of the preceding sentence to the extent they are determined to have resulted from the bad faith, recklessness or negligence of such Indemnified Person as determined by a final judgment of a court of competent jurisdiction and in no event shall

Lender or any other Indemnified Person be responsible for or liable to any of the Loan Parties or any of their respective Affiliates or any other Person for consequential, punitive or exemplary damages. Borrower further agrees that the Loan Parties shall not, nor shall they permit their respective Subsidiaries to, without the prior written consent of Lender, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit, investigation, inquiry or other proceeding in respect of which indemnification is actually sought hereunder unless such settlement, compromise or consent includes an unconditional release of Lender and each other Indemnified Person hereunder from all liability arising out of such claim, action, suit, investigation, inquiry or other proceeding.

8.3.2 Procedure. If any action, suit, investigation, inquiry or other proceeding is commenced, as to which an Indemnified Person proposes to demand indemnification hereunder, such Indemnified Person shall notify Borrower with reasonable promptness; provided, however, that any failure by such Indemnified Person to notify Borrower shall not relieve Borrower or any of its Affiliates from its obligations hereunder (except to the extent that Borrower or such Affiliate is prejudiced by such failure to so promptly notify). Borrower shall be entitled to assume the defense of any such action, suit, investigation, inquiry or other proceeding, including the employment of counsel reasonably satisfactory to the Indemnified Person and the payment of all reasonable fees and expenses incurred in connection therewith. The Indemnified Person shall have

the right to employ separate counsel in any such action, suit, investigation, inquiry or other proceeding, or to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Person unless (i) Borrower has agreed to pay such fees and expenses, (ii) Borrower shall have failed promptly upon written demand therefor to assume the defense of such action, suit, investigation, inquiry or other proceeding, and employ counsel reasonably satisfactory to the Indemnified Person in connection therewith or (iii) such Indemnified Person shall have been advised by counsel that there exists actual or potential conflicting interests between Borrower and such Indemnified Person, including situations in which one or more legal defenses may be available to such Indemnified Person that are different from or additional to those available to Borrower, in which case, if such Indemnified Person notifies Borrower in writing that it elects to employ separate counsel at the expense of Borrower, Borrower shall not have the right to assume the defense of such action or proceeding on behalf of such Indemnified Person; provided, however, that Borrower shall not, in connection with any one such action, suit, investigation, inquiry or other proceeding or separate but substantially similar or related actions, suits, investigations, inquiries or other proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys at any time for all such Indemnified Persons (in addition to local counsel), which firm shall be designated in writing by Lender.

8.3.3 Contribution. In order to provide for just and equitable contribution with respect to matters subject to this Section, if a claim for indemnification is made pursuant to these provisions but is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that such

indemnification is not available for any reason, even though the express provisions hereof provide for indemnification in such case, or is insufficient to hold an Indemnified Party harmless, then the Loan Parties, on the one hand, and Lender, on the other hand, shall contribute to such loss, claim, damage, liability, cost or expense for which such indemnification or reimbursement is held unavailable or is insufficient in such proportion as is appropriate to reflect the relative benefits to the Loan Parties and their respective Affiliates, on the one hand, and Lender, on the other hand, in connection with the transactions described in the Loan Documents and Formation Documents, as well as any other equitable considerations. The parties agree that for the purpose of this Section, the relative benefits to the Loan Parties and their respective Affiliates, on the one hand, and Lender, on the other hand, shall be deemed to be in the same proportion as the proceeds received or to be received by the Loan Parties from the Loan Documents bears to the fees paid or to be paid to Lender under the Loan Documents. Notwithstanding the foregoing, Lender shall not be required to contribute under this Section any amount in excess of the amount of fees actually received by Lender in respect of the Loan Documents. Borrower and Lender agree that it would not be just and equitable if contribution pursuant to this Section were determined by pro rata allocation or by any other method which does not take into account the equitable considerations referred to in this Section.

8.3.4 No Limitation. The foregoing rights to indemnity and contribution shall be in addition to any rights that any Indemnified Person and Loan Parties may have at common law or otherwise and shall remain in full force and effect following the completion or any termination of the transactions contemplated by the Loan Documents. Lender shall not be responsible or liable to any person for consequential damages which may be alleged as a result of the Loan Documents or any transaction contemplated thereby.

8.3.5 Independence of Indemnity; No Enlargement. Borrower acknowledges and agrees that the provisions of this Section are separate from and in addition to the provisions contained in the Environmental Indemnity.

8.4 No Joint Venture or Partnership

Lender and the Loan Parties acknowledge and agree that the relationship created hereunder or under the other Loan Documents is that of creditor/debtor. Each of the Loan Parties acknowledges and agrees that (a) they are knowledgeable and sophisticated business practitioners with particular expertise and broad experience in the area of real estate acquisition, ownership, operation, finance and management; (b) Lender does not owe, and expressly disclaims, any fiduciary or special obligation to the Loan Parties or any of their partners, agents, or representatives; and (c) nothing contained in this Agreement or any other Loan Document shall affect the relationship between Lender and Borrower as that of creditor/debtor hereunder and under the other Loan Documents. Nothing herein or therein is intended to create a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between any Loan Party or Subsidiary thereof and Lender nor to grant Lender any interest in the Mortgaged Property other than that of mortgagee or lender.

8.5 Amendments and Waivers.

No amendment, modification, termination or waiver of any provision of this Agreement or any other Loan Document or consent to any departure by any Loan Party therefrom, shall in any event be effective without the written concurrence of Lender. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given. No notice to or demand on Borrower in any case shall entitle Borrower to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section shall be binding upon each Lender at the time outstanding, each future Lender and, if signed by Borrower, on Borrower.

8.6 Independence of Covenants.

All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of an Event of Default or Potential Event of Default if such action is taken or condition exists.

8.7 Notices.

Unless otherwise specifically provided herein, any notice or other communication herein required or permitted to be given shall be in writing and may be personally served or sent by telefacsimile or courier service and shall be deemed to have been given when delivered in person or by courier service or upon receipt of the telefacsimile, as the case may be. For the purposes hereof, the address of each party hereto shall be as set forth under such party's name on the signature pages hereof or (i) as to Borrower and Lender, such other address as shall be designated by such Person in a written notice delivered to the other parties hereto and (ii) as to each other party, such other address as shall be designated by such party in a written notice delivered to Lender.

8.8 Survival of Representations, Warranties and Agreements.

8.8.1 Except as provided below, all representations, warranties and agreements made herein shall survive the execution and delivery of this Agreement and the making of the Loan and shall terminate upon indefeasible payment in full of the Obligations, notwithstanding anything in this Agreement or implied by law to the contrary.

8.8.2 Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of Borrower set forth in Sections 4.11 and 8.3 shall survive the payment in full of the other Obligations and the termination of this Agreement.

8.9 Obligations Several; Independent Nature of the Lenders' Rights.

The obligations of the Lenders hereunder are several and no Lender shall be responsible for the obligations of any other Lender hereunder. Nothing contained

herein or in any other Loan Document, and no action taken by the Lenders pursuant hereto or thereto, shall be deemed to constitute the Lenders as a partnership, an association, a Joint Venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

8.10 Remedies of Borrower

In the event that a claim or adjudication is made that Lender or any Lender or their respective agents has acted unreasonably or unreasonably delayed acting in any case where by law or under this Agreement, the Note, the Mortgages or the other Loan Documents, Lender, such Lender or such agent, as the case may be, has an obligation to act reasonably or promptly, Borrower agrees that none of Lender or such agents, shall be liable for any monetary damages, and Borrower's sole remedies shall be limited to commencing an action seeking injunctive relief or declaratory judgement. The parties hereto agree that any action or proceeding to determine whether Lender or any Lender has acted reasonably shall be determined by an action seeking declaratory judgment.

8.11 Maximum Amount.

8.11.1 It is the intention of Borrower and the Lenders to conform strictly to the usury and similar laws relating to interest from time to time in force,

and all agreements between the Loan Parties and their respective Subsidiaries and the Lenders, whether now existing or hereafter arising and whether oral or written, are hereby expressly limited so that in no contingency or event whatsoever, whether by acceleration of maturity hereof or otherwise, shall the amount paid or agreed to be paid in the aggregate to the Lenders as interest (whether or not designated as interest, and including any amount otherwise designated but deemed to constitute interest by a court of competent jurisdiction) hereunder or under the other Loan Documents or in any other agreement given to secure the indebtedness of Borrower to the Lenders, or in any other document evidencing, securing or pertaining to the indebtedness evidenced hereby, exceed the maximum amount permissible under applicable usury or such other laws (the "Maximum Amount"). If under any circumstances whatsoever fulfillment of any provision hereof, or any of the other Loan Documents, at the time performance of such provision shall be due, shall involve exceeding the Maximum Amount, then, ipso facto, the obligation to be fulfilled shall be reduced to the Maximum Amount. For the purposes of calculating the actual amount of interest paid and/or payable hereunder in respect of laws pertaining to usury or such other laws, all sums paid or agreed to be paid to the holder hereof for the use, forbearance or detention of the indebtedness of Borrower evidenced hereby, outstanding from time to time shall, to the extent permitted by Applicable Law, be amortized, pro-rated, allocated and spread from the date of disbursement of the proceeds of the Note until payment in full of all of such indebtedness, so that the actual rate of interest on account of such indebtedness is uniform through the term hereof. The terms and provisions of this Section shall control and supersede every other provision of all agreements between Borrower or any endorser of the Note and the Lenders.

8.11.2 If under any circumstances any Lender shall ever receive an amount which would exceed the Maximum Amount, such amount shall be deemed a payment in reduction of the principal amount of the Loan and shall be treated as a voluntary prepayment and shall be so applied in accordance with this Agreement hereof or if such excessive interest exceeds the unpaid balance of the Loan and any other indebtedness of Borrower in favor of such Lender, the excess shall be deemed to have been a payment made by mistake and shall be refunded to Borrower.

8.12 Marshalling; Payments Set Aside.

Lender shall not be under any obligation to marshal any assets in favor of Borrower, any other Loan Party or any other party or against or in payment of any or all of the Obligations. To the extent that Borrower or any other Loan Party makes a payment or payments to the Lenders or Lender (or to Lender for the benefit of the Lenders), or Lender or the Lenders enforce any security interests or Lender exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, any other state or federal law, common law or any equitable cause of action, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor or related thereto, shall be revived and continued in full force and effect as if such payment or payments had not been made or such enforcement or setoff had not occurred.

8.13 Agreement to Contribute.

8.13.1 Right to Contribution. Except as otherwise expressly provided herein, the Loan Parties are jointly and severally liable for the Obligations. However, the benefits of this Agreement and the Loan will not necessarily benefit each Loan Party to the same degree. In order to provide for just and equitable contribution among the Loan Parties, if any payment is made by a Loan Party (the "Funding Loan Party") in discharging more than its Proportionate Share (hereinafter defined) of the Obligations, the Funding Loan Party shall be entitled to a contribution from each other Loan Party (each a "Contributing Loan Party") for all payments, damages and expenses incurred by the Funding Loan Party in discharging the Obligations, as set forth in this Section 8.13.

8.13.2 Benefit Amount. For purposes of this Agreement, the "Benefit Amount" of a Loan Party as of any date of determination shall be the net value of the benefits to such Loan Party from the Loan. The "Proportionate Share" of a Borrower shall be the ratio of (x) the Benefit Amount of such Borrower to (y) the total amount of all Benefit Amounts of all Borrowers. The "Proportionate Share" of FCOLP and FCO shall be the ratio of (x) the Benefit Amount of FCOLP or FCO, as the case may be, to (y) the total amount of all Benefit Amounts of FCOLP and FCO.

