UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from to

Commission file number 1-14023

Corporate Office Properties Trust

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**23-2947217** (IRS Employer Identification No.)
8815 Centre Park Drive, Suite 400 **Columbia, MD** (Address of principal executive offices)	**21045** (Zip Code)

Registrant's telephone number, including area code: **(410) 730-9092**

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of Exchange on Which Registered)
Common Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series B Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series E Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series F Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:**None**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). ☒ Yes ☐ No

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately $310.9 million based on the closing price of the common shares of beneficial interest on the New York Stock Exchange on June 28, 2002; for purposes of calculating this amount only, affiliates are defined as Trustees, executive owners and beneficial owners of more than 5% of the Registrant's outstanding common shares of beneficial interest. At March 25, 2003, 23,764,124 shares of the Registrant's common shares of beneficial interest, $0.01 par value, were outstanding.

Portions of the annual shareholder report for the year ended December 31, 2002 are incorporated by reference into Parts I and II of this report and portions of the proxy statement of the Registrant for its 2003 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Form 10-K contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "estimate" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to: our ability to borrow on favorable terms; general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability; adverse changes in the real estate markets including, among other things, increased competition with other companies; risks of real estate acquisition and development, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated; risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives; governmental actions and initiatives; and environmental requirements. For further information on factors that could impact the company and the statements contained herein, you should refer to the "Risk Factors" section. We undertake no obligation to update or supplement forward-looking statements.

PART I

Item 1. Business

OUR COMPANY

General. We are a fully-integrated and self-managed real estate investment trust ("REIT") that focuses principally on the ownership, management, leasing, acquisition and development of suburban office properties located in select submarkets in the Mid-Atlantic region of the United States. As of December 31, 2002, we owned:

- 110 office properties in Maryland, Pennsylvania, New Jersey and Virginia containing approximately 8.9 million rentable square feet in operations that were 93% occupied;
- land parcels totaling 124 acres that were contiguous to certain of our operating properties and potentially developable into approximately 2.0 million square feet; and
- interests in five real estate joint ventures, which in aggregate were constructing five buildings to contain approximately 281,000 square feet and developing two additional land parcels totaling 14 acres.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the "Operating Partnership"), a Delaware limited partnership, for which we are the managing general partner. Our Operating Partnership owns real estate both directly and through subsidiaries. The Operating Partnership also owns Corporate Office Management, Inc. ("COMI") (together with its subsidiaries defined as the "Service Companies"). COMI has three subsidiaries: Corporate Realty Management, LLC ("CRM"), Corporate Development Services, LLC ("CDS") and Corporate Cooling and Controls, LLC ("CCC"). CRM manages our properties and also provides corporate facilities management for select third parties. CDS provides construction and development services predominantly to us. CCC provides heating and air conditioning installation, maintenance and repair services. COMI owned 100% of these subsidiaries as of December 31, 2002.

Interests in our Operating Partnership are in the form of common and preferred units. As of December 31, 2002, we owned approximately 71% of the outstanding common units and approximately 81% of the outstanding preferred units. The remaining common and preferred units in our Operating Partnership were owned by third parties, which included certain of our officers and Trustees.

We believe that we are organized and have operated in a manner that permits us to satisfy the requirements for taxation as a REIT under the Internal Revenue Code of 1986, as amended, and we intend to continue to operate in such a manner. If we qualify for taxation as a REIT, we generally will not be subject to Federal income tax on our taxable income that is distributed to our shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute to its shareholders at least 90% of its annual taxable income (excluding net capital gains).

Our executive offices are located at 8815 Centre Park Drive, Suite 400, Columbia, Maryland 21045 and our telephone number is (410) 730-9092.

Corporate Office Properties Trust's Internet address is www.copt.com. The information on our Internet site is not part of this report. We make available on our Internet site free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably possible after we file such material with the Securities and Exchange Commission.

Significant 2002 Developments

During 2002, we completed the following:

- Acquired nine office buildings totaling 839,364 square feet for $107.3 million, three parcels of land for $8.2 million and a leasehold interest carrying a right to purchase an additional parcel of land for $466,000. Of the office buildings acquired, two were located in Northern Virginia, six in the Baltimore/Washington Corridor and one in Suburban Washington, D.C. These acquisitions were financed using $62.6 million in borrowings from our secured revolving credit facility with Bankers Trust Company (the "Revolving Credit Facility"), $46.7 million from new and assumed mortgage loans and cash reserves for the balance.

- Completed the construction of five office buildings in the Baltimore/Washington Corridor totaling 410,551 square feet (excluding the construction activities of unconsolidated real estate joint ventures). Costs incurred on these buildings through December 31, 2002 totaled $66.0 million. On December 31, 2002, we also had construction activities underway on one new building totaling 123,743 square feet that was 60% operational and 63% leased. We estimate that land and construction costs upon completion of this project will total approximately $23.1 million, of which $21.1 million was incurred through December 31, 2002.

- Sold an office building and three land parcels for $10.6 million, providing $2.3 million in mortgage loans to the purchasers. The net proceeds from these sales after transaction costs and the loans provided by us to the purchasers totaled $7.5 million. We realized $1.7 million in gains from these sales.

- Participated in an offering of 10,961,000 common shares of beneficial interest ("common shares") to the public at a price of $12.04 per share; Constellation Real Estate, Inc. ("Constellation") sold 8,876,172 of these shares and we sold 2,084,828 of these shares. With the completion of this transaction, Constellation, which had been our largest shareholder, no longer owns any of our shares. We contributed the net proceeds from the shares sold by us to our Operating Partnership in exchange for 2,084,828 common units. The Operating Partnership used most of the proceeds to pay down our Revolving Credit Facility.

- Obtained $213.8 million in borrowings from new mortgage loans, including $160.8 million in fixed-rate, long-term mortgage loans that bear interest at a weighted average interest rate of 6.49% and had a weighted average term of 8.0 years. We used $116.8 million of the proceeds from these borrowings to repay other loans, $51.3 million to finance acquisitions, $40.8 million to pay down our Revolving Credit Facility and the balance to fund cash reserves.

- Entered into an interest rate swap agreement with SunTrust Bank that fixes the one-month LIBOR base rate at 2.31% on a notional amount of $50.0 million. This swap agreement became effective on January 2, 2003 and carries a two-year term.

Subsequent Events

From January 1, 2003 to March 20, 2003, we completed the following:

- Entered into an interest rate swap agreement with Deutsche Bank AG that fixes the one-month LIBOR base rate at 1.52% on a notional amount of $50.0 million. This swap agreement became effective on January 7, 2003 and carries a one-year term.

- Entered into a secured revolving credit agreement with Wachovia Bank, National Association, for a maximum principal amount of $25.0 million that carries an interest rate of LIBOR plus 1.65% to 2.15%, depending on the amount of debt we carry relative to our total assets. The credit facility matures in two years, although individual borrowings under the loan mature one year from the borrowing date.

- Completed the first phase of a $29.8 million, 108-acre land parcel purchase from Constellation. The first phase was acquired for $21.0 million using primarily an $18.4 million seller-provided mortgage loan.

- Acquired an office building located in Annapolis, Maryland totaling approximately 155,000 square feet for $18.0 million. This acquisition was financed primarily using proceeds from our Revolving Credit Facility.

- Contributed an office building located in Fairfield, New Jersey into a newly-created joint venture in exchange for a 20% ownership interest in the joint venture and a cash payment of $20.0 million. We used $3.3 million of the cash proceeds to fund a loan to an entity related to our joint venture partner and most of the balance to pay down our Revolving Credit Facility.

Corporate Objectives and Strategies

Our primary objectives are to achieve sustainable long-term growth in funds from operations per share and to maximize long-term shareholder value. We seek to achieve these objectives through focusing on the ownership, management, leasing, acquisition and development of suburban office properties. Important elements of our strategy are set forth below:

Geographic Focus. Our strategy is to operate in select, demographically strong and growing submarkets within the Mid-Atlantic region, where we believe we have achieved the critical mass necessary to maximize management efficiencies, operating synergies and competitive advantages through our acquisition, property management and development programs. By focusing within selected regions where our management has extensive experience and market knowledge, we believe that we can achieve regional prominence that will lead to better operating results.

Office Park Focus. We focus on owning and operating properties located in established suburban corporate office parks. We believe the suburban office park environment generally attracts longer-term tenants, including high-quality corporations seeking to attract and retain quality work forces, because these parks are typically situated along major transportation routes with easy access to support services, amenities and residential communities.