8.13.3 Term Loan Contributions. Each Contributing Loan Party shall be liable to a Funding Loan Party in an aggregate amount equal to its Proportionate

Share multiplied by the amount of Obligations paid by such Funding Loan Party. The liability of the Non-Recourse Parties to a Funding Party under this Section shall be limited as set forth in Section 7.3.

8.13.4 Subordination. The rights and claims of any Funding Loan Party against any Contributing Loan Party under this Agreement shall be subject and subordinate to the prior payment in cash in full of the Obligations, and no Loan Party shall make or receive any contribution payment from any other Loan party until such payment in cash in full of the Obligations.

8.13.5 Preservation of Rights. This Agreement shall not limit any right which any Borrower may have against any other Person which is not a party hereto.

8.13.6 Subsidiary Payment. The amount of contribution payable under this Agreement by any Loan Party shall be reduced by the amount of any contribution paid hereunder by a Subsidiary of such Loan Party.

8.13.7 Asset of Funding Loan Party. The parties hereto acknowledge that the right to contribution hereunder shall constitute an asset of the party to which such contribution is owing.

8.13.8 Date of Determination. Any amount payable as contribution under this Contribution Agreement shall be determined as of the date on which the related payment is made by a Funding Loan Party.

8.14 Suretyship Waivers.

8.14.1 Each Loan Party agrees that its obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than payment and performance in full of the Obligations. In furtherance of the foregoing and without limiting the generality thereof, each Loan Party agrees as follows: (i) Lender may from time to time, without notice or demand and without affecting the validity or enforceability of this Agreement or giving rise to any limitation, impairment or discharge of such Loan Party's liability hereunder, (A) renew, extend, accelerate or otherwise change the time, place, manner or terms of payment of the Obligations, (B) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Obligations or any agreement relating thereto and/or subordinate the payment of the same to the payment of any other obligations, (C) request and accept guaranties of the Obligations and take and hold other security for the payment of the Obligations, (D) release, exchange, compromise, subordinate or modify, with or without consideration, any other security for payment of the Obligations, any guaranties

of the Obligations, or any other obligation of any Person with respect to the Obligations, (E) enforce and apply any other security now or hereafter held by or for the benefit of Lender in respect of the Obligations and direct the order or manner of sale thereof, or exercise any other right or remedy that Lender may have against any such security, as Lenders in their discretion may determine consistent with this Agreement and any other Loan Document including foreclosure on any such security pursuant to one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable, and (F) exercise any other rights available to Lender under the Loan Documents, at law or in equity; and (ii) this Agreement and the obligations of each Loan Party hereunder shall be valid and enforceable and shall not be subject to any limitation, impairment or discharge for any reason (other than payment in full of the Obligations), including without limitation the occurrence of any of the following, whether or not any Loan Party shall have had notice or knowledge of any of them: (A) any failure to assert or enforce or agreement not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy with respect to the Obligations or any agreement relating thereto, or with respect to any guaranty of or other security for the payment of the Obligations, (B) any waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including without limitation provisions relating to events of default) of the Credit Agreement, any of the other Loan Documents or any agreement or instrument executed pursuant thereto, or of any guaranty or other security for the Obligations, (C) the Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect, (D) the application of payments received from any source to the payment of indebtedness other than the Obligations, even though Lender might have elected to apply such payment to any part or all of the Obligations, (E) any failure to perfect or continue perfection of a security interest in any other collateral which secures any of the Obligations, (F) any defenses, set-offs or counterclaims which any other Loan Party may allege or assert against any Lender in respect of the Obligations, including but not limited to failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury, and (G) any other act or thing or omission, or delay to do any other act or thing, which may or might in any manner or to any extent

vary the risk of any Loan Party as an obligor in respect of the Obligations.

8.14.2 Each Loan Party waives, for the benefit of Lender: (i) any right to require Lender, as a condition of payment or performance by such Loan Party, to (A) proceed against any other Loan Party, any guarantor of the Obligations or any other Person, (B) proceed against or exhaust any other security held from any other Loan Party, any guarantor of the Obligations or any other Person, (C) proceed against or have resort to any balance of any deposit account or credit on the books of Lender in favor of any Loan Party or any other Person, or (D) pursue any other remedy in the power of Lender whatsoever; (ii) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of any Loan Party including, without limitation, any defense based on or arising out of the lack of validity or the unenforceability of the Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of any Loan Party from any cause other than payment in full of the Obligations; (iii) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (iv) any defense based upon Lender's errors or omissions in the administration of the Obligations, except behavior which amounts to bad faith; (v) (A) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms of this Agreement and any legal or equitable discharge of such Loan Party's obligations hereunder, (B) the benefit of any statute of limitations affecting such Loan Party's liability hereunder or the enforcement

hereof, (C) any rights to set-offs, recoupments and counterclaims, and (D) promptness, diligence and any requirement that Lender protect, secure, perfect or insure any other security interest or lien or any property subject thereto; (vi) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, notices of default under the Credit Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Obligations or any agreement related thereto, notices of any extension of credit to Loan Parties and notices of any of the matters referred to in the preceding paragraph and any right to consent to any thereof; and (vii) to the fullest extent permitted by law, any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms of this Agreement.

8.14.3 Until the Obligations shall have been paid in full, each Loan Party shall withhold exercise of (i) any claim, right or remedy, direct or indirect, that such Loan Party now has or may hereafter have against any other Loan Party or any of its assets in connection with this Agreement or the performance by any other Loan Party of its obligations hereunder, in each case whether such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise and including without limitation (A) any right of subrogation, reimbursement or indemnification that any Loan Party now has or may hereafter have against any other Loan Party, (B) any right to enforce, or to participate in, any claim, right or remedy that Lender now has or may hereafter have against any Loan Party, and (C) any benefit of, and any right to participate in, any other collateral or security now or hereafter held by Lender, and (ii) any right of contribution any Loan Party may have against any guarantor of the Obligations. Each Loan Party further agrees that, to the extent the waiver of its rights of subrogation, reimbursement, indemnification and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation, reimbursement or indemnification such Loan Party may have against any other Loan Party or against any other collateral or security, and any rights of contribution such Loan Party may have against any such guarantor, shall be junior and subordinate to any rights Lender may have against any Loan Party, to all right, title and interest Lender may have in any such other collateral or security, and to any right Lender may have against any such guarantor.

8.15 Severability.

In case any provision in or obligation under this Agreement or any Note or any other Loan Document shall be invalid, illegal or unenforceable in any jurisdiction or under any set of circumstances, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction or under any other set of circumstances, shall not in any way be affected or impaired thereby.

8.16 Headings.

Section and Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

8.17 Applicable Law.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT AS SET FORTH BELOW. THE PARTIES ACKNOWLEDGE THAT NEW YORK HAS A SUBSTANTIAL RELATIONSHIP TO THE UNDERLYING TRANSACTIONS RELATED TO THIS AGREEMENT AND TO THE PARTIES INVOLVED.

NOTWITHSTANDING THE FOREGOING, THE PARTIES AGREE THAT:

(A) THE LAW OF THE STATE IN WHICH EACH PROPERTY IS SITUATED (THE "SITUS STATE") GOVERNS PROCEDURES FOR ENFORCING, IN THE SITUS STATE, PROVISIONAL REMEDIES DIRECTLY RELATED TO SUCH REAL PROPERTY, INCLUDING, WITHOUT LIMITATION, APPOINTMENT OF A RECEIVER.

(B) THE LAW OF THE SITUS STATE ALSO APPLIES TO THE EXTENT, BUT ONLY TO THE EXTENT, NECESSARY TO CREATE, TO PERFECT, AND TO FORECLOSE THE SECURITY INTERESTS AND LIENS CREATED BY THE LOAN DOCUMENTS, BUT DOES NOT APPLY TO ANY OBLIGATION SECURED THEREBY. THOSE OBLIGATIONS ARE GOVERNED BY NEW YORK LAW. IN FURTHERANCE OF THE FOREGOING, THE PARTIES STIPULATE AND AGREE THAT LENDER MAY ENFORCE IN ACCORDANCE WITH NEW YORK LAW ANY OR ALL OF ITS RIGHTS TO SUE ANY LOAN PARTY OTHER THAN THE NON-RECOURSE PARTIES TO COLLECT ANY INDEBTEDNESS, AND TO OBTAIN A DEFICIENCY JUDGMENT AGAINST BORROWER IN THE SITUS STATE, NEW YORK, OR ELSEWHERE, BEFORE OR AFTER FORECLOSURE, AND IF LENDER OBTAINS A DEFICIENCY JUDGMENT OUTSIDE THE SITUS STATE, IT MAY ENFORCE THAT JUDGMENT IN THE SITUS STATE, AS WELL AS IN OTHER STATES.

8.18 Successors and Assigns.

This Agreement shall be binding upon the parties hereto and their respective successors and assigns and shall inure to the benefit of the parties hereto and the successors and assigns of Lender. Neither the Loan Parties' rights or obligations hereunder nor any interest therein may be assigned or delegated by the Loan Parties.

8.19 Consent to Jurisdiction and Service of Process.

ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST THE LOAN PARTIES ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY OBLIGATIONS THEREUNDER, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE, COUNTY AND CITY OF NEW YORK. BY EXECUTING AND DELIVERING THIS AGREEMENT, EACH LOAN PARTY, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY

(I) ACCEPTS GENERALLY AND UNCONDITIONALLY THE NONEXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS;

(II) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS;

(III) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO BORROWER AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 8.7;

(IV) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (III) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER COMPANY IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT;

(V) AGREES THAT LENDER RETAINS THE RIGHT TO SERVE PROCESS AND PURSUE ITS REMEDIES IN ANY OTHER MANNER PERMITTED BY LAW AND TO BRING PROCEEDINGS AGAINST THE LOAN PARTIES IN THE COURTS OF ANY OTHER JURISDICTION; AND

(VI) AGREES THAT THE PROVISIONS OF THIS SECTION RELATING TO JURISDICTION AND VENUE SHALL BE BINDING AND ENFORCEABLE TO THE FULLEST EXTENT PERMISSIBLE UNDER NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1402 OR OTHERWISE.

8.20 Waiver of Jury Trial

EACH OF THE PARTIES TO THIS AGREEMENT HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION OR THE LENDER/BORROWER

RELATIONSHIP THAT IS BEING ESTABLISHED HEREBY AND THEREBY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Each party hereto acknowledges that this waiver is a material inducement to enter into a business relationship, that each has already relied on this waiver in entering into this Agreement and the other Loan Documents, and that each will continue to rely on this waiver in their related future dealings. Each party hereto further warrants and represents that it has reviewed this waiver with its legal counsel and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LOAN MADE HEREUNDER. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

8.21 Counterparts; Effectiveness.

This Agreement and any amendments, waivers, consents or supplements hereto or in connection herewith may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto and receipt by Borrower and Lender of written or telephonic notification of such execution and authorization of delivery thereof.

8.22 Material Inducement

Each Loan Party acknowledges that its representations, warranties, covenants and agreements contained in this Agreement and the other Loan Documents, including its covenants and agreements to pay Release Prices, are material inducements to the Lenders to enter into this Agreement and to make the Loan, that the Lenders have already relied on such representations, warranties, covenants and agreements in entering into this Agreement and agreeing to make the Loan (notwithstanding any investigation heretofore or hereafter made by or on behalf of the Lenders), and that the Lenders will continue to rely on such representations, warranties, covenants and agreements in their future dealings with the Loan Parties. The Loan Parties understand that the Release Prices are

designed to afford to the Lenders a predictable return on their investment in the Loan, that the Release Prices will be required to be paid by Borrower in connection with voluntary and involuntary prepayments of the principal amount of the Loan to the extent provided in this Agreement and that the payment of the Release Prices in connection with involuntary prepayments beyond Borrower's control (such as upon the occurrence of a casualty or a Taking) may be required. Borrower agrees that its representations, warranties, covenants and agreements contained in this Agreement and the other Loan Documents, including its covenants and agreements to pay Release Prices, are reasonable in purpose and scope. Borrower represents and warrants that it has reviewed this Agreement and the other Loan Documents with its legal counsel and that it knowingly and voluntarily is entering into this Agreement and the other Loan Documents following consultation with legal counsel.