Corporate Tenants. We focus on leasing our office properties to large, high-quality companies that are financially sound market leaders in their respective fields and have significant space requirements. To enhance the stability of our cash flow, we typically structure our leases with terms ranging from three to ten years. We believe that this strategy enables us to establish long-term relationships with quality tenants and, coupled with our geographic and submarket focus, enhances our ability to become the low-cost provider and landlord of choice in our targeted markets.

Acquisition Strategies. We actively pursue the acquisition of suburban office properties through a three-part acquisition strategy. This strategy includes targeting: (i) entity acquisitions of significant portfolios along with their management to establish prominent ownership positions in new neighboring regions and enhance our management infrastructure; (ii) portfolio purchases to enhance our existing submarket positions as well as enter selective new neighboring regions; and (iii) opportunistic acquisitions of individual properties in our existing regions. We seek to make acquisitions at attractive yields and below replacement costs. We also seek to increase cash flow and enhance the underlying value of each acquisition through repositioning the properties and capitalizing on existing below market leases and expansion opportunities.

Property Development Strategies. We balance our acquisition program through selective development and expansion of suburban office properties as market conditions

and leasing opportunities support favorable risk-adjusted returns. We pursue development opportunities principally in response to the needs of existing and prospective new tenants. We generally develop sites that are in proximity to our existing properties. We believe that developing such sites enhances our ability to effectively meet tenant needs and efficiently provide critical tenant services.

Tenant Services. We seek to capitalize on our geographic focus and critical mass of properties in our core regions by providing high level, comprehensive services to our tenants. We conduct our tenant services activities through our subsidiary Service Companies. We believe that providing such services is an integral part of our ability to achieve consistently high levels of tenant satisfaction and retention.

Internal Growth Strategies. We aggressively manage our portfolio to maximize the operating performance of each property through: (i) proactive property management and leasing, (ii) achieving operating efficiencies through increasing economies of scale, (iii) renewing tenant leases and re-tenanting at increased rents where market conditions permit and (iv) expanding our tenant and real estate service capabilities. These strategies are designed to promote tenant satisfaction, resulting in higher tenant retention and the attraction of new tenants.

Financing Policy

We pursue a capitalization strategy aimed at maintaining a flexible capital structure in order to facilitate consistent growth and performance in the face of differing market conditions. Key components of our policy are set forth below:

Debt Strategy. We primarily utilize property-level mortgage debt as opposed to corporate unsecured debt. We believe that the commercial mortgage debt market is generally a more stable market, providing us with greater access to capital on a more consistent basis and, generally, on more favorable terms. Additionally, we seek to utilize long-term, fixed-rate debt, which we believe enhances the stability of our cash flow. On a consolidated basis, we seek to maintain a debt service coverage ratio of EBITDA (operating income before mortgage and other interest, income taxes, depreciation and amortization) to debt service (interest expense plus capitalized interest and scheduled principal amortization) in excess of 1.6x, which we believe is generally consistent with the current minimum investment grade requirement for mortgages securing commercial real estate. We believe that this ratio is appropriate for a seasoned portfolio of suburban office buildings. However, despite our current intention to maintain this policy, we are not obligated to do so and we may change this policy without shareholder consent.

Equity Strategy. When conditions warrant, we issue common and preferred equity. We also seek to maximize the benefits of our Operating Partnership's organizational structure by utilizing, where appropriate, the issuance of units in our Operating Partnership as an equity source to finance our property acquisition program. This strategy provides prospective property sellers the ability to defer taxable gains by receiving our units in lieu of cash and reduces the need for us to access the equity and debt markets.

Mortgage Loans Payable

For information relating to future maturities of our mortgage loans payable, you should refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 to our Consolidated Financial Statements, both of which are included in Exhibit 13.1 to this Form 10-K and are incorporated herein by reference.

Industry Segments

We operate in one industry segment: suburban office real estate. Our suburban office real estate operations have six geographical segments all located in the Mid-Atlantic region of the United States: Baltimore/Washington Corridor, Greater Philadelphia, Northern/Central New Jersey, Greater Harrisburg, Pennsylvania, Northern Virginia and Suburban Washington, D.C. For information relating to these geographic segments, you should refer to Note 15 to our Consolidated Financial Statements included in Exhibit 13.1 to this Form 10-K which is incorporated herein by reference.

Employees

We employed 171 persons as of December 31, 2002. We believe that our relations with our employees are good.

Competition

The commercial real estate market is highly competitive. Numerous commercial properties compete for tenants with our properties. We believe that the recent economic slowdown in the United States has adversely affected occupancy rates in our regions and our properties and, in turn, led to downward pressure on rental rates. Some of the properties competing with ours may be newer or have more desirable locations or the competing properties' owners may be willing to accept lower rents than are acceptable to us. If occupancy rates in our regions do not improve or further decline, we may have difficulty leasing both existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.

We also compete for the purchase of commercial property with many entities, including other publicly-traded commercial REITs. Many of our competitors have substantially greater financial resources than ours. In addition, our competitors may be willing to accept lower returns on their investments. If our competitors prevent us from buying properties that we have targeted for acquisition, we may not be able to meet our property acquisition and development goals.

RISK FACTORS

Set forth below are risks and uncertainties relating to our business and the ownership of our securities. You should carefully consider each of the risks and uncertainties below and all of the information in this Form 10-K and its Exhibits, including Exhibit 13.1, which sets forth portions of the Annual Report to Shareholders of Corporate Office Properties Trust as of and for the year ended December 31, 2002.

We may suffer adverse consequences as a result of our reliance on rental revenues for our income. We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.

For new tenants or upon lease expiration for existing tenants, we generally must make improvements and pay other tenant-related costs for which we may not receive increased rents. We also make building-related capital improvements for which tenants may not reimburse us.

If our properties do not generate revenue sufficient to meet our operating expenses and capital costs, we may have to borrow additional amounts to cover these costs. In such circumstances, we would likely have lower profits or possibly incur losses. We may also find in such circumstances that we are unable to borrow to cover such costs, in which case our operations could be adversely affected. Moreover, there may be less or no cash available for distributions to our shareholders.

Adverse developments concerning some of our key tenants could have a negative impact on our revenue. As of December 31, 2002, ten tenants accounted for

44.1% of our total annualized rental revenue and three of these tenants accounted for approximately 25.2% of our total annualized rental revenue. Our largest tenant is the United States Government, two agencies of which lease space in 20 of our office properties. These leases represented approximately 14.2% of our total annualized rental revenue as of December 31, 2002. Generally, these government leases provide for one-year terms or provide for early termination rights. The government may terminate its leases if, among other reasons, the Congress of the United States fails to provide funding. The Congress of the United States has appropriated funds for these leases through September 2003. Our second largest tenant, AT&T Local Services, which combined with its affiliates represented 6.0% of our total annualized rental revenue as of December 31, 2002, occupies space in six of our properties. The third largest tenant, Unisys Corporation, represented 5.0% of our total annualized rental revenue as of December 31, 2002, occupying space in three of our properties. If any of our three largest tenants fail to make rental payments to us, or if the United States Government elects to terminate several of its leases and the space cannot be re-leased on satisfactory terms, there would be an adverse effect on our financial performance and ability to make expected distributions to shareholders.

As of December 31, 2002, the United States defense industry (comprised of the United States Government and defense contractors) accounted for approximately 37.6% of our total annualized rental revenue, including most of the 14.2% derived from leases with two agencies of the United States Government as referenced above. We have become increasingly reliant on defense industry tenants, particularly since the events of September 11, 2001. Furthermore, we expect the percentage of our total annualized rental revenue derived from the defense industry to continue to increase. A reduction in government spending for defense could affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that these tenants will renew their leases or, in the case of the United States Government, result in the early termination of leases. Such occurrences could have an adverse effect on our results of operations, financial condition, cash flows and ability to make expected distributions to our shareholders.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so. Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. We believe that the recent economic slowdown in the United States has and could continue to adversely affect a number of our tenants. In addition, as noted above, we rely on a few major tenants for a large percentage of our total rental revenue. If one of our major tenants or a number of our smaller tenants were to experience financial difficulties, including bankruptcy, insolvency or general downturn of business, there could be an adverse effect on our financial performance and ability to make expected distributions to shareholders.

Our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Baltimore/ Washington Corridor, and we may therefore suffer economic harm as a result of adverse conditions in that region. All of our properties are located in the Mid-Atlantic region of the United States, and as of December 31, 2002, our properties located in

the Baltimore/Washington Corridor accounted for 62.2% of our total annualized rental revenue. Our properties are also typically concentrated in office parks in which we own most of the properties. Consequently, we do not have a broad geographic distribution of our properties. As a result, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Baltimore/Washington Corridor or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire for our properties, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant leaves, we can expect to experience a vacancy for some period of time, as well as higher capital costs than if a tenant renews. As a result, our financial performance and ability to make expected distributions to our shareholders could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms. Set forth below are the percentages of total annualized rental revenue as of December 31, 2002 that were subject to scheduled lease expirations in each of the next five years:

Year	%
2003	9.3%
2004	11.6%
2005	10.6%
2006	9.8%
2007	17.2%

Our government leases generally provide for early termination rights; the percentages reported above assume no exercise of such early termination rights.

We may not be able to compete successfully with other entities that operate in our industry. The commercial real estate market is highly competitive. Numerous commercial properties compete for tenants with our properties. We believe that the recent economic slowdown in the United States has adversely affected occupancy rates in our regions and our properties and, in turn, led to downward pressure on rental rates. Some of the properties competing with ours may be newer or have more desirable locations or the competing properties' owners may be willing to accept lower rents than are acceptable to us. If occupancy rates in our regions do not improve or further decline, we may have difficulty leasing both existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meet our short-term capital needs.

Our business strategy includes the acquisition of properties, which may be hindered by various circumstances. We compete for the purchase of commercial property with many entities, including other publicly traded commercial REITs. Many of our competitors have substantially greater financial resources than ours. In addition, our competitors may be willing to accept lower returns on their investments. If our competitors prevent us from buying properties that we target for acquisition, we may not be able to meet our property acquisition and development goals. Moreover, we may incur costs on unsuccessful acquisitions that we will not be able to recover. The operating performance of our property acquisitions may also fall short of our expectations, which could have an adverse effect on our financial performance and ability to make expected distributions to our shareholders.

We may be unable to execute our plans to develop and construct additional properties. Although the majority of our investments are in currently leased properties, we also develop and construct properties, including some that are not fully pre-leased. When we develop and construct properties, we assume the risk that actual costs will exceed our budgets, that we will experience construction or development delays and that projected leasing will not occur, any of which could adversely affect our financial performance and ability to make expected distributions to our shareholders. In addition, we generally do not obtain construction financing commitments until the development stage of a project is complete and construction is about to commence. We may find that we are unable to obtain financing needed to continue with the construction activities for such projects.

We may suffer economic harm as a result of the actions of our joint venture partners. We invest in certain entities in which we are not the exclusive investor or principal decision maker. Aside from our inability to unilaterally control the operations of these joint ventures, our investments entail the additional risks that (i) the other parties to these investments may not fulfill their financial obligations as investors, in which case we may need to fund such parties' share of additional capital requirements and (ii) the other parties to these investments may take actions that are inconsistent with our objectives, either of

which could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

We are subject to possible environmental liabilities. We are subject to various Federal, state and local environmental laws. These laws can impose liability on property owners or operators for the costs of removal or remediation of hazardous substances released on a property, even if the property owner was not responsible for the release of the hazardous substances. Costs resulting from environmental liability could be substantial. The presence of hazardous substances on our properties may also

adversely affect occupancy and our ability to sell or borrow against those properties. In addition to the costs of government claims under environmental laws, private plaintiffs may bring claims for personal injury or similar reasons. In addition, various laws impose liability for the costs of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances at such a facility is potentially liable under such laws. These laws often impose liability on an entity even if the facility was not owned or operated by the entity.

Real estate investments are illiquid, and we may not be able to sell our properties on a timely basis when we determine it is appropriate to do so. Equity real estate investments like our properties are relatively difficult to sell and convert to cash quickly, especially if market conditions are depressed. Such illiquidity will tend to limit our ability to vary our portfolio of properties promptly in response to changes in economic or other conditions. Moreover, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than four years. In addition, for certain of our properties that we acquired by issuing units in our Operating Partnership, we are restricted from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the seller's consent. Due to all of these factors, we may be unable to sell a property at an advantageous time.

We are subject to other possible liabilities that would adversely affect our financial position and cash flows. Our properties may be subject to other risks related to current or future laws, including laws benefiting disabled persons, and state or local laws relating to zoning, construction and other matters. These laws may require significant property modifications in the future for which we may not have budgeted and could result in fines being levied against us. In addition, although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore a property that is damaged by a fire or other catastrophic events, including acts of war or terrorism. The occurrence of any of these events could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

As a result of the September 11, 2001 terrorist attacks, we may be subject to increased costs of insurance and limitations on coverage. Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 2003. Due largely to the terrorist attacks on September 11, 2001, the insurance industry is reportedly changing its risk assessment approach and cost structure. These changes in the insurance industry may increase the cost of insuring our properties and decrease the scope of insurance coverage, either of which could adversely affect our financial position and operating results.

We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt. Our strategy is to operate with higher debt levels than most other REITs. However, these high debt levels could make it difficult to obtain additional financing when required and could also make us more vulnerable to an economic downturn. Most of our properties have been mortgaged to collateralize indebtedness. In addition, we rely on borrowings to fund some or all of the costs of new property acquisitions, construction and development activities and other items. Our organizational documents do not limit the amount of indebtedness that we may incur.

As of December 31, 2002, our total outstanding debt was $705.1 million. Our debt to total market capitalization was 54.4% based upon the $14.03 closing per share market price of our common shares on December 31, 2002. Total market capitalization is the sum of (1) total debt, (2) the value of all outstanding common shares and common units in our Operating Partnership at the $14.03 market price and (3) the total liquidation value of preferred shares and preferred units in our Operating Partnership.

Payments of principal and interest on our debt may leave us with insufficient cash to operate our properties or pay distributions to our shareholders required to maintain our qualification as a REIT. We are also subject to the risks that:

- we may not be able to refinance our existing indebtedness, or refinance on terms as favorable as the terms of our existing indebtedness;
- certain debt agreements of our Operating Partnership could restrict the ability of our Operating Partnership to make cash distributions to us, which could result in reduced distributions to our shareholders or the need to incur additional debt to fund these distributions; and
- if we are unable to pay our debt service on time or are unable to comply with restrictive financial covenants in certain of our mortgage loans, our lenders could foreclose on our properties securing such debt and in some cases other properties and assets that we own.

A number of our loans are cross-collateralized, which means that separate groups of properties from our portfolio secure each of these loans. More importantly, many of our loans are cross-defaulted, which means that failure to pay interest or principal on any of our loans will create a default on certain of our other loans. Any foreclosure of our properties would result in loss of income and asset value that would negatively affect our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders. In addition, if we are in default and the value of the properties securing a loan is less than the loan balance, the lender may require payment from our other assets.

If short-term interest rates were to rise, our debt service payments would increase, which would lower our net income and could decrease our distributions to our shareholders. We use interest rate swap and interest rate cap agreements to reduce the impact of interest rate changes. As of December 31, 2002, we had an interest rate swap agreement in place on a notional amount of $100.0 million; this agreement expired in January 2003. We had two new swap agreements become effective in January 2003 on a total notional amount of $100.0 million. Decreases in interest rates would result in increased interest payments due under interest rate swap agreements in place and could result in the Company's management recognizing a loss and remitting a payment to unwind such agreements. As of December 31, 2002, approximately 31.8% of our total debt had adjustable interest rates, excluding effects of the outstanding interest rate swap agreement; this percentage would decrease to 17.6% when including the effect of the interest rate swap agreement in effect at December 31, 2002.

We must refinance our mortgage debt in the future. As of December 31, 2002, our scheduled debt payments over the next five years, including maturities, were as follows:

Year	Amount (in thousands)
2003	$ 104,718 (1)
2004	163,052 (2)
2005	25,913
2006	69,610
2007	59,736

(1) Includes maturities of $10.9 million in April, $16.0 million in August and $36.0 million in November, each of which may be extended for a one-year period, subject to certain conditions; also includes a $12.0 million maturity in July that may be extended for two six-month terms, subject to certain conditions.
(2) Includes maturities of $128.0 million in March and $25.8 million in August, each of which may be extended for a one-year period, subject to certain conditions.

Our operations likely will not generate enough cash flow to repay some or all of this debt without additional borrowings or new equity financings. If we cannot refinance our debt, extend the repayment dates, or raise additional equity prior to the date when our debt matures, we would default on our existing debt, which would have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be unable to continue to make shareholder distributions at expected levels. We intend to make regular quarterly cash distributions to our shareholders. However, distribution levels depend on a number of factors, some of which are beyond our control.