8.23 Entire Agreement

This Agreement is evidence of the indebtedness incurred pursuant hereto and, taken together with all of the other Loan Documents and all certificates and other documents delivered to Lender hereunder and thereunder, embodies the entire agreement and supersedes all prior agreements, written and oral, relating to the subject matter hereof. This Agreement and the other Loan Documents constitute the final expression of the agreement between the parties hereto and this Agreement and such other Loan Document may not be contradicted by evidence of any alleged oral agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

LOAN PARTIES:

ROYALE INVESTMENTS, INC., a Minnesota corporation

By: _____
John Parsinen
Vice President and Secretary

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

FCO, L.P., a Delaware limited partnership

By: Royale Investments, Inc., a Minnesota corporation, its sole general partner

By: _____
John Parsinen
Vice President and Secretary

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

FCO HOLDINGS, INC., a Delaware corporation

By: _____
John Parsinen
Vice President and Secretary

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

BLUE BELL INVESTMENT COMPANY, L.P.,
a Delaware limited partnership

By: Strategic Facility Investors, Inc., a Delaware corporation, its sole general partner

By: _____
Clay W. Hamlin, III,
President

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

SOUTH BRUNSWICK INVESTORS, L.P.,
a Delaware limited partnership

By: South Brunswick Investment Company, L.L.C., a New Jersey limited liability company, its authorized general partner

By: _____

Clay W. Hamlin, III,
Manager

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

COMCOURT INVESTORS, L.P.,
a Delaware limited partnership

By: ComCourt Investment Corporation,
a Pennsylvania corporation,
its sole general partner

By:

Clay W. Hamlin, III,
President

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

6385 FLANK DRIVE, L.P.,
a Pennsylvania limited partnership

By: Gateway Shannon Development Corporation,
a Pennsylvania corporation,
its sole general partner

By:

Clay W. Hamlin, III,
President

Notice Address: The Shidler Group
One Logan Square, Suite 1105
Philadelphia, Pennsylvania 19103

LENDER:

BANKERS TRUST COMPANY,
as Lender

By:

Name:
Title:

Notice Address:

Bankers Trust Company
130 Liberty Street, 25th Floor
New York, New York 10006
Attention: Bruce P. Habig

APPENDIX I

DEFINED TERMS

"Adjusted Consolidated Net Worth" means, as at any date of determination,

the Consolidated Total Assets plus accumulated depreciation, less Consolidated Total Liabilities and intangible assets, on a consolidated basis determined in conformity with GAAP.

"Adjusted Eurodollar Rate" means, for any Interest Rate Determination Date the rate per annum obtained by dividing (i) the Eurodollar offered rate for deposits with maturities comparable to the Interest Period for which such Adjusted Eurodollar Rate will apply as of approximately 10:00 A.M. (New York time) on such Interest Rate Determination Date as reasonably determined by Lender, by (ii) a percentage equal to 100% minus the stated maximum rate of all reserve requirements (including any marginal, emergency, supplemental, special or other reserves) applicable on such Interest Rate Determination Date to any member bank of the Federal Reserve System in respect of "Eurocurrency liabilities" as defined in Regulation D (or any successor category of liabilities under Regulation D).

"Affiliate" means with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" means this Senior Secured Credit Agreement dated as of the date first written above, as it may be amended, restated, supplemented or otherwise modified from time to time.

"Anniversary" means each anniversary of the Closing Date.

"ALTA" means the American Land Title Association or any successor thereto.

"Applicable Laws" means, collectively, all statutes, laws, rules, regulations, ordinances, orders, decisions, writs, judgments, decrees and injunctions of Governmental Authorities (including Environmental Laws) affecting Borrower, any Loan Party or the Collateral or any part thereof (including the acquisition, development, construction, Renovation, occupancy, use, improvement, alteration, management, operation, maintenance, repair or restoration thereof), whether now or hereafter enacted and in force, and all Authorizations relating thereto, and all covenants, conditions and restrictions contained in any instruments, either of record or known to Borrower or any other Loan Party, at any time in force affecting any Property or any part thereof, including any such covenants, conditions and restrictions which may (i) require improvements, repairs or alterations in or to such Property

or any part thereof or (ii) in any way limit the use and enjoyment thereof; for purposes of usury, Applicable Laws means the law of the State of New York applicable to maximum rates of interest.

"Appraisal" means, with respect to any Property, a written appraisal of such Property prepared by an Appraiser in form, content and methodology satisfactory to Lender and in compliance with all applicable legal and regulatory requirements (including the requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, 12 U.S.C. " 3331, et seq., as amended (or any successor statute thereto), and the regulations promulgated thereunder).

"Appraiser" means Krauser, Welsh & Cirz, Inc., or any other independent appraiser selected by Lender and reasonably acceptable to Borrower who meets all regulatory requirements applicable to Lender, who is a member of the Appraisal Institute with a national practice and who has at least 10 years experience with real estate of the same type as the Property to be appraised.

"Appraised Value" means, as of any date of determination and with respect to any Property, the lesser of (i) the appraised value of such Property, in each case as most recently determined by an Appraisal approved by Lender on or before such date of determination and (ii) the principal amount secured by the Mortgage encumbering such Property, as expressly set forth in such Mortgage.

"Approved Environmental Consultant" means any of the environmental consultants who prepared the environmental audits delivered to Lender pursuant to Section 3.1.12 or any other qualified, independent environmental consultant reasonably acceptable to Lender.

"Assignment of Rents and Leases" means each Assignment of Rents and Leases executed and acknowledged by the Loan Party party thereto in favor of Lender for the benefit of Lender substantially in the form delivered on or before the Closing Date pursuant to this Agreement, as any such Assignment of Rents and Leases may be amended, restated, supplemented, consolidated, extended or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Authorization" means any authorization, approval, franchise, license, variance, land use entitlement, sewer and waste water discharge permit, storm water discharge permit, air pollution authorization to operate, certificate of occupancy, municipal water and sewer connection permit, and any like or similar permit now or hereafter required for the construction or renovation of any Improvements located on any Property or for the use, occupancy or operation of any Property and all amendments, modifications, supplements and addenda thereto.

"Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy", as now and hereafter in effect, or any successor statute.

"Base Rate" means, at any time, the rate per annum that is the higher of (i) the Prime Rate or (ii) the sum of (a) the Federal Funds Effective Rate plus (b) 1/2 of 1%. "Blue Bell" has the meaning set forth for it in the first paragraph of this Agreement.

"Blue Bell Properties" means the Properties owned by Blue Bell as of the Closing Date.

"Borrower" means, collectively, Blue Bell, South Brunswick, Comcourt and Flank Drive, or, with respect to any Property, the Loan Party owning such Property.

"Business Day" means any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are authorized or required by law or other governmental action to close.

"Capital Expenditures" means, with respect to any Property, for any period and as of any date of determination, all expenditures for capital improvements, determined in accordance with GAAP.

"Capital Stock" means, with respect to any Person, any capital stock, partnership, limited liability company or joint venture interests of such Person and shares, interests, participations or other ownership interests (however designated) of any Person and any rights (other than debt securities convertible into any of the foregoing), warrants or options to purchase any of the foregoing.

"Cash" means money, currency or a credit balance in a Deposit Account.

"Cash Available for Debt Service" means, for any period and with respect to any Property, the excess, if any, of the Property Income of such Property for such period over the Property Expenses of such Property for such period.

"Cash Equivalents" means, as of any date of determination, (i) marketable securities (a) issued or directly and unconditionally guaranteed as to interest and principal by the United States of America or (b) issued by any agency of the United States of America the obligations of which are backed by the full faith and credit of the United States of America, in each case maturing within one year after such date; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody's; (iii) commercial paper maturing no more than one year from the date of creation thereof and having, at the time of the acquisition thereof, a rating of at least A-1 from S&P or at least P-1 from Moody's; (iv) Eurodollar deposits due within one year of any commercial banks whose outstanding senior long-term debt securities are rated either A- or higher by S&P or A-3 or higher by Moody's; (v) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) of this paragraph with any bank

meeting the qualifications specified in clause (vi) of this paragraph; (vi) certificates of deposit or bankers' acceptances maturing within one year after such date and issued or accepted by Lender or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (a) is at least "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator) and (b) has Tier 1 capital (as defined in such regulations) of not less than $100,000,000; and (vii) shares of any money market mutual fund that (a) has at least 95% of its assets invested continuously in the types of investments referred to in clauses (i) and (ii) above, (b) has net assets of not less than $500,000,000, and (c) has the highest rating obtainable from either S&P or Moody's.

"Cash Proceeds" means, with respect to any sale or other disposition or refinancing of any Property, Cash payments received from such sale or disposition or refinancing.

"Closing Date" means the first date on which all of the conditions set forth in Article 3 are satisfied.

"Collateral" means, collectively, all property (including, without limitation, Capital Stock, Partnership Interests and promissory notes and other evidences of Indebtedness), whether real, personal or mixed, tangible or intangible, owned or to be owned or leased or to be leased or otherwise held or to be held by Borrower or in which Borrower has or shall acquire an interest, to the extent of Borrower's interest therein, now or hereafter granted, assigned, transferred, mortgaged or pledged to Lender or in which a Lien is granted to Lender to secure all or any part of the Obligations, whether pursuant to the Security Documents or otherwise, including, without limitation, the Properties, the Leases and Rents and any and all proceeds of the foregoing, and the Partnership Interests pledged pursuant to the Pledges.

"Comcourt" has the meaning set forth for it in the first paragraph of this Agreement.

"Compliance Certificate" means a certificate delivered to Lender by Borrower pursuant to Section 5.1.5 substantially in the form attached as Exhibit D hereto.

"Condemnation Proceeds" means all compensation, awards, damages, rights of action and proceeds awarded to any Loan Party by reason of any Taking.

"Consolidated Adjusted Net Income" means, for any period, for Royale and its Subsidiaries, the sum of the amounts for such period of (i) Consolidated Net Income, (ii) Consolidated Interest Expense, (iii) provisions for taxes based on income, (iv) total depreciation expense, (v) general and administrative expense, (vi) total amortization expense, (vii) gains or losses on the sales of Properties and other properties, debt restructurings or other extraordinary items, and (viii) minority interest; less (a) a management fee equal to 3% of total revenue, (b) a recurring capital expense reserve equal to $0.58 per net rentable square foot for all Properties other than the Blue Bell Properties, (x) unconsolidated partnerships, joint ventures and similar entities, and (y) straight line rents, all of the foregoing as determined on a consolidated basis for Royale and its Subsidiaries in conformity with GAAP.

"Consolidated Current Assets" means, at any date of determination, total assets of Royale and its Subsidiaries on a consolidated basis which may properly be classified as current assets in conformity with GAAP.

"Consolidated Current Liabilities" means, as at any date of determination, the total liabilities of Royale and its Subsidiaries on a consolidated basis which may properly be classified as current liabilities in conformity with GAAP.

"Consolidated Funds from Operations" means net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization (specifically including the amortization of deferred financial costs), and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. Consolidated Funds from Operations does not represent cash generated from operating activities in accordance with GAAP and, therefore, should not be considered as a substitute for net income as a measure of results of operations or cash flow from operations calculated in accordance with GAAP as a measure of liquidity.