Our loan agreements contain provisions that could restrict future distributions. Our ability to sustain our current distribution level will also be dependent, in part, on other matters including:

- continued property occupancy and timely payment by tenants of rent obligations;
- the amount of future capital expenditures and expenses relating to our properties;
- the level of leasing activity and future rental rates;
- the strength of the commercial real estate market;
- competition;
- the costs of compliance with environmental and other laws;
- our corporate overhead levels;
- the amount of uninsured losses; and
- our decision to reinvest in operations rather than distribute available cash.

In addition, we can make distributions to the holders of our common shares only after we make preferential distributions to holders of our preferred shares and Series C Preferred Units in our Operating Partnership.

Our ownership limits are important factors. Our Declaration of Trust limits ownership of our common shares by any single shareholder to 9.8% of the number of the outstanding common shares or 9.8% of the value of the outstanding common shares, whichever is more restrictive. Our Declaration of Trust also limits ownership by any single shareholder of our common and preferred shares in the aggregate to 9.8% of the aggregate value of the outstanding common and preferred shares. We call these restrictions the "Ownership Limit." Our Declaration of Trust allows our Board of Trustees to exempt shareholders from the Ownership Limit, and our Board of Trustees previously has exempted the foreign trust owning all of our Series D Preferred Shares from the Ownership Limit.

Our Declaration of Trust includes other provisions that may prevent or delay a change of control. Subject to the requirements of the New York Stock Exchange, our Board of Trustees has the authority without shareholder approval to issue additional securities on terms that could delay or prevent a change in control. In addition, our Board of Trustees has the authority to reclassify any of our unissued common shares into preferred shares. Our Board of Trustees may issue preferred shares with such preferences, rights, powers and restrictions as our Board of Trustees may determine, which could also delay or prevent a change in control.

Our Board of Trustees is divided into three classes of Trustees, which could delay a change of control. Our Declaration of Trust divides our Board of Trustees into three classes. The term of one class of the Trustees expires each year, at which time a successor class is elected for a three-year term. Such staggered three-year terms make it more difficult for a third party to acquire control of us.

The Maryland business statutes also impose potential restrictions on a change of control of our company. Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to shareholders. Our Bylaws exempt us from such laws, but our Board of Trustees can change our Bylaws at any time to make these provisions applicable to us.

Our failure to qualify as a REIT would have adverse tax consequences. We believe that since 1992 we have qualified for taxation as a REIT for Federal income tax purposes. We plan to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from certain sources that are itemized in the REIT tax laws. We are also required to distribute to shareholders at least 90% of our REIT taxable income, excluding net capital gains. The fact that we hold most of our assets through our Operating Partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service might make changes to the tax laws and regulations and the courts might issue new rulings that make it more difficult or impossible for us to remain qualified as a REIT.

If we fail to qualify as a REIT, we would be subject to Federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four

years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our shareholders. This would likely have a significant adverse effect on the value of our securities and would impair our ability to raise capital. In addition, we would no longer be required to make any distributions to our shareholders.

We have certain distribution requirements that reduce cash available for other business purposes. As a REIT, we must distribute 90% of our annual taxable income (excluding net capital gain), which limits the amount of cash we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period during which we report those items for distribution purposes, we may have to borrow funds to meet the 90% distribution requirement.

A number of factors could cause our security prices to decline. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of our common and preferred shares. These conditions include, but are not limited to: market perception of REITs in general and office REITs in particular; market perception of REITs relative to other investment opportunities; the level of institutional investor interest in our company; general economic and business conditions; interest rates; and market perception of our financial condition, performance, dividends and growth potential. Congress could also make changes to the tax laws and regulations that make it less advantageous for investors to invest in REITs.

The average daily trading volume of our common shares during 2002 was approximately 89,000 shares, and the average trading volume of our publicly-traded preferred shares is generally insignificant. As a result, relatively small volumes of transactions could have a pronounced effect on the market price of such shares.

We are dependent on external sources of capital for future growth. As noted above, because we are a REIT, we must distribute 90% of our annual taxable income. Due to this requirement, we will not be able to fund our acquisition, construction and development activities using cash flow from operations. Therefore, our ability to fund these activities is dependent on our ability to access capital funded by third parties. Such capital could be in the form of new loans, equity issuances of common shares, preferred shares, common and preferred units in our Operating Partnership or joint venture funding. Such capital may not be available on favorable terms or at all. Moreover, additional debt financing may substantially increase our leverage and subject us to covenants that restrict management's flexibility in directing our operations, and additional equity offerings may result in substantial dilution of our shareholders' interests. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business and fund other cash requirements.

Certain of our officers and Trustees have potential conflicts of interest. Certain of our officers and members of our Board of Trustees own partnership units in our

Operating Partnership. These individuals may have personal interests that conflict with the interests of our shareholders. For example, if our Operating Partnership sells or refinances certain of the properties that these officers or Trustees contributed to the Operating Partnership, the officers or Trustees could suffer adverse tax consequences. Their personal interest could conflict with our interests if such a sale or refinancing would be advantageous to us. We have certain policies in place that are designed to minimize conflicts of interest. We cannot assure you, however, that these policies will be successful in eliminating the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of all of our shareholders.

We are dependent on our key personnel, and the loss of any key personnel could have an adverse effect on our operations. We are dependent on the efforts of our Trustees and executive officers. The loss of any of their services could have an adverse effect on our operations. Although certain of our officers have entered into employment agreements with us, we cannot assure you that they will remain employed with us.

We may change our policies without shareholder approval, which could adversely affect our financial condition, results of operations, market price of our common shares or ability to pay distributions. Our Board of Trustees determines all of our policies, including our investment, financing and distribution policies. Although our Board of Trustees has no current plans to do so, it may amend or revise these policies at any time without a vote of our shareholders. Policy changes could adversely affect our financial condition, results of operations, the market price of the common shares or our ability to pay expected dividends or distributions.

Item 2. Properties

The following table provides certain information about our office properties as of December 31, 2002:

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Total Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
Baltimore/Washington Corridor: (4)							
2730 Hercules Road *Annapolis Junction, MD*	BWI Airport	1990	240,336	100.0%	$ 5,494,249	$ 22.86	United States of America (100%)
2711 Technology Drive *Annapolis Junction, MD*	BWI Airport	2002	152,000	100.0%	3,625,200	23.85	Computer Sciences Corporation (100%)
132 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2000	118,456	100.0%	2,529,523	21.35	Ameritrade Holding Corp. (66%); Computer Sciences Corporation (26%)
2721 Technology Drive *Annapolis Junction, MD*	BWI Airport	2000	118,093	100.0%	2,784,596	23.58	General Dynamics Government Corp. (78%); United States of America (22%)
2701 Technology Drive *Annapolis Junction, MD*	BWI Airport	2001	117,450	100.0%	2,933,675	24.98	Northrop Grumman Systems (62%); Titan Systems Corporation (38%)
1306 Concourse Drive *Linthicum, MD*	BWI Airport	1990	114,046	96.6%	2,361,820	21.43	IBM (33%); Qwest Communications (21%); AT&T Local Services (13%)
1304 Concourse Drive *Linthicum, MD*	BWI Airport	2002	102,964	62.9%	1,483,405	22.91	Northrop Grumman Corporation (53%); Debtscape (10%)
870-880 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1981	101,785	5.5%	120,738	21.46	¾
900 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	97,261	100.0%	1,866,029	19.19	First Annapolis Consulting (51%); Booz Allen Hamilton (46%)
1199 Winterson Road *Linthicum, MD*	BWI Airport	1988	96,636	100.0%	1,372,231	14.20	United States of America (100%)
920 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	96,566	100.0%	1,460,375	15.12	Ciena Corporation (100%)
134 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1999	93,482	100.0%	2,016,788	21.57	Booz Allen Hamilton (100%)
133 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1997	88,666	100.0%	1,819,547	20.52	United States of America (34%); Applied Signal Technology, Inc. (33%); Lockheed Martin Corporation (33%)
141 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	86,964	100.0%	1,747,951	20.10	ITT Industries (48%); Getronics Government Solutions (20%); Harris Data Services Corp. (14%)
135 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1998	86,863	100.0%	1,777,181	20.46	First American Credit Mgmt. Solutions (82%)
1302 Concourse Drive *Linthicum, MD*	BWI Airport	1996	84,607	87.1%	1,704,121	23.13	Lucent Technologies (31%); Aetna US Healthcare (20%); American Express Travel Related Srvs, Inc. (13%)
7467 Ridge Road *Hanover, MD*	BWI Airport	1990	74,273	94.3%	1,432,182	20.44	Travelers Bank & Trust, FSB (49%); Pro Object (32%); The Mitre Corporation (13%)
7240 Parkway Drive *Hanover, MD*	BWI Airport	1985	74,156	93.9%	1,369,864	19.67	Deloitte & Touche USA, LLP (21%); Delmarva Foundation for Medical Research (21%); Nevamar Company (12%)
881 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1986	73,572	100.0%	1,231,558	16.74	United States of America (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Total Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
1099 Winterson Road *Linthicum, MD*	BWI Airport	1988	71,076	100.0%	1,324,235	18.63	Preferred Health Network (62%)
131 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	69,039	100.0%	1,542,116	22.34	Conquest Information Technologies, Inc. (71%); United States of America (17%); Intel Corporation (12%)
849 International Drive *Linthicum, MD*	BWI Airport	1988	68,758	89.3%	1,271,943	20.71	First Service Networks, Inc. (13%); Raytheon Company (11%); United States of America (11%); Dames & Moore (10%)
1190 Winterson Road *Linthicum, MD*	BWI Airport	1987	68,746	45.2%	636,375	20.49	United States of America (15%); General Dynamics (14%); Travelers Bank & Trust, FSB (14%)
911 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1985	68,296	100.0%	1,262,178	18.48	United States of America (100%)
1201 Winterson Road *Linthicum, MD*	BWI Airport	1985	67,903	100.0%	926,812	13.65	Ciena Corporation (100%)
999 Corporate Boulevard *Linthicum, MD*	BWI Airport	2000	67,351	78.7%	1,278,488	24.13	RAG American Coal Holding (71%)
7318 Parkway Drive	BWI Airport	1984	59,204	100.0%	828,940	14.00	United States of America (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy[1]	Total Rental Revenue[2]	Total Rental Revenue per Occupied Square Foot [2] [3]	Major Tenants (10% or more of Rentable Square Feet)
Hanover, MD							
901 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	57,308	79.3%	723,470	15.93	State of Maryland (61%); Institute for Operations Research and Management Sciences (14%)
7320 Parkway Drive *Hanover, MD*	BWI Airport	1983	57,176	77.1%	595,004	13.50	Baltimore Gas & Electric (27%); Atlantic Coast Training (24%); Northrop Grumman Corporation (18%)
900 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	709,092	12.41	Ciena Corporation (100%)
930 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	687,553	12.03	Ciena Corporation (100%)
891 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	56,489	86.6%	999,858	20.44	NCO Financial Systems (52%); Metropolitan Life Insurance Co. (26%)
921 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	54,175	0.0%	¾	¾	¾
939 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	53,031	100.0%	902,908	17.03	First Service Networks, Inc. (36%); Agency Holding Company (34%); United States of America (23%)
938 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	52,988	100.0%	932,077	17.59	United States of America (100%)
940 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	51,704	100.0%	741,356	14.34	Cadmus Journal Services (100%)
800 International Drive *Linthicum, MD*	BWI Airport	1988	50,979	100.0%	805,586	15.80	Raytheon E-Systems, Inc. (100%)
1340 Ashton Road *Hanover, MD*	BWI Airport	1989	46,400	100.0%	812,457	17.51	Lockheed Martin Corp. (100%)
7321 Parkway Drive *Hanover, MD*	BWI Airport	1984	39,822	100.0%	699,063	17.55	United States of America (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy[1]	Total Rental Revenue[2]	Total Rental Revenue per Occupied Square Foot [2] [3]	Major Tenants (10% or more of Rentable Square Feet)
1334 Ashton Road *Hanover, MD*	BWI Airport	1989	37,565	96.8%	682,283	18.77	Science Applications International (60%); Parsons Transportation Group (37%)
1331 Ashton Road *Hanover, MD*	BWI Airport	1989	29,936	100.0%	437,927	14.63	Booz Allen Hamilton (71%); Aerosol Monitoring & Analysis (29%)
1350 Dorsey Road *Hanover, MD*	BWI Airport	1989	19,992	100.0%	332,015	16.61	Aerotek, Inc. (23%); Noodles, Inc. (14%); Hunan Pagoda (12%); C.G. Menk & Associates, Inc. (11%); Corestaff Support Services, Inc. (10%)
1344 Ashton Road *Hanover, MD*	BWI Airport	1989	17,076	77.3%	347,624	26.34	Engineering Solutions, Inc. (19%); AMP Corporation (16%); Dialysis Corporation of America (14%); Citizens National Bank (12%); NETg Security, Inc. (10%)
1341 Ashton Road *Hanover, MD*	BWI Airport	1989	15,841	100.0%	269,235	17.00	Supertots Childcare, Inc. (71%); The Devereux Foundation (29%)
1343 Ashton Road *Hanover, MD*	BWI Airport	1989	9,962	100.0%	140,349	14.09	Nauticus Corporation (100%)
114 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2002	9,717	100.0%	60,568	6.23	Huff and Puff, Inc. (44%); Café Joe (39%); Charm City Concierge (17%)
1615 - 1629 Thames Street *Baltimore, MD*	Downtown Baltimore City	1989	104,115	68.0%	1,364,862	19.27	Johns Hopkins University (39%); Community of Science (18%)
7200 Riverwood *Columbia, MD*	Howard County Perimeter	1986	160,000	100.0%	3,000,720	18.75	United States of America (100%)
9140 Rt. 108[5] *Columbia, MD*	Howard County Perimeter	1974/1985	150,000	100.0%	1,882,500	12.55	United States of America (100%)
7000 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	145,806	100.0%	1,334,125	9.15	Honeywell International (100%)
6940 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	108,737	89.9%	1,566,765	16.03	Magellan Behavioral Health, Inc. (39%); Response Services Center (26%); Peregrine Remedy, Inc. (14%)
6950 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1998	107,778	100.0%	2,322,064	21.54	Magellan Behavioral Health, Inc. (100%)
7067 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2001	82,953	100.0%	1,742,408	21.00	Community First Financial (50%); Allstate Insurance Company (50%)
6750 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	78,460	93.1%	1,923,836	26.33	Sun Microsystems, Inc. (45%); The Coca-Cola Company (35%)
6700 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	75,650	41.3%	683,554	21.88	Arbitron, Inc. (26%)
6731 Columbia Gateway Drive[6] *Columbia, MD*	Howard County Perimeter	2002	73,902	100.0%	1,857,069	25.13	CareFirst Inc. & Subsidiaries (68%); Washington Mutual Bank (29%)
6740 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1992	61,957	88.0%	1,373,820	25.19	Johns Hopkins University (68%); Advanced Career Technologies, Inc. (20%)
6716 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1990	52,002	89.7%	886,757	19.01	Sun Microsystems, Inc. (49%); Rational Software Corp. (15%); Jefferson Pilot Financial Insurance (11%)
9140 Guilford Road *Columbia, MD*	Howard County Perimeter	1983	41,704	92.9%	549,140	14.17	Microcosm (21%); Applied Data Systems (21%); COACT, Inc. (14%); NEC Business Network Solutions, Inc. (14%); Chesapeake Surgical, Ltd. (12%); Creative Marketing (11%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy[1]	Total Rental Revenue[2]	Total Rental Revenue per Occupied Square Foot [2] [3]	Major Tenants (10% or more of Rentable Square Feet)
7065 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	38,560	100.0%	606,163	15.72	Corvis Operations, Inc. (100%)
7063 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	36,936	100.0%	569,553	15.42	Corvis Operations, Inc. (100%)
9160 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	36,528	100.0%	556,821	15.24	AT&T Corporation (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Total Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
6760 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1991	36,309	39.6%	286,290	19.92	¾
6708 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	35,040	100.0%	634,350	18.10	State Farm Mutual Auto Insurance Co. (100%)
7061 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	29,604	82.8%	582,670	23.77	Manekin, LLC (83%)
6724 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2002	28,420	100.0%	617,636	21.73	Lurgi Lentjes North America (95%)
9150 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	17,655	100.0%	273,810	15.51	Essex Corporation (100%)
9130 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	13,700	100.0%	234,386	17.11	Chesapeake Research (100%)
14502 Greenview Drive *Laurel, MD*	Laurel	1988	71,926	79.6%	1,133,885	19.80	iSky (20%); LCC Telecom Management (11%)
14504 Greenview Drive *Laurel, MD*	Laurel	1985	69,194	66.7%	907,093	19.67	Moore USA (11%); Light Wave Communications (10%)
6009 - 6011 Oxon Hill Road *Oxon Hill, MD*	Southern Prince George's County	1990	181,768	100.0%	3,645,893	20.06	United States of America (65%); NRL Federal Credit Union (10%)
9690 Deereco Road *Timonium, MD*	Suburban North Baltimore County	1988	133,737	99.5%	3,098,194	23.29	Fireman's Fund Insurance (24%); I4Commerce, Inc. (10%)
375 W. Padonia Road *Timonium, MD*	Suburban North Baltimore County	1986	101,133	95.9%	1,603,419	16.53	Deutsche Bank Securities (83%)
Subtotal/Average			**5,406,564**	**91.0%**	**$ 94,318,328**	**$ 19.18**	
Blue Bell/Philadelphia:							
753 Jolly Road *Blue Bell, PA*	Blue Bell	1960/92-94	419,472	100.0%	$ 3,792,811	$ 9.04	Unisys (100%)
785 Jolly Road *Blue Bell, PA*	Blue Bell	1970/1996	219,065	100.0%	2,280,799	10.41	Unisys with 100% sublease to Merck
760 Jolly Road *Blue Bell, PA*	Blue Bell	1974/1994	208,854	100.0%	2,778,889	13.31	Unisys (100%)
751 Jolly Road *Blue Bell, PA*	Blue Bell	1966/1991	112,958	100.0%	1,021,352	9.04	Unisys (100%)
Subtotal/Average			**960,349**	**100.0%**	**$ 9,873,851**	**$ 10.28**	
Greater Harrisburg:							
2605 Interstate Drive *Harrisburg, PA*	East Shore	1990	81,187	92.7%	$ 1,317,009	$ 17.49	Commonwealth of Pennsylvania (88%)
6345 Flank Drive *Harrisburg, PA*	East Shore	1989	69,443	82.1%	906,011	15.88	Allstate Insurance (30%); First Health Services (24%); Coventry Health Care (18%); LWN Enterprises (15%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Total Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
6340 Flank Drive *Harrisburg, PA*	East Shore	1988	68,200	83.5%	594,649	10.45	Lancaster Lebanon (84%)
2601 Market Place *Harrisburg, PA*	East Shore	1989	66,224	100.0%	1,151,013	17.38	Duke Energy Operating Co. (26%); Ernst & Young, LLP (26%); Albright College (14%); Penn State Geisinger Systems (12%); Groundwater Sciences Corp. (11%); Quality Insights of PA, Inc. (11%)
6400 Flank Drive *Harrisburg, PA*	East Shore	1992	52,439	84.0%	695,872	15.80	Pennsylvania Coalition Against Domestic Violence (51%); The REM Organization (27%)
6360 Flank Drive *Harrisburg, PA*	East Shore	1988	46,500	97.7%	671,562	14.79	Ikon Office Solutions, Inc. (22%); Computer Applications (20%); Sentage Corp. d/b/a Dental Services Group (15%); Health Spectrum Medical (15%)
6385 Flank Drive *Harrisburg, PA*	East Shore	1995	32,921	63.0%	330,604	15.94	Cowles Enthusiast Media (34%); Imagistics International (11%) CGI Information Systems & Management (11%)
6380 Flank Drive *Harrisburg, PA*	East Shore	1991	32,613	86.2%	374,305	13.32	Myers & Stauffer (16%); Verizon Network Integration Corp. (14%); Lorom America, Inc. (14%); Day Enterprises, Inc. (12%); Critical Care Systems, Inc. (12%); U-Conn Technology USA (10%)
6405 Flank Drive *Harrisburg, PA*	East Shore	1991	32,000	100.0%	514,239	16.07	Cowles Enthusiast Media (100%)
95 Shannon Road *Harrisburg, PA*	East Shore	1999	21,976	100.0%	363,085	16.52	New World Pasta (100%)
75 Shannon Road *Harrisburg, PA*	East Shore	1999	20,887	100.0%	353,578	16.93	McCormick, Taylor & Assoc. (100%)
6375 Flank Drive *Harrisburg, PA*	East Shore	2000	19,783	100.0%	340,388	17.21	Orion Capital Companies (71%); McCormick, Taylor & Assoc. (29%)
85 Shannon Road *Harrisburg, PA*	East Shore	1999	12,863	100.0%	212,521	16.52	New World Pasta (100%)
5035 Ritter Road *Mechanicsburg, PA*	West Shore	1988	56,556	100.0%	812,854	14.37	Commonwealth of Pennsylvania (82%); PA Continuing Legal Education Board (10%)
5070 Ritter Road - Building A *Mechanicsburg, PA*	West Shore	1989	32,309	77.5%	388,449	15.51	Maryland Casualty Co. (62%); Commonwealth of Pennsylvania (15%)
5070 Ritter Road - Building B *Mechanicsburg, PA*	West Shore	1989	28,039	100.0%	358,223	12.78	Vale National Training Center (63%); Pennsylvania Trauma Systems Foundation (18%); Paytime, Inc. (15%)
Subtotal/Average			**673,940**	**90.6%**	**$ 9,384,362**	**$ 15.36**	
Northern/Central New Jersey:							
431 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1958/1998	170,000	100.0%	$ 3,401,124	$ 20.01	AT&T Local Services (100%)
429 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1966/1996	142,385	100.0%	2,843,655	19.97	AT&T Local Services (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Total Rental Revenue (2)	Total Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
68 Culver Road *Dayton, NJ*	Exit 8A - Cranbury	2000	57,280	100.0%	1,227,238	21.43	AT&T Local Services (100%)
437 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1962/1996	30,000	100.0%	795,000	26.50	AT&T Local Services (100%)