"Consolidated Interest Expense" means, for any period, total interest expense (including that portion attributable to capital leases in accordance with GAAP and capitalized interest) of Royale and its Subsidiaries on a consolidated basis with respect to all outstanding Indebtedness of Royale and its Subsidiaries, such interest to be calculated for purposes of this Agreement against the outstanding principal amounts such Indebtedness as follows:

(a) for the Loan, during the Initial Term, using a constant based on the then-current 10-year Treasury Rate as of the Closing Date, plus 2.50%, instead of the interest rates actually applicable thereto;

(b) for the Loan, during any Extension Term, using a constant based on the then-current 10-year Treasury Rate as of the commencement of such Extension Term, plus 2.50%, instead of the interest rates actually applicable thereto;

(c) for all other fixed rate Indebtedness, at the interest rates actually applicable thereto; and

(d) for all other variable rate Indebtedness, using a constant based on the then-current 10-year Treasury Rate as of the commencement of the then-current Extension Term, plus 2.50%, instead of the interest rates actually applicable thereto.

"Consolidated Net Income" means, for any period, the net income (or loss) of Royale and its Subsidiaries on a consolidated basis for such period taken as a single accounting period determined in conformity with GAAP; provided that

there shall be excluded (i) the income (or loss) of any Person (other than a Subsidiary of Royale) in which any other Person (other than Royale or any of its Subsidiaries) has a joint interest, except to the extent of the

amount of dividends or other distributions actually paid to Royale or any of its Subsidiaries by such Person during such period, (ii) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary of Royale or is merged into or consolidated with Royale or any of its Subsidiaries or that Person's assets are acquired by Royale or any of its Subsidiaries, (iii) the income of any Subsidiary of Royale to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary, (iv) any after-tax gains or losses attributable to any disposition of any assets of Company or its Subsidiaries or returned surplus assets of any Pension Plan, and (v) (to the extent not included in clauses (i) through (iv) above) any net extraordinary gains or net non-cash extraordinary losses.

"Consolidated Total Assets" means, at any date of determination, total assets of Royale and its Subsidiaries on a consolidated basis which may properly be classified as assets in conformity with GAAP. The value of Consolidated Total Assets shall be determined (i) prior to the first Anniversary by reference to Appraisals received by Lender prior to the Closing, with respect to the assets appraised therein; (ii) otherwise by capitalizing the Adjusted Net Income using a 9.5% capitalization rate; and (iii) for any asset owned less than one year, by using the aggregate purchase price for such asset.

"Consolidated Total Indebtedness" means, as of any date of determination, the sum of the following, without duplication: (i) all Indebtedness of Royale and its Subsidiaries, determined on a consolidated basis; plus (ii) all Contingent Obligations of Royale and its Subsidiaries; plus (iii) all Guaranties of Royale or any of its Subsidiaries; plus (iv) all letter of credit reimbursement agreement obligations.

"Consolidated Total Liabilities" means, as at any date of determination, the sum of each of the following, without duplication, for Royale and its Subsidiaries, on a consolidated basis, (i) all indebtedness for borrowed money, (ii) any obligation owed for all or any part of the deferred purchase price of assets or services which would be shown to be a liability (or on the liability side of the balance sheet) in accordance with GAAP, (iii) all guaranteed obligations including any guaranteed indebtedness of consolidated or non-consolidated joint ventures, (iv) the maximum amount of all letters of credit issued or acceptance facilities established for the account of Royale or any of its Subsidiaries, and, without duplication, all drafts drawn thereunder (other than letters of credit offset by a like amount of Cash or Government Securities held in escrow to secure such letter of credit and draws thereunder), (v) all capitalized lease obligations, (vi) all indebtedness (A) of another Person secured by any Lien on any property or asset owned or held by Royale or any of its Subsidiaries regardless of whether the indebtedness secured thereby shall have been assumed by that Royale or such Subsidiary or is nonrecourse to the credit of Royale or such Subsidiary, and (B) of any consolidated Affiliate of Royale whether or not such indebtedness has been assumed by Royale, and (vii) indebtedness created or arising under any conditional sale or title retention agreement, and (viii) withdrawal liability or insufficiency under ERISA or under any qualified plan or related trust; but including within the foregoing, trade payables and accrued expenses arising or incurred in the ordinary course of business.

"Contingent Obligation" means, with respect to any Person, as of any date of determination and without duplication, any direct or indirect liability, contingent or otherwise, of that Person which has not been (or to the extent that it has not been) paid or otherwise discharged with respect to the following: (i) any Guaranty; (ii) any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; or (iii) performance, surety and similar bonds in respect of any Restoration, Renovation or other design, construction, restoration, renovation, expansion or repair of any Improvements, in each case with respect to any Property. The amount of any Contingent Obligation, as of any date of determination, shall be equal to the least of (x) the amount of the obligation so Guaranteed or that otherwise may be required to be paid, (y) the amount to which such Contingent Obligation is expressly limited and (z) except with respect to a Guaranty of Indebtedness, the maximum exposure under such Contingent Obligation as reasonably calculated by Borrower and approved by Lender in its sole discretion.

"Contractual Obligation" means, with respect to any Person, any provision of any Security issued by that Person or of any material indenture, mortgage, deed of trust, deed to secure debt, contract, lease, purchase order, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its

properties is subject.

"Controlling Principal" means Jay Shidler and/or Clay W. Hamlin III, or any trusts established by such Persons for the benefit of their immediate family members if such Person is the trustee of such trusts and able to effectively control the property and business of the trusts.

"Credit Bid" means a bid in a foreclosure sale pursuant to a Mortgage made by Lender consisting of all or a portion of the outstanding amount of the Obligations.

"Deposit Account" means a demand, time, savings, passbook or like account with a bank, savings and loan association, credit union or like organization, other than an account evidenced, by a negotiable certificate of deposit.

"Distribution" means any payment, distribution, dividend or other transfer of money or other assets to a Loan Party's constituent partners, shareholders or beneficiaries, other than (i) a payment on account of bona fide intercompany indebtedness permitted under this Agreement, (ii) an Investment, or (iii) any other payment expressly permitted under this Agreement.

"Dollars" and the sign "$" mean the lawful money of the United States of America.

"Eligible Assignee" means (i) (a) a commercial bank organized under the laws of the United States of America or any state thereof; (b) a savings and loan association or savings bank organized under the laws of the United States of America or any state thereof; (c) a commercial bank organized under the laws of any other country or a political subdivision

thereof; provided, however, that (x) such bank is acting through a branch or agency located in the United States of America or (y) such bank is organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development or a political subdivision of such country; and (d) any other entity which is an "accredited investor" (as defined in Regulation D under the Securities Act) which extends credit or buys loans as one of its principal businesses including, but not limited to, insurance companies, investment banks, mutual funds and lease financing companies, in each case (under clauses (a) through (d) above) that is reasonably acceptable to Lender; and (ii) Lender and any Affiliate of Lender; and provided further, however, that (A) each Eligible Assignee under clauses (i)(a) through (i)(c) above shall have Tier 1 capital (as defined in the regulations of its primary Federal banking regulator) of not less than $100,000,000, and (B) an entity shall not be an Eligible Assignee if on the date of assignment of an interest in the Loan to such entity Borrower would become liable for additional costs or withholdings by virtue of such assignment under Sections 2.10.8 and 2.10.9.

"Employee Benefit Plan" means any "employee benefit plan" as defined in Section 3(3) of ERISA which (i) is currently maintained or contributed to by Royale or any of its Subsidiaries, or (ii) was at any time within the preceding five years maintained or contributed to by Royale or any of its Subsidiaries, to the extent any of them could reasonably be expected to incur liability with respect to such employee benefit plan.

"Engineer" means each reputable engineer approved by Lender licensed as such in the state in which the applicable Property in question is located.

"Engineering Report" means, with respect to any Property, a written report prepared by an Engineer, describing and analyzing the physical condition of the Improvements of such Property, describing any necessary or recommended repairs, estimating the cost of such repairs and otherwise in form and substance reasonably satisfactory to Lender.

"Environmental Claim" means any accusation, allegation, notice of violation, claim, demand, abatement order or other order or direction (conditional or otherwise) by any Governmental Authority or any other Person for any damage, including personal injury (including sickness, disease or death), tangible or intangible property damage, contribution, indemnity, indirect or consequential damages, damage to the environment, damage to natural resources, nuisance, pollution, contamination or other adverse effects on the environment, or for fines, penalties or restrictions, in each case relating to, resulting from or in connection with Hazardous Materials and relating to Royale, any of its Subsidiaries (including any Person who was a Subsidiary prior to the Closing Date) or any Property.

"Environmental Indemnity" means the Environmental Indemnity executed and delivered by Borrower on or before the Closing Date, in favor of Lender, substantially in the form delivered on or before the Closing Date pursuant to this Agreement, as such agreement may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Environmental Laws" means all statutes, laws, ordinances, orders, rules, regulations, written guidelines, writs, judgments, decrees or injunctions and the like relating to (i) environmental matters, including those relating to fines, injunctions, penalties, damages, contribution, cost recovery compensation, losses or injuries resulting from the Hazardous Release or threatened Hazardous Release of Hazardous Materials, (ii) the generation, use, storage, transportation or disposal of Hazardous Materials, or (iii) occupational safety and health, industrial hygiene, or the protection of human, plant or animal health or welfare, in any manner applicable to any Loan Party or any of its Subsidiaries or any of their properties, including the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. " 9601, et seq.), the Hazardous Materials Transportation Act (49 U.S.C. " 1801, et seq.), the Resource Conservation and Recovery Act (42 U.S.C. " 6901, et seq.), the Federal Water Pollution Control Act (33 U.S.C. " 1251, et seq.), the Clean Air Act (42 U.S.C. " 7401, et seq.), the Toxic Substances Control Act (15 U.S.C. " 2601, et seq.), the Solid Waste Disposal Act (42 U.S.C. " 6901, et seq.), as amended by the Resource Conservation and Recovery Act (42 U.S.C. " 6901, et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. " 136, et seq.), the Occupational Safety and Health Act (29 U.S.C. " 651, et seq.) and the Emergency Planning and Community Right-to-Know Act (42 U.S.C. " 11001, et seq.), each as amended or supplemented, and rules and regulations, policies and guidelines promulgated pursuant thereto and any analogous future or present local, state and federal statutes and rules and regulations, policies and guidelines promulgated pursuant thereto, each as in effect as of the date of determination.

"Equity Proceeds" means the cash proceeds (net of underwriting discounts and commissions and other reasonable costs associated therewith) from the issuance of any equity Securities of Royale or any of its Subsidiaries, including additional issuances of Common Stock or preferred stock.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor thereto.

"Eurodollar Rate" means the sum of the Adjusted Eurodollar Rate plus the Eurodollar Rate Margin.

"Eurodollar Rate Margin" means, as of any date of determination, a per annum rate equal to 2.50%.

"Event of Default" means each of the events set forth in Article 7.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

"Excusable Delay" means a delay due to acts of God, governmental restrictions, enemy actions, war, civil commotion, fire, casualty, strikes, shortages of supplies or labor, work stoppages or other causes beyond the reasonable control of Royale or any of its

Affiliates, but lack of funds shall not be deemed a cause beyond the reasonable control of Royale or any of its Affiliates.

"Extension Term" means the term of the Loan during the period from the third Anniversary to (i) the fourth Anniversary if the extension option contained in Section 2.4.1 is exercised, or (ii) the fifth Anniversary if the extension option contained in Section 2.4.2 is exercised.