104 Interchange Plaza *Cranbury, NJ*	Exit 8A - Cranbury	1990	47,677	100.0%	1,066,236	22.36	Turner Construction Co. (35%); Laborer's International Union (28%); Lanier Worldwide (12%)
101 Interchange Plaza *Cranbury, NJ*	Exit 8A - Cranbury	1985	43,621	96.0%	943,284	22.53	Ford Motor Credit Co. (21%); CSX Transportation, Inc. (18%); Arquest, Inc. (16%); Middlesex County Improve. Auth. (13%)
47 Commerce *Cranbury, NJ*	Exit 8A - Cranbury	1992/1998	41,398	100.0%	503,393	12.16	Somfy Systems, Inc. (100%)
7 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1989	19,466	100.0%	447,400	22.98	Compugen, Inc. (29%); Systems Freight (22%)
8 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1986	16,199	45.4%	174,961	23.78	Medical World Communications (45%)
2 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1989	16,132	100.0%	417,741	25.90	Fleet National Bank (100%)
4301 Route 1 *Monmouth Junction, NJ*	Monmouth Junction	1986	61,327	83.9%	1,016,809	19.77	Guest Supply, Inc. (47%); Ikon Office Solutions (14%); Foster & Adoptive Family Services (10%)
695 Rt. 46 *Fairfield, NJ*	Wayne	1990	157,394	95.7%	3,166,148	21.02	ADT Security Services, Inc. (26%); The Museum Company (16%); JP Morgan Chase Bank (15%); Dean Witter Reynolds (13%)
710 Rt. 46 *Fairfield, NJ*	Wayne	1985	101,263	70.4%	1,498,546	21.01	Ericsson, Inc. (13%); Green Point Mortgage (10%)
Subtotal/Average			**904,142**	**93.7%**	**$ 17,501,535**	**$ 20.66**	
Northern Virginia:							
15000 Conference Center Drive *Chantilly, VA*	Dulles South	1989	470,406	99.6%	$ 9,765,284	$ 20.85	Dyncorp Information Systems, LLC (52%); General Dynamics Government Corp. (15%); Verizon Realty Corporation (13%); Genuity, Inc. (10%)
15059 Conference Center Drive *Chantilly, VA*	Dulles South	2000	145,192	92.6%	3,548,801	26.39	The Boeing Company (55%); Booz-Allen & Hamilton, Inc. (18%)
15049 Conference Center Drive *Chantilly, VA*	Dulles South	1997	145,053	100.0%	3,753,671	25.88	The Aerospace Corporation (92%)
Subtotal/Average			**760,651**	**98.3%**	**$ 17,067,756**	**$ 22.82**	
Suburban Washington D.C.							
11800 Tech Road *Silver Spring, MD*	Silver Spring	1969/1989	235,866	100.0%	$ 3,589,803	$ 15.22	Comcast Cablevision (42%); Kaiser Foundation Health Plan (17%); BioCore Medical Technologies (14%); Holy Cross Hospital of Silver Spring (12%); United States of America (11%)
Subtotal/Average			**235,866**	**100.0%**	**$ 3,589,803**	**$ 15.22**	
Total/Average			**8,941,512**	**93.0%**	**$ 151,735,635**	**$ 18.24**	

(1) This percentage is based upon all signed leases and tenants occupancy as of December 31, 2002.
(2) Total rental revenue is the monthly contractual base rent as of December 31, 2002 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases
(3) This total rent per occupied square foot is the property's total rental revenue divided by that property's occupied square feet as of December 31, 2002.
(4) The Baltimore/Washington Corridor encompasses mostly Anne Arundel and Howard Counties. Included in this region are six properties located outside of these counties, including two properties in Laurel, one property in Oxon Hill, two properties in Timonium and one property in Baltimore City.
(5) Bookham Technology, Inc. was the tenant in this building until December 31, 2002, when it terminated its lease. This entire building was re-tenanted to the United States of America under a lease that commenced January 1, 2003; the terms of this new lease are included in the above table.
(6) This property contains 123,743 square feet, 49,841 square feet of which was under development at December 31, 2002.

Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place as of December 31, 2002, assuming that none of the tenants exercise renewal options (dollars in thousands, except per square foot amounts):

Year of Lease Expiration[1]	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Total Rental Revenue of Expiring Office Leases[2] (in thousands)	Percentage of Total Office Rental Revenue Expiring[2]	Total Rental Revenue of Expiring Leases Per Occupied Square Foot[2]
2003	101	758,936	9.1%	$ 14,038	9.3%	$ 18.50
2004	74	911,254	11.0%	17,616	11.6%	19.33
2005	86	854,941	10.3%	16,033	10.6%	18.75
2006	59	814,421	9.8%	14,917	9.8%	18.32
2007	73	1,389,010	16.7%	26,090	17.2%	18.78
2008	20	750,932	9.0%	16,071	10.6%	21.40
2009	17	1,357,102	16.3%	16,879	11.1%	12.44
2010	15	777,068	9.3%	16,612	10.9%	21.38
2011	3	71,501	0.9%	1,744	1.1%	24.40
2012	7	428,474	5.1%	9,772	6.4%	22.81
2013	1	150,000	1.8%	1,883	1.3%	12.55
Other[3]	14	56,259	0.7%	81	0.1%	1.44
Total/Weighted Average.	470	8,319,898	100.0%	$ 151,736	100.0%	$ 18.87

(1) Many of our government leases are subject to certain early termination provisions that are customary to government leases. The year of lease expiration was computed assuming no such early termination rights are exercised. A 150,000 square foot lease with the United States Government commenced January 1, 2003 and expires June 30, 2013, assuming that the government does not exercise its right under the lease to terminate early; this 150,000 square foot lease has been included above since the previous lease with Bookham Techonology, Inc. for the same 150,000 square feet terminated early on December 31, 2002.

(2) Total rental revenue is the monthly contractual base rent as of December 31, 2002 multiplied by 12, plus the estimated annualized expense reimbursements under existing leases. Refer to (1) above for the inclusion of the 150,000 square foot lease with the United States Government despite its lease commencement date of January 1, 2003.
(3) Other consists of amenities, including cafeterias, concierge offices and property management space. In addition, month-to-month leases are included in this line item as the exact expiration date is unknown.

Item 3. Legal Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against the Company (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

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

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Information for this item is incorporated herein by reference to the section of Exhibit 13.1 entitled "Market for Registrant's Common Equity and Related Shareholder Matters."

Item 6. Selected Financial Data

Information for this item is incorporated herein by reference to the section of Exhibit 13.1 to this Form 10-K entitled "Selected Financial Data."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information for this item is incorporated herein by reference to the section of Exhibit 13.1 to this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information for this section is incorporated herein by reference to the section of Exhibit 13.1 to this Form 10-K entitled "Quantitative and Qualitative Disclosures about Market Risk."

Item 8. Financial Statements and Supplementary Data

Information for this section is incorporated herein by reference to the section of Exhibit 13.1 to this Form 10-K beginning with the Consolidated Balance Sheets and continuing through the Report of Independent Accountants.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Items 10, 11, 12 & 13. Trustees and Executive Officers of the Registrant, Executive Compensation, Security Ownership of Certain Beneficial Owners and Management and Certain Relationships and Related Transactions

For the information required by Item 10, Item 11, Item 12 and Item 13, you should refer to our definitive proxy statement relating to the 2003 Annual Meeting of our Shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K.

Item 14. Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out by us under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, within 90 days prior to the filing date of this report. Based on that evaluation, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and

procedures are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the such system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Subsequent to the date of the most recent evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed as exhibits to this Form 10-K:

1. **Financial Statements**. Audited consolidated balance sheets as of December 31, 2002 and 2001, and the related consolidated statements of operations, of shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 2002 are included in Exhibit 13.1 to this Form 10-K and are incorporated by reference.

2. **Financial Statement Schedule.** Audited Schedule III – Real Estate and Accumulated Depreciation is included in Exhibit 13.2 to this Form 10-K and is incorporated by reference.

(b) We filed the following Current Reports on Form 8-K in the last quarter of the year ended December 31, 2002:

Report dated October 23, 2002 containing Item 7 and Item 9 disclosures that were filed in connection with the release of earnings on October 23, 2002. We also through this filing made available certain additional information pertaining to our properties and operations as of and for the period ended September 30, 2002.

Report dated December 16, 2002 containing Item 5 and Item 7 disclosures that were filed in connection with the acquisitions of 7000 Columbia Gateway Drive, 11800 Tech Road, and 15049 and 15059 Conference Center Drive. This report contained financial statements for the properties described therein, as well as certain pro forma financial statements.

(c) **Exhibits**. Refer to the Exhibit Index that follows. Unless otherwise noted, the file number of all documents incorporated by reference is 1-14023.

EXHIBIT NO.	DESCRIPTION
3.1.1	Amended and Restated Declaration of Trust of Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.1.2	Articles of Amended and Restated Declaration of Trust (filed with the Company's Annual Report on Form 10-K on March 22, 2002 and incorporated herein by reference).
3.1.3	Articles Supplementary of Corporate Office Properties Trust Series A Convertible Preferred Shares, dated September 28, 1998 (filed with the Company's Current Report on Form 8-K on October 13, 1998 and incorporated herein by reference).
3.1.4	Articles Supplementary of Corporate Office Properties Trust Series B Convertible Preferred Shares, dated July 2, 1999 (filed with the Company's Current Report on Form 8-K on July 7, 1999 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
3.1.5	Articles Supplementary of Corporate Office Properties Trust Series D Cumulative Convertible Redeemable Preferred Shares, dated January 25, 2001 (filed with the Company's Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
3.1.6	Articles Supplementary of Corporate Office Properties Trust Series E Cumulative Redeemable Preferred Shares, dated April 3, 2001 (filed with the Registrant's Current Report on Form 8-K on April 4, 2001 and incorporated herein by reference).
3.1.7	Articles Supplementary of Corporate Office Properties Trust Series F Cumulative Redeemable Preferred Shares, dated September 13, 2001 (filed with the Registrant's Current Report on Form 8-K on September 14, 2001 and incorporated herein by reference).
3.2	Bylaws of Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.3	Form of certificate for the Registrant's Common Shares of Beneficial Interest, $0.01 par value per share (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.4	Amended and Restated Registration Rights Agreement, dated March 16, 1998, for the benefit of certain shareholders of the Company (filed with the Company's Quarterly Report on Form 10-Q on August 12, 1998 and incorporated herein by reference).
3.5	Registration Rights Agreement, dated January 25, 2001, for the benefit of Barony Trust Limited (filed with the Company's Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
10.1.1	Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 7, 1999 (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.1.2	First Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.1.3	Second Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.4	Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 29, 2000 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.5	Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated November 27, 2000 (filed herewith).
10.1.6	Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated January 25, 2001 (filed herewith).

EXHIBIT NO.	DESCRIPTION
10.1.7	Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated April 3, 2001 (filed with the Company's Current Report on Form 8-K dated March 30, 2001 and incorporated herein by reference).

10.1.8	Seventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated August 30, 2001 (filed herewith).
10.1.9	Eighth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 14, 2001 (filed with the Company's Current Report on Form 8-K dated September 6, 2001 and incorporated herein by reference).
10.1.10	Ninth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated October 6, 2001 (filed herewith).
10.1.11	Tenth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 29, 2001 (filed herewith).
10.1.12	Eleventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 15, 2002 (filed herewith).
10.2	Stock Option Plan for Directors (filed with Royale Investments, Inc.'s Form 10-KSB for the year ended December 31, 1993 (Commission File No. 0-20047) and incorporated herein by reference).
10.3.1*	Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.3.2*	Amendment No. 1 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed with the Company's Quarterly Report on Form 10-Q on August 13, 1999 and incorporated herein by reference).
10.3.3*	Amendment No. 2 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed with the Company's Annual Report on Form 10-K on March 22, 2002 and incorporated herein by reference).
10.4*	Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan (filed with the Registrant's Registration Statement on Form S-8 (Commission File No. 333-87384) and incorporated herein by reference).
10.5*	Employment Agreement, dated December 16, 1999, between Corporate Office Management, Inc., COPT and Clay W. Hamlin, III (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.6.1*	Employment Agreement, dated December 16, 1999, between Corporate Office Management, Inc., COPT and Randall M. Griffin (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.6.2*	Employment Agreement, dated September 12, 2002, between the Operating Partnership, COPT and Randall M. Griffin (filed herewith).
10.7.1*	Employment Agreement, dated December 16, 1999, between Corporate Office Management, Inc., COPT and Roger A. Waesche, Jr. (filed with the Company's Annual

EXHIBIT NO.	DESCRIPTION
	Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.7.2*	Employment Agreement, dated September 12, 2002, between the Operating Partnership, COPT and Roger A. Waesche, Jr. (filed herewith).
10.8*	Employment Agreement, dated December 16, 1999, between Corporate Development Services, LLC, COPT and Dwight Taylor (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.9*	Employment Agreement, dated December 16, 1999, between Corporate Realty Management, LLC, COPT and Michael D. Kaiser (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.10*	Amended and Restated Restricted Share Agreement, dated September 12, 2002, between Corporate Office Properties Trust and Randall M. Griffin (filed with the Company's Quarterly Report on Form 10-Q on November 14, 2002 and incorporated herein by reference).
10.11*	Amended and Restated Restricted Share Agreement, dated September 12, 2002, between Corporate Office Properties Trust and Roger A. Waesche, Jr. (filed with the Company's Quarterly Report on Form 10-Q on November 14, 2002 and incorporated herein by reference).
10.12.1*	Restricted Share Agreement, dated December 16, 1999, between Corporate Office Properties Trust and Dwight Taylor (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.12.2*	Amendment to Restricted Share Agreement, dated September 12, 2002, between Corporate Office Properties Trust and Dwight Taylor (filed with the Company's Quarterly Report on Form 10-Q on November 14, 2002 and incorporated herein by reference).
10.13.1*	Restricted Share Agreement, dated December 16, 1999, between Corporate Office Properties Trust and Michael D. Kaiser (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.13.2*	Amendment to Restricted Share Agreement, dated September 12, 2002, between Corporate Office Properties Trust and Michael D. Kaiser (filed with the Company's Quarterly Report on Form 10-Q on November 14, 2002 and incorporated herein by reference).
10.14.1*	Restricted Share Agreement, dated July 2, 2001, between Corporate Office Properties Trust and Roger A. Waesche, Jr. (filed with the Company's Annual Report on Form 10-K on March 22, 2002 and incorporated herein by reference).
10.14.2*	Amendment to Restricted Share Agreement, dated July 1, 2002, between Corporate Office Properties Trust and Roger A. Waesche, Jr. (filed with the Company's Quarterly Report on Form 10-Q on November 14, 2002 and incorporated herein by reference).
10.15.1	Senior Secured Revolving Credit Agreement, dated May 28, 1998, between the Company, the Operating Partnership, Any Mortgaged Property Subsidiary and Bankers Trust Company (filed with the Company's Current Report on Form 8-K on June 10, 1998 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.15.2	First Amended and Restated Senior Secured Revolving Credit Agreement, dated March 28, 2001, between the Company, the Operating Partnership, Any Mortgaged Property Subsidiary and Bankers Trust Company (filed with the Company’s Current Report on Form 8-K on September 7, 2001 and incorporated herein by reference).
10.15.3	Second Amended and Restated Senior Secured Revolving Credit Agreement, dated March 8, 2002, between the Company, the Operating Partnership, Any Mortgaged Property Subsidiary and Bankers Trust Company (filed with the Company’s Annual Report on Form 10-K on March 22, 2002 and incorporated herein by reference).
10.15.4	First Amendment to Second Amended and Restated Senior Secured Revolving Credit Agreement, dated July 23, 2002, between the Company, the Operating Partnership, Any Mortgaged Property Subsidiary and Bankers Trust Company (filed herewith).
10.16	Promissory Note, dated October 22, 1998, between Teachers Insurance and Annuity Association of America and the Operating Partnership (filed with the Company’s Quarterly Report on Form 10-Q on November 13, 1998 and incorporated herein by reference).
10.17	Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated October 22, 1998, by affiliates of the Operating Partnership for the benefit of Teachers Insurance and Annuity Association of America (filed with the Company’s Quarterly Report on Form 10-Q on November 13, 1998 and incorporated herein by reference).
10.18	Promissory Note, dated September 30, 1999, between Teachers Insurance and Annuity Association of America and the Operating Partnership (filed with the Company’s Quarterly Report on Form 10-Q on November 8, 1999 and incorporated herein by reference).
10.19	Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated September 30, 1999, by affiliates of the Operating Partnership for the benefit of Teachers Insurance and Annuity Association of America (filed with the Company’s Quarterly Report on Form 10-Q on November 8, 1999 and incorporated herein by reference).
10.20	Letter Agreement for Interest Rate Swap Transaction, dated December 26, 2000, between Corporate Office Properties, L.P. and Deutsche Bank AG (filed with the Company’s Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
10.21.1	Contribution Agreement between the Company and the Operating Partnership and certain Constellation affiliates (filed as Exhibit A of the Company’s Schedule 14A Information on June 26, 1998 and incorporated herein by reference).
10.21.2	First Amendment to Contribution Agreement, dated July 16, 1998, between Constellation Properties, Inc. and certain entities controlled by Constellation Properties, Inc. (filed with the Company’s Current Report on Form 8-K on October 13, 1998 and incorporated herein by reference).
10.21.3	Second Amendment to Contribution Agreement, dated September 28, 1998, between Constellation Properties, Inc. and certain entities controlled by Constellation Properties, Inc. (filed with the Company’s Current Report on Form 8-K on October 13, 1998 and incorporated herein by reference).
10.22	Service Company Asset Contribution Agreement between the Company and the Operating

EXHIBIT NO.	DESCRIPTION
	Partnership and certain Constellation affiliates (filed as Exhibit B of the Company’s Schedule 14A Information on June 26, 1998 and incorporated herein by reference).
10.23.1	Contribution Rights Agreement, dated June 23, 1999, between the Operating Partnership and United Properties Group, Incorporated (filed with the Company’s Quarterly Report on Form 10-Q on August 13, 1999 and incorporated herein by reference).
10.23.2	Contribution Agreement, dated December 21, 1999, between United Properties Group, Incorporated and COPT Acquisitions, Inc. (filed with the Company’s Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.24.1	Contract of Sale, dated August 9, 1999, between Jolly Acres Limited Partnership and the Operating Partnership (filed with the Company’s Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
10.24.2	Amendment to Contract of Sale, dated April 28, 2000, between Jolly Acres Limited Partnership and the Operating Partnership (filed with the Company’s Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
10.25	Agreement to Sell Partnership Interests, dated August 12, 1999, between Gateway Shannon Development Corporation, Clay W. Hamlin, III and COPT Acquisitions, Inc. (filed with the Company’s Quarterly Report on Form 10-Q on November 8, 1999 and incorporated herein by reference).
10.26	Contract of Sale, dated March 14, 2000, between Arbitrage Land Limited Partnership, Jolly Acres Limited Partnership and the Operating Partnership (filed with the Company’s Annual Report on Form 10-K on March 22, 2001 and incorporated herein by reference).
10.27.1	Lease Agreement, dated August 3, 1998, between Constellation Real Estate, Inc. and Constellation Properties, Inc. (filed with the Company’s Annual Report on Form 10-K on March 30, 1999 and incorporated herein by reference).
10.27.2	First Amendment to Lease, dated December 30, 1998, between Three Centre Park, LLC and Constellation Properties, Inc. (filed with the Company’s Annual Report on Form 10-K on March 30, 1999 and incorporated herein by reference).

10.28	Lease Agreement between Blue Bell Investment Company, L.P. and Unisys Corporation dated March 12, 1997 with respect to lot A (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.29	Lease Agreement between Blue Bell Investment Company, L.P. and Unisys Corporation, dated March 12, 1997, with respect to lot B (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.30	Lease Agreement between Blue Bell Investment Company, L.P. and Unisys Corporation, dated March 12, 1997, with respect to lot C (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
10.31	Option Agreement, dated March 1998, between the Operating Partnership and Blue Bell Land