"Extraordinary Receipts" means the proceeds to Royale or any of its Subsidiaries from such items as (i) sales, exchanges or other dispositions of the assets of Royale or any of its Subsidiaries other than in the ordinary course of business thereof, (ii) damage recoveries and casualty insurance proceeds (including Condemnation Proceeds or Insurance Proceeds but other than the proceeds of business interruption insurance or rental loss insurance), (iii) income derived from Securities and other property acquired for investment except to the extent such Securities represent Cash Equivalents, (iv) condemnation awards or sales in lieu of and under the threat of condemnation (other than awards or other payments for any Taking for temporary use), (v) debt or equity financing or refinancing, and (vi) all other amounts of any nature paid to Royale or any of its Subsidiaries not arising out of the ordinary course of business thereof.

"Federal Funds Effective Rate" means, for any period, a fluctuating interest rate equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Lender from three Federal funds brokers of recognized standing selected by Lender.

"Fee Letter" means, collectively, all letter agreements between all or some of the Loan Parties and Lender or Lender's Affiliates regarding fees payable in connection with the Loan.

"FCOLP" has the meaning set forth for it in the first paragraph of this Agreement.

"Fixed Rate" means a fixed interest rate of seven and one-half percent per annum.

"Flank Drive" has the meaning set forth for it in the first paragraph of this Agreement.

"Formation" means, collectively, the transactions contemplated in the Formation Agreement pursuant to which FCOLP and FCO are being formed and all or substantially all Partnership Interests in each Borrower are being acquired by FCOLP and FCO, as described in Recital C hereto, other than the contribution of the "Retained Interests" (as defined in the Formation Agreement).

"Formation Agreement" means the Formation/Contribution Agreement dated as of September 7, 1997, among Royale, Borrower and certain other parties identified on the signature pages thereof, as such agreement may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Formation Documents" means, collectively, the Formation Agreement and each limited partnership agreement, articles of incorporation, bylaws, shareholders' agreement and other agreement or document giving effect to the formation of a Loan Party pursuant to the Formation Agreement.

"Funding Date" means the date of the funding of the Loan.

"Funds from Operations" means net income (loss) (computed in accordance with GAAP) available for distribution to shareholders or partners, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization (specifically including the amortization of deferred financial costs) and minority interests, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis.

"GAAP" means, subject to the limitations on the application thereof set forth in Section 1.2, generally accepted accounting principles set forth in opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board, in each case as the same are applicable to the circumstances as of the date of determination.

"Governmental Authority" means any nation or government, any state, county, municipality or other political subdivision or branch thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any agency, board, central bank, commission, court, department or officer thereof.

"Guaranty" means, with respect to any Person, any obligation, contingent or otherwise, of that Person which has not been (or to the extent that it has not been) paid or otherwise discharged with respect to any Indebtedness, lease, dividend or other obligation of any other Person if the primary purpose or intent thereof by the Person incurring the Guaranty is to provide assurance to the obligee of such obligation that such obligation of another will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof. Guaranties shall include, without limitation, (i) the direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, (ii) the obligation to make take-or-pay or similar payments if required regardless of non-performance by any other party or parties to an agreement, and (iii) any liability of such

Person for the obligation of another Person through any agreement (contingent or otherwise) (a) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (b) to maintain the solvency or any balance sheet item, level of income or financial condition of another Person if, in the case of any agreement described under subclauses (a) or (b) of this sentence, the primary purpose or intent thereof is as described in the preceding sentence. The amount of any Guaranty shall be equal to the least of (x) the amount of the obligation so guaranteed or otherwise supported, (y) the amount to which such Guaranty is specifically limited and (z) except with respect to a Guaranty of

Indebtedness, the maximum exposure under such Guaranty as reasonably calculated by Borrower and approved by Lender in its sole discretion. Guaranties shall not include (i) any of the foregoing obligations to the extent that the same constitutes Indebtedness under the definition thereof or is a Guaranty with respect thereto and (2) Guaranties of any liability or obligation of Borrower in respect of which Borrower are permitted to become liable pursuant to this Agreement. The term "Guarantee" used as a verb has a corresponding meaning.

"Hazardous Materials" means (i) any chemical, material or substance at any time defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous waste", "restricted hazardous waste", "infectious waste", "toxic substances", "pollutant", "contaminant" or any other formulations intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, "TCLP toxicity" or "EP toxicity" or words of similar import under any applicable Environmental Laws, (ii) any oil, petroleum, petroleum fraction or petroleum derived substance, (iii) any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources, (iv) any flammable substances or explosives, (v) any radioactive materials, (vi) asbestos in any form, (vii) radon, (viii) urea formaldehyde foam insulation, (ix) electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million, (x) pesticides, and (xi) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Governmental Authority or which may or could pose a hazard to the health and safety of the owners, occupants or any Persons in the vicinity of the Properties; provided, however, that Hazardous Materials shall not include any materials in a non-hazardous form such as asphalt contained in road-surfacing materials or hazardous materials customarily used in the operation of office properties and properly stored and maintained.

"Hazardous Release" means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Materials into the indoor or outdoor environment (including the abandonment or disposal of any barrels, containers or other receptacles containing any Hazardous Materials), or into or out of any Property, including the movement of any Hazardous Material through the air, soil, surface water, groundwater or property.

"Impositions" means all real property taxes and assessments, of any kind or nature whatsoever, including, without limitation, vault, water and sewer rents, rates, charges and assessments, levies, permits, inspection and license fees and other governmental, quasi-governmental or nongovernmental levies or assessments such as maintenance charges, owner association dues or charges or fees resulting from covenants, conditions and restrictions affecting the Properties, assessments resulting from inclusion of any Property in any taxing district or municipal or other special district, any of which are assessed or imposed upon the Property, or become due and payable, and which create or may create a Lien upon the Property, or any part thereof. In the event that any penalty, interest or cost for nonpayment of any Imposition becomes due and payable, such penalty, interest or cost shall be included within the term "Impositions".

"Improvements" means all buildings, structures, fixtures, tenant improvements and other improvements of every kind and description now or hereafter located in or on or attached to any Land, including all building materials, water, sanitary and storm sewers, drainage, electricity, steam, gas, telephone and other utility facilities, parking areas, roads, driveways, walks and other site improvements; and all additions and betterments thereto and all renewals, substitutions and replacements thereof.

"Indebtedness" means, with respect to any Person and without duplication, to the extent required to be shown on a balance sheet prepared in conformity with GAAP, (i) all indebtedness for money borrowed by that Person, (ii) that portion of obligations with respect to Capital Leases that is classified as a liability on a balance sheet in conformity with GAAP, (iii) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money, (iv) all obligations owed for all or any part of the deferred purchase price of assets or services purchased by that Person (a) due more than six months from the date of incurrence of the obligation in respect thereof, (b) evidenced by a note or similar written instrument or (c) owed in respect of real property purchased by such Person or any of its Subsidiaries, (v) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person, (vi) obligations under Interest Rate Agreements, (vii) that portion of any other obligation of that Person (other than reservation and similar deposits from customers and working capital deposits from owners received and held in the ordinary course of business) that is classified as a liability on a balance sheet in conformity with GAAP, which obligation is (a) due more than six months from the date of incurrence thereof or (b) evidenced by a note or similar written instrument, (viii) trade payables of such Person and its Subsidiaries that by their terms are more than 90 days delinquent (unless

being contested diligently and in good faith) and (ix) all Guaranties by that Person.

"Indemnified Person" has the meaning assigned to that term in Section 8.3.1.

"Initial Term" means the term of the Loan commencing on the Closing Date and ending on the third Anniversary.

"Insurance Proceeds" means all insurance proceeds, damages, claims and rights of action and the right thereto under any insurance policies relating to any portion of any Property.

"Insurance Requirements" means all terms of any insurance policy required hereunder covering or applicable to any Property or any part thereof, all requirements of the issuer of any such policy, and all orders, rules, regulations and other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) applicable to or affecting any Property or any part thereof or any use of any Property or any portion thereof.

"Interest Period" has the meaning assigned to that term in Section 2.10.1.2.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement designed to protect Royale or any of its Subsidiaries against fluctuations in interest rates.

"Interest Rate Determination Date" means each date for calculating the Adjusted Eurodollar Rate for purposes of determining the interest rate in respect of an Interest Period. The Interest Rate Determination Date shall be the second Business Day prior to the first day of the related Interest Period.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended to the date hereof and from time to time hereafter.

"Investment" means, with respect to any Person or any of its Subsidiaries, as of any date of determination and without duplication:

(i) any direct or indirect purchase or other acquisition (whether or not for consideration) by such investing Person or Subsidiary of, or of a beneficial interest in, any Securities of any other Person;

(ii) any direct or indirect redemption, retirement, purchase or other acquisition for value by such investing Person or Subsidiary from any other Person (other than (a) a Person with respect to which such investing Person or Subsidiary is a Wholly Owned Subsidiary or (b) any other Wholly Owned Subsidiary of the Person referred to in the preceding clause (a); provided that, in the case of Royale and its Subsidiaries, such other Wholly Owned Subsidiary is a Loan Party and has Guaranteed the Obligations), of any equity Securities of such investing Person or Subsidiary;

(iii) any direct or indirect loan, advance (other than (a) advances to officers, employees, consultants, accountants, attorneys and other advisors and members of the Board of Directors of any Person for moving, entertainment and travel expenses, drawing accounts and similar expenditures in each case incurred in the ordinary course of business and (b) advances to officers of any Person for other purposes in an amount

not greater than $100,000 individually or $330,000 in the aggregate, in each case at any time outstanding) or capital contribution to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business; (iv) any payment to any other Person for the purpose of or otherwise in connection with securing, extending, renewing or modifying any Management Agreement;

(v) any commitment or obligation to make any investment described in clauses (i) through (iv) above; and

(vi) any liability that is recourse to such investing Person or Subsidiary or secured by any asset of such investing Person or Subsidiary and that arises, by law, contract, ownership of Securities or otherwise, directly or indirectly, as the result of or otherwise in connection with the origination, continuation or termination of any investment described in clauses (i) through (iv) above.

The amount of any Investment, as of any date of determination, shall be equal to (y) with respect to an Investment referred to in clause (i) or (ii) of the preceding sentence, the remainder of (1) the sum of original cost of such Investment plus the cost of all additions thereto as of such date of

determination, minus (2) the aggregate amount paid to such Person or Subsidiary as a return of such Investment; provided, that (A) the calculation of the amount referred to in this clause (2) shall exclude all fees and other amounts (or the portion thereof) that shall constitute interest, dividends or other amounts in respect of the return on such Investment, as determined in accordance with GAAP, and (B) the calculation of the amount referred to in this clause (i) shall exclude, all adjustments for increases or decreases in value, and write-ups, write-downs or write-offs with respect to such Investment, and (z) with respect to an Investment referred to in clause (iv) or (v) of the preceding sentence, the maximum aggregate liability for which such investing Person or Subsidiary may become liable, by law, contract, ownership of Securities or otherwise, with respect to such Investment as of such date of determination.

"Joint Venture" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership, limited liability company or other legal form, which joint venture, partnership or other similar arrangement may be a Subsidiary of any Person, including of Borrower.

"Land" means, with respect to each Property, the land described on Exhibit A to the Mortgage encumbering such Property, together with all strips and gores within or adjoining such property, all estate, right, title, interest, claim or demand whatsoever of any Loan Party or any of its Subsidiaries in the streets, roads, sidewalks, alleys, and ways adjacent thereto (whether or not vacated and whether public or private and whether open or proposed), all vaults or chutes adjoining such land, all of the tenements, hereditaments, easements, reciprocal easement agreements, rights pursuant to any trackage agreement, rights to the use of common drive entries, rights-of-way and other rights, privileges and appurtenances thereunto belonging

or in any way pertaining thereto, all reversions, remainders, dower and right of dower, curtesy and right of curtesy, all of the air space and right to use said air space above such property, all transferable development rights arising therefrom or transferred thereto, all water and water rights (whether riparian, appropriative or otherwise, and whether or not appurtenant) and shares of stock evidencing the same, all mineral, mining, gravel, geothermal, oil, gas, hydrocarbon substances and other rights to produce or share in the production of anything related to such property, all drainage, crop, timber, agricultural, and horticultural rights with respect to such property, and all other appurtenances appurtenant to such property, including without limitation, any now or hereafter belonging or in any way appertaining thereto, and all claims or demands of Borrower either at law or in equity, in possession or expectancy, now or hereafter acquired, of, in or to the same.

"Lease" means each of the leases, licenses, concession agreements, franchise agreements and other occupancy agreements and other agreements demising, leasing or granting rights of possession or use or, to the extent of the interest therein of any Loan Party or any of its Subsidiaries, any sublease, subsublease, underletting or sublicense, which now or hereafter may affect any Property or any part thereof or interest therein, including any agreement relating to a loan or other advance of funds made in connection with any such lease, license, concession agreement, franchise or other occupancy agreement and such sublease, subsublease, underletting or sublicense, and every amendment, restatement, supplement, consolidation or other modification of or other agreement relating to or entered into in connection with such lease, license, concession agreement, franchise or other occupancy agreement and such sublease, subsublease, underletting or sublicense, and every security deposit, letter of credit, trust agreement, guaranty or similar security for the performance and observance of the covenants, conditions and agreements to be performed and observed by the other party thereto, and any guaranties of leasing commissions.

"Lender" has the meaning set forth in the first paragraph of this Agreement, together with its successors and permitted assigns.

"Lien" means any lien (including any lien or security title granted pursuant to any mortgage, deed of trust or deed to secure debt), pledge, hypothecation, assignment, security interest, charge, levy, attachment, restraint or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing.

"Loan" means the loan made by Lender to Borrower pursuant to this Agreement.

"Loan Amount" means One Hundred Million Dollars ($100,000,000).

"Loan Documents" means, collectively, this Agreement, the Note, the Security Documents, the Environmental Indemnity and the Fee Letter.

"Loan Parties" has the meaning set forth for it in the first paragraph of this

Agreement.

"Loan Parties' Accountants" means Coopers & Lybrand, LLP, or another "big six" accounting firm.

"Major Lease" means each Lease demising 15% or more of the net rentable square feet of any Property.

"Management Agreements" means, collectively, all management agreements with respect to the Properties.

"Management Fees" means, collectively, all management fees and all other fees or charges payable to a manager for the management and operation of a Property, the related land and the improvements thereof.

"Margin Stock" has the meaning assigned to that term in Regulation U of the Board of Governors of the Federal Reserve System as in effect from time to time.

"Material Adverse Effect" means a material adverse effect upon the business, operations or condition (financial or otherwise) of the Loan Parties or Controlling Principals, taken as a whole, which causes or is reasonably likely to cause the material impairment of the ability of the Loan Parties to perform, or of Lender to enforce, any Obligations of the Loan Parties.

"Material Lease" means each Lease demising fifteen percent or more of the net rentable area of the Improvements with respect to any Property.

"Maturity Date" means the earlier of (i) the third Anniversary of the Closing Date, as such date may be extended pursuant to Section 2.4 to a date not later than the fifth Anniversary of the Closing Date, and (ii) the date as of which the Obligations shall have become immediately due and payable pursuant to Section 7.1.

"Maximum Amount" has the meaning set forth in Section 8.11.

"Moody's" means Moody's Investors Service, Inc. or any successor to the business thereof.

"Mortgage" means each Mortgage, Assignment of Rents, Security Agreement and Fixture Filing executed and acknowledged by the Loan Party thereto in favor of Lender for the benefit of the Lender, substantially in the form delivered on or before the Closing Date pursuant to this Agreement, as each such agreement may be amended, restated, supplemented, consolidated, extended or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Mortgaged Property" has the meaning assigned to that term in the Mortgages.

"NASDAQ" means the National Association of Securities Dealers Automated Quotation System.

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of Preferred Stock dividends, excluding, however, any gain (but not loss), together with any related provision for Taxes on such gain (but not loss), realized in connection with any Asset Sale, and excluding any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"Net Insurance/Condemnation Proceeds" means all Insurance Proceeds on account of damage or destruction to any Property or all Condemnation Proceeds in respect of any Property, minus the reasonable cost, if any, of such recovery and of paying out such proceeds, including reasonable attorneys' fees and costs allocable to inspecting the Work and the plans and specifications therefor.

"Net Sales Price" means, with respect to any sale or other permanent disposition by a Loan Party or any of its Subsidiaries of a Property, or other asset, the gross purchase price therefor less the sum of (i) the amounts applied to the payment of Indebtedness or other obligations secured by a Lien on such Property or other asset (other than the Obligations), (ii) the reasonable out-of-pocket costs and expenses incurred by such Loan Party or Subsidiary directly in connection with such sale or other permanent disposition, including income taxes paid or estimated to be actually payable as a result thereof, after taking into account any available tax credits or deductions and any tax sharing arrangements (provided that the amount of income taxes so estimated to be actually payable shall be approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed), and (iii) closing adjustments contemplated and reserved.

"Non-Recourse Parties" means Royale; FCO; South Brunswick Investment Company, L.L.C., a New Jersey limited liability company, and Tiger South Brunswick L.L.C., the current general partners of South Brunswick; Strategic

Facility Investors, Inc., a Delaware corporation, the current sole general partner of Blue Bell; ComCourt Investment Corporation, a Pennsylvania corporation, the current sole general partner of Comcourt; and Gateway Shannon Development Corporation, a Pennsylvania corporation, the current sole general partner of Flank Drive.

"Note" means the promissory note of FCOLP, FCO and Borrower issued on the Closing Date, in the Loan Amount, substantially in the form of Exhibit B annexed hereto, as it may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Notice of Interest Period Selection" means a notice pursuant to which Borrower shall elect an Interest Period, which shall be in a form reasonably acceptable to Lender.

"NYSE" means the New York Stock Exchange.

"Obligations" means, collectively, all obligations of every nature of the Loan Parties from time to time owed to Lender under or in respect of the Loan and the Loan Documents, whether for principal, interest, fees, commissions, expenses, indemnification or otherwise.

"Officers' Certificate" means, as applied to any corporation, a certificate executed on behalf of such corporation by a person specified in this Agreement for such purpose or, in the absence of such specification, by its chairman of the board (if an officer) or its president or one of its vice presidents and by its chief financial officer or its treasurer; provided, however, that every Officers' Certificate with respect to the compliance with a condition precedent to the making of the Loan hereunder shall include (i) a statement that each officer making or giving such Officers' Certificate has read such condition and any definitions or other provisions contained in this Agreement relating thereto, (ii) a statement that, in the opinion of each signer, he has made or has caused to be made such examination or investigation as is reasonably necessary to enable him to express an informed opinion as to whether or not such condition has been complied with, and (iii) a statement as to whether, in the opinion of each signer, such condition has been complied with.

"Operating Lease" means, with respect to any Person, a lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, is not accounted for as a capital lease on the balance sheet of that Person.

"Outstanding Loan Amount" means at any time the portion of the Loan Amount which is then outstanding.

"Participant" means Lender and any Person to whom Lender assigns any interest in the Loan.

"Partnership Interests" means the general and/or limited partnership interests (including all partnership units, all rights under partnership agreements and all rights to distributions) in a Partnership Loan Party.

"Partnership Loan Party" means any Loan Party that is a general or limited partnership.

"Payment Date" means the last day of each calendar month, beginning November 30, 1997, or, if such day is not a Business Day, the next succeeding Business Day.

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor thereto).

"Permitted Encumbrances" means the Liens shown in the Title Policy for each Property and, with respect to any Property, the following types of Liens:

(ii) Liens for real property Taxes, assessments, vault charges, water and sewer rents, and other Impositions the payment of which is not, at the time, required pursuant to this Agreement;

(iii) the Leases in existence on the Closing Date and any Leases entered into thereafter in accordance with the requirements of the Loan Documents;

(iv) covenants, easements, rights-of-way, restrictions, minor encroachments or other similar encumbrances incurred in the ordinary course of business of Borrower that do not make such Property unmarketable or interfere in any material respect, and which could not reasonably be expected to interfere in any material respect, with the use of the Property for office building purposes or with the ordinary conduct of the business of Borrower;

(v) Liens securing the Obligations;

(vi) Liens that are bonded and thereby released of record in a manner reasonably satisfactory to Lender; and

(vii) until the sixtieth day following the Closing Date, and solely with respect to the Blue Bell Properties, the existing mortgage liens in favor of Blue Bell Funding, Inc., which was assigned to United States Trust Company of New York.

"Person" means, collectively, natural persons, corporations, limited liability companies, limited partnerships, general partnerships, joint stock companies, Joint Ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and Governmental Authorities.

"Pledges" means, collectively, the pledge by Royale of all of its interest in FCOLP and FCO, the pledge by FCOLP of all of its interest in each Borrower, and the pledge by FCO of all of its interest in each Borrower.

"Potential Event of Default" means a condition or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition or event were not cured or removed within the applicable grace period.

"Prime Rate" means the rate that Lender announces from time to time as its prime lending rate, as in effect from time to time. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. Lender may make commercial loans or other loans at rates of interest at, above or below the Prime Rate.

"Principal Reduction Amount" means the difference between (i) the Outstanding Loan Amount on the third Anniversary, and (ii) sixty percent of the then-current Appraised Value of all of the Properties then securing the Loan.

"Property" or "Properties" means each of the properties described on Exhibit A hereto.

"Property Adjusted Net Income" means, for any period, for each Property, the sum of the amounts for such period of (i) Consolidated Net Income, (ii) Consolidated Interest Expense, (iii) provisions for taxes based on income, (iv) total depreciation expense, (v) general and administrative expense, (vi) total amortization expense, (vii) gains or losses on the sales of portions of the Property, debt restructurings or other extraordinary items, and (vii) minority interest; less (a) a management fee equal to 3% of total revenue, (b) a recurring capital expense reserve equal to $0.58 per net rentable square foot for all Properties other than the Blue Bell Properties, adjusted for (x) unconsolidated partnerships, joint ventures and similar entities, and (y) straight line rents, all in conformity with GAAP.

"Property Amount" means the amount set forth for a Property on Exhibit C hereto.

"Property Expenses" means, for any period and as calculated on the accrual basis of accounting, all expenses incurred by Borrower during such period in connection with the ownership, management, operation, cleaning, maintenance, repair, restoration or leasing of any Property, including:

(ii) costs and expenses in connection with the cleaning, ordinary repair, maintenance, decoration and painting of such Property;

(iii) wages, benefits, payroll taxes, uniforms, insurance costs and all other related expenses for employees of Borrower engaged in the management, operation, cleaning, maintenance, repair, restoration and leasing of such Property and service to Tenants of such Property;

(iv) a management fee equal to 5% of Minimum Rents with respect to such Property and during such period (which amount shall be treated as a Property Expense whether or not any such management fee was in fact paid);

(v) the cost of all services and utilities with respect to such Property, including all electricity, oil, gas, water, steam, heating, ventilation, air conditioning, elevator, escalator, landscaping, model furniture, answering services, telephone maintenance, credit check, snow removal, trash removal and pest extermination costs and expenses and any other energy, utility or similar item and overtime services with respect to such Property;

(vi) the cost of building and cleaning supplies with respect to such Property;

(vii) insurance premiums required in order to maintain the insurance policies required under this Agreement or any other Loan Documents with

respect to such Property (which, in the case of any policies covering multiple Properties, shall be allocated among the Properties pro rata in proportion to the insured value of the Properties covered by such policies);

(viii) legal, accounting, engineering, brokerage and other fees, commissions, costs and expenses incurred by or on behalf of Borrower in connection with the ownership, management, operation, maintenance, repair, restoration, and leasing of such Property, including collection costs and expenses;

(ix) costs and expenses of security and security systems provided to and/or installed and maintained with respect to such Property;

(x) real property taxes and assessments with respect to such Property and the costs incurred in seeking to reduce such taxes or the assessed value of such Property;

(xi) advertising, marketing and promotional costs and expenses with respect to such Property;

(xii) costs and expenses incurred in connection with lock changes, storage, moving, appraisals, surveys, valuations, title insurance, inspections, market surveys, permits (and the application or registration therefor), and licenses (and the application or registration therefor) with respect to such Property;

(xiii) maintenance and cleaning costs related to tenant amenities with respect to such Property;

(xiv) Capital Expenditures with respect to such Property accrued during such period or, if higher, a reserve for Capital Expenditures equal to $0.15 per square foot of floor area contained in the Improvements located at such Property during such period;

(xv) tenant improvements and leasing commissions with respect to such Property accrued during such period;

(xvi) contributions by Borrower to any merchants' association, whether as dues or advertising costs or otherwise with respect to such Property;

(xvii) costs incurred pursuant to any reciprocal easement agreement affecting such Property;

(xviii) refunds Borrower must pay to Tenants and other occupants of such Property;

(xix) reserves for such expenses and in such amounts as Borrower and Lender may reasonably agree upon; and

(xx) all other ongoing expenses which in accordance with the accrual basis of accounting should be included in Borrower's annual financial statements as operating expenses of such Property.

Notwithstanding the foregoing, Property Expenses shall not include depreciation and amortization or interest, principal or Release Prices, if any, due under the Loan or the Note or otherwise in connection with the Obligations.

"Property Gross Revenue" means, for any period, all Receipts resulting from the operation of such Property, including, without limitation, Rents or other payments from Tenants, licensees and concessionaires and business interruption and rental loss insurance payments; provided that Property Gross Revenue shall exclude (i) excise, sales, use, occupancy and similar taxes and charges collected from Tenants and remitted to Governmental Authorities, (ii) gratuities collected for employees of such Property, (iii) security deposits and other advance deposits, until and unless same are forfeited to Borrower or applied for the purpose for which collected, (iv) federal, state or municipal excise, sales, use or similar taxes collected directly from Tenants or included as part of the sales price of any goods or services, and (v) Extraordinary Receipts.

"Property Income" means, for any period and as calculated on the accrual basis of accounting, all regular income received during such period from the operation of and with respect to any Property, as follows:

(i) all Rents, other income, forfeited security deposits and other benefits which Borrower now or hereafter receives from or in connection with such Property, including all income received from Tenants, licensees, concessionaires and other Persons for the occupancy of space at such Property and/or for the rendering of services to such Property's Tenants and other occupants, but excluding, however, any moneys refunded to Borrower as a result of tax certiorari or similar proceedings if and only to the extent such refund relates to Impositions assessed for a fiscal

period ending prior to the Closing Date;

(ii) rent and business interruption insurance proceeds with respect to such Property; and

(iii) all other amounts with respect to such Property which are included in Borrower's annual accrual basis financial statements as operating income.

Notwithstanding the foregoing, Property Income with respect to such Property shall not include (a) any Condemnation Proceeds or Insurance Proceeds (other than

Insurance Proceeds with respect to rental loss or business interruption insurance or Condemnation Proceeds with respect to a temporary Taking with respect to such Property and, in either such case, only to the extent allocable to the applicable period), (b) any proceeds resulting from the sale, exchange, transfer, financing or refinancing of all or any portion of such Property, (c) any Rent attributable to a Lease affecting such Property prior to the date on which the actual payment of Rent is required to commence thereunder (provided that such prepaid Rent shall be included in Property Income at such time as the obligation to pay such rent accrues), (d) any item of income otherwise includable in Property Income with respect to such Property but paid directly by any Tenant to a Person other than Borrower, or (e) security deposits received from Tenants with respect to such Property until forfeited.

"Property Hedged Interest Expense" means, for any period, total interest expense (including that portion attributable to capital leases in accordance with GAAP and capitalized interest) of Borrower on a consolidated basis with respect to all outstanding Indebtedness of Borrower and its Subsidiaries that is subject to Interest Rate Agreements, such interest to be calculated for purposes of this Agreement against the outstanding principal amounts of such Indebtedness using the highest possible interest rate (including credit spread) payable by Borrower pursuant to such Interest Rate Agreements.

"Property Interest Expense" means, for any period, total interest expense (including that portion attributable to capital leases in accordance with GAAP and capitalized interest) of Borrower on a consolidated basis with respect to all outstanding Indebtedness of Borrower and its Subsidiaries, such interest to be calculated for purposes of this Agreement against the outstanding principal amounts of such Indebtedness using a constant based on the then-current 10-year Treasury Rate, plus 2.50%, instead of the actual interest rates applied thereto.

"Receipts" means, collectively, all cash, Cash Equivalents, checks, notes, drafts and any items of payment or collection received, by or on behalf of Royale or any of its Subsidiaries, or by any officers, employees or agents of Royale or any of its Subsidiaries or other Persons acting for or in concert with Royale or such Subsidiary to make collections on Royale's or such Subsidiary's behalf in connection with or in any way relating to Royale or such Subsidiary or the operation of Royale's or such Subsidiary's business, including, without limitation, any proceeds received from or pursuant to (i) any sales of, or loans against, accounts of Royale or any of its Subsidiaries (other than the Loan pursuant to this Agreement), (ii) any disposition of assets (including, without limitation, any disposition of assets permitted hereunder or consented to by Lender, but excluding amounts applied to the repayment of indebtedness or other obligations secured by a Lien on the assets subject to such disposition) or issuance or sale of equity Securities by Royale or any of its Subsidiaries, (iii) the incurrence of Indebtedness by Royale or any of its Subsidiaries and the issuance and sale by Royale or any of its Subsidiaries of equity or debt Securities, in each case other than the Obligations and other Indebtedness permitted by this Agreement, (iv) insurance policies (other than liability insurance payable directly or indirectly to a third party) maintained by Royale or any of its Subsidiaries, whether or not Lender is an additional insured or named as loss payee thereunder, (v) the successful prosecution (including any settlement) of any claims, actions or

other litigation or proceeding by or on behalf of or against Royale or any of its Subsidiaries, (vi) Investments in, or equity and debt Securities issued by, Joint Ventures or other Persons and (vii) the Management Agreements (other than amounts received by Royale or any of its Subsidiaries in respect of the Managed Properties on behalf of, or as agent for, the parties to the Management Agreements other than Royale and its Subsidiaries); it being understood and agreed that nothing contained in this definition shall in any respect be deemed to permit any transactions by Royale or any of its Subsidiaries otherwise restricted or prohibited by this Agreement.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"REIT" means a "real estate investment trust," as such term is defined in

Section 856 of the Internal Revenue Code.

"Release" means any satisfaction, release, assignment instrument, deed of reconveyance or similar instrument or instruments (each in recordable form but without any representation or warranty of Lender) necessary and sufficient to release any Collateral from the Lien of all applicable Security Documents.

"Release Date" means the date of a release of the Lien of the Security Documents from any Property pursuant to Section 2.8.

"Release Price" means the amount that is the greatest of the following, calculated as of the Release Date:

(b) 125% of the Property Amount with respect to such Property;

(c) in the event of a sale or other permanent disposition of such Property, 85% of the Net Sales Price for such Property;

(d) the amount necessary to ensure that the sale or other disposition does not cause a violation of the covenants set forth in Section 6.7 of this Agreement; and

(e) in the event of a casualty or Taking with respect to such Property, the Insurance Proceeds or Condemnation Proceeds, as the case may be, resulting therefrom.

"Renovation" means the expansion, rebuilding, repair, restoration, refurbishment, fixturing and equipping of the Improvements at a Property or a Managed Property. The term "Renovate" used as a verb has a corresponding meaning.

"Rent Reserve Account" means, collectively, one or more interest-bearing accounts

to be established and maintained by Borrower at the offices of Lender located at 280 Park Avenue, New York, New York, each in the name of "Bankers Trust Company - -- FCOLP Rent Reserve Account," with such additional identifying references in such name as Borrower and Lender shall agree.

"Rents" means all rents, issues, profits, royalties, receipts, revenues, accounts receivable, security deposits and other deposits (subject to the prior right of Tenants making such deposits) and income, including fixed, additional and percentage rents, occupancy charges, operating expense reimbursements, reimbursements for increases in taxes, sums paid by Tenants to Borrower to reimburse Borrower for amounts originally paid or to be paid by Borrower or Borrower's agents or affiliates for which such Tenants were liable, as, for example, tenant improvements costs in excess of any work letter, lease takeover costs, moving expenses and tax and operating expense pass-throughs for which a Tenant is solely liable, parking, maintenance, common area, tax, insurance, utility and service charges and contributions, proceeds of sale of electricity, gas, heating, air-conditioning and other utilities and services, deficiency rents and liquidated damages, and other benefits.

"Rent Roll" means, for any Property, a rent roll in the form approved by Lender indicating (i) the names of all Tenants of such Property and the space occupied by such Tenants, (ii) the term of each Lease affecting such Property, (iii) the monthly Rent, additional Rent, if any, and other fees and charges paid by each such Tenant and whether such Tenant is in default, (iv) for any Rent Roll delivered after the Closing Date, any extension, renewal, expansion, or purchase options contained in any such Lease, (v) each vacant space in such Property and Borrower's estimate of the fair rental value of each such space, (vi) the occupancy rate of such Property, (vii) the security deposit and escrows, if any, held by Borrower under any such Lease and (viii) the arrearages for any such Tenant.

"Restoration" means the repair, restoration (including demolition), replacement and rebuilding of all or any portion of a Property (or the Improvements thereof) following the destruction, damage, loss or Taking thereof. The term "Restore" used as a verb has the corresponding meaning.

"Royale" has the meaning set forth for it in the first paragraph of this Agreement.

"Scheduled Principal Payment Date" means, if the Maturity Date is extended beyond the third Anniversary pursuant to Section 2.4, the third Anniversary and the next succeeding eleven Payment Dates.

"Securities" means any stock, shares, partnership interests, interests in limited liability companies, voting trust certificates, certificates of interest or participation in any profit-sharing agreement or arrangement, options, warrants, bonds, debentures, notes or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest,

shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and any successor statute.

"Security Agreement" means the Security and Pledge Agreement executed and delivered by each Loan Party and Lender on or before the Closing Date pursuant to this Agreement, substantially in the form delivered on or before the Closing Date pursuant to this Agreement, pursuant to which such Loan Party will pledge and grant a security interest in the Collateral described therein to Lender, as such Security Agreement may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof. "Security Documents" means, collectively, the Mortgages, the Assignments of Rents and Leases, the Security Agreement, the Tenant Subordination Agreements, all mortgages, security agreements, pledge agreements, assignments and all other instruments or documents (including UCC-1 financing statements, fixture filings, amendments of financing statements or similar documents required or advisable in order to perfect or maintain the Liens created by the Security Documents) delivered by any Person pursuant to this Agreement or any of the other Loan Documents, whether such delivery is prior to, contemporaneous with or after delivery of this Agreement, in order to grant to Lender Liens in real, personal or mixed property of that Person, and to maintain such Liens as each of the foregoing may be amended, restated, consolidated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof. Security Documents do not include this Agreement or the Note.

"South Brunswick" has the meaning set forth for it in the first paragraph of this Agreement.

"Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company, association, trust, joint venture or other business entity of which either (i) the Person is a general partner or member of a limited liability company or other entity having the right to direct or manage the business and affairs of such entity or (ii) more than 50% of the total voting power of shares of stock or other ownership interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Person or Persons (whether directors, managers, trustees or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof. The term "Subsidiary" shall include Subsidiaries of a Subsidiary. Without limiting the generality of such term, all of the Loan Parties other than Royale shall be deemed Subsidiaries of Royale for purposes of this Agreement.

"Survey" means, with respect to any Property, a current survey map prepared by a surveyor licensed in the state in which such Property is located, reasonably acceptable to Lender, which shall (i) contain the legal description of such Property, (ii) conform, and be certified by such surveyor to Lender and the Title Company as conforming, to the Minimum

Standard Detail Requirements for ALTA/ACSM Land Title Surveys for urban survey class as adopted by ALTA and American Congress on Surveying & Mapping (1992 version), and (iii) show, to the extent practicable, all matters described in "Table A/Optional Survey Responsibilities and Specifications" in such Minimum Standard Detail Requirements; provided, however, that the survey need not satisfy the requirements of the preceding clauses (ii) and (iii) if the Title Company has eliminated the survey exception from the Title Policies and all other exceptions to the Title Policies based upon such survey are acceptable to Lender in its sole discretion. Any such survey shall contain a certification by such surveyor to Lender stating whether the Property is located in an area having special flood hazards as identified by the Federal Emergency Management Agency.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., or any successor to the business thereof.

"Taking" means the taking or appropriation (including by deed in lieu of condemnation or by voluntary sale or transfer under threat of condemnation or while legal proceedings for condemnation are pending) of any Property, or any part thereof or interest therein, for public or quasi-public use under the power of eminent domain, by reason of any public improvement or condemnation proceeding, or in any other manner or any damage or injury or diminution in value through condemnation, inverse condemnation or other exercise of the power of eminent domain. The term "Taken" used as a verb has a correlative meaning.

"Tax" or "Taxes" means any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature and whatever called, on whomsoever and wherever imposed, levied, collected, withheld or assessed by a

Governmental Authority; provided, however, that "Tax on the overall net income" of a Person shall be construed as a reference to a tax imposed by the jurisdiction in which that Person's principal office (and/or, in the case of any Lender, its lending office) is located or in which that Person is deemed to be doing business on (or measured with reference to) all or part of the net income, profits or gains of that Person (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction, or otherwise).

"Tenant" means any Person liable by contract or otherwise to pay rent or a percentage of income, revenue or profits pursuant to a Lease, and includes a tenant, subtenant, lessee and sublessee.

"Tenant Subordination Agreement" means any Subordination, Non-Disturbance and Attornment Agreement executed and acknowledged by a Tenant, Borrower or any other Loan Party and Lender, and reasonably satisfactory in form and substance to Lender, as each such agreement may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof.

"Tenanting Costs" means costs incurred by Borrower in connection with the leasing of a Property, including brokerage commissions, free rent, tenant improvements and related

costs and expenses.

"Tenanting Costs Reserve Account" means, collectively, one or more interest-bearing accounts to be established and maintained by Borrower at the offices of Lender located at 280 Park Avenue, New York, New York, each in the name of "Bankers Trust Company -- FCOLP Tenanting Costs Reserve Account," with such additional identifying references in such name as Borrower and Lender shall agree.

"Title Company" means (i) as of any date on or prior to the Closing Date, Commonwealth Land Title Insurance Company and (ii) as of any date after the Closing Date, such other title company as may be selected by Borrower and approved by Lender in its reasonable discretion. "Title Policies" means, with respect to the Properties, the paid mortgagee policies of title insurance in the form of a 1970 ALTA loan policy (or other form of loan policy available in the applicable state and acceptable to Lender) and issued by the Title Company.

"Total Property Adjusted Net Income" means, for any period and as of any date of determination, the aggregate Property Adjusted Net Income for such period with respect to all Properties.

"Transfer" means any conveyance, assignment, sale, sale and leaseback, mortgaging, encumbrance, pledging, hypothecation, granting of a security interest in, granting of options with respect to or other disposition of (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) all or any portion of any legal or beneficial interest (i) in all or any portion of any Property or (ii) in any other assets of any Loan Party or any of its Subsidiaries, or (iii) following the Formation, of any Partnership Interest (A) held by Royale in FCOLP, (B) held by FCO in any Borrower, or (C) held by FCOLP in any Borrower.

"United States of America" means the 50 states of the United States of America and Washington, D.C., but excluding any territories or possessions thereof other than the Commonwealth of Puerto Rico.

"Wholly Owned" means, with respect to any Subsidiary of any Person, a Subsidiary all of the outstanding equity Securities of which are owned directly or indirectly by such Person.

"Work" has the meaning assigned to that term in Section 5.13.6.

ROYALE BECOMES OFFICE REIT

PHILADELPHIA, October 14, 1997 --Royale Investments, Inc. (Nasdaq: RLIN), a real estate investment trust, announced today that the company has acquired the Mid-Atlantic suburban office operations of The Shidler Group, a national real estate investment firm.

The $170 million transaction included the acquisition of a 1.5 million square foot Mid-Atlantic suburban office portfolio and the entire management team of The Shidler Group's Philadelphia-based organization.

OFFICE FOCUS

Since its IPO in December, 1991, Royale has specialized in triple-net leased retail properties. The transaction is part of Royale's new strategic plan to focus on the suburban office market which continues to strengthen.

The acquisition allows Royale to:

- Immediately transform itself into an internally-managed REIT.
- Become a meaningful player in the Mid-Atlantic suburban office property market with a core office portfolio.

- Add Jay H. Shidler as Chairman of the Board, a recognized leader in successfully managing and growing public REITS.
- Add proven management team experienced in the acquisition, development and management of office properties.
- Have greater access to the debt and equity capital markets.

TRANSACTION SUMMARY

The acquisition of the suburban office properties was accomplished through the formation of an Operating Partnership with Royale acting as sole general partner. In connection with the transaction, Royale issued .8 million new common shares. Royale's Operating Partnership FCO, L.P. issued 2.6 million common partnership units and 2.1 million convertible preferred partnership units and assumed $100 million of fixed rate debt.

The common partnership units will receive a distribution yield equal to the dividend yield of Royale's common stock and will be convertible into common stock of Royale on a one-for-one basis beginning one year after the closing of the transaction. The convertible preferred partnership units will have a distribution yield of 6.5% and will be convertible into common partnership units at a conversion price of $7.00 per share in two years. The Operating

Partnership will also assume a $100 million, 7.5% fixed rate, pre-payable, mortgage debt which is non-recourse to Royale.

The Company has also arranged for a $100 million acquisition facility from Bankers Trust.

MANAGEMENT

Jay H. Shidler, founder and Managing Partner of The Shidler Group will serve as the Company's Chairman of the Board. In addition to his ownership interest in the Operating Partnership, Mr. Shidler will own approximately 13% of Royale's outstanding common stock.

Mr. Shidler is the co-founder and director of TriNet Corporate Realty Trust, Inc. (NYSE: TRI) and is also co-founder and Chairman of the Board of First Industrial Realty Trust, Inc. (NYSE: FR).

TriNet, with a $1.3 billion total market capitalization, is one of the nation's largest public owners of net leased corporate properties. First Industrial, with a $2.0 billion total market capitalization, is now one of the nation's largest owners of industrial properties.

"This strategic transaction is the first step of a well-defined strategy to increase shareholder value," said Mr. Shidler. "It's our goal to grow Royale to a $1.0 billion REIT."

Clay W. Hamlin, III, formerly the Managing Director of The Shidler Group's Mid-Atlantic region, is serving a Royale's President and Chief Executive Officer. In addition to his ownership interest in the Operating Partnership, Mr. Hamlin will own approximately 13% of Royale's outstanding common stock. Mr. Hamlin, a 25-year veteran of the commercial real estate industry, will also serve on the Company's Board of Directors.

Vernon R. Beck and John Parsinen, co-founders of Royale, will remain officers of the Company and will continue to manage the retail portfolio of Royale. Mr. Beck will also continue as a Director.

WESTBROOK PARTNERS INVESTMENT

As a result of Westbrook Partners prior investment in The Shidler Group's Mid-Atlantic suburban office portfolio, Westbrook will own aproximately 10% of Royale's consolidated equity capital including common partnership units and convertible preferred partnership units. In addition,

Bill Walton, Managing Partner of Westbrook has joined Royale's Board of Directors.

Westbrook is a significant investor in real estate and real estate operating companies including strategic investments in Essex Property Trust, Inc. and Sunstone Hotel Investors, Inc., two publicly traded REITS. Established in 1944 by former senior real estate executives of Morgan Stanley Group, Inc., Westbrook currently controls $2.5 billion in real estate assets and maintains offices in New York, Los Angeles and Dallas.

In commenting on the transaction, Bill Walton said "We are excited about the future prospects of Royale given its strategic acquisition of The Shidler Group's Mid-Atlantic office operations. The Shidler Group's track record of successfully growing public companies was a significant factor in our decision to invest in Royale."

PORTFOLIO

The total portfolio has over 1.8 million square feet and will have an 81% office and 19% freestanding retail by square footage.

The office portfolio includes ten institutional quality, suburban office buildings comprising 1.5 million square feet. The portfolio has high occupancy stability and is currently 99.8% leased to major corporate tenants, including Unisys Corporation, IBM Corporation, Teleport Communications Group and Merck. The multi-tenant buildings are leased to such tenants as Hershey Foods, Pitney Bowes, Ernst & Young and McGraw-Hill.

PRO FORMA FINANCIAL RESULTS

The transaxction is expected to be accretive and should increase Royale's funds form operations (FFO) and funds available for distribution (FAD).

With the operating Partnership's results consolidated with those of Royale, the pro forma quarterly results should be as projected below. FFO increases from the pre-transaction target of $236,000 to $1,155,000 on a combined basis, representing a 389% increase. Treating the common partnership units as having been converted, FFO per share/common unit increases from $.166 to $.238, representing a 43% increase, while the corresponding FFO payout ratio based on its common stock dividend/common unit distribution decreases to 52%.

Pro Forma Quarterly Financial Results (1)
(in thousands except per share/common unit data

	Current	Consolidated	Change
Operating Results			
Total Revenues	$627	$5,162	723%
Funds From Operations (FFO)(2)	236	1,155	389%
Funds Available for Distribution (FAD)(2)	149	840	464%
Per Share/Common Unit			
FFO	.166	.238	43%
FAD	.104	.173	66%
Payout Ratio(3)			
FFO	75%	52%	(31)%
FAD	120%	72%	(40)%

The above consolidated financial pro forma is based on current property income and expense information and reflects the payment of debt service on all existing and assumed indebtedness.

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1 Assumes combination of present operations for a full quarter.

2 Weighted average common shares and common units outstanding are 1,420 and 4,847 for current and consolidated, respectively. Assumes all common partnership units are converted into common stock at the beginning of the period. All figures are after the payment of the quarterly distributions to the operating partnership's convertible preferred partnership units which are not convertible for two years.

3 Based on current quarterly dividends/distributions of $.125 per share/common unit.

Statements in this press release are "forward-looking" and are subject to many risks and uncertainties which affect Royale's business, and could cause actual results to differ materially from these projections and forecasts. The pro forma results do not account for any possible onetime charges associated with the transaction and do not reflect any subsequent acquisitions or capital activities. Additional uncertainties include competition within the office industry, the balance between supply and demand for office space, the effect of economic conditions, credit and the availability of capital to finance planned growth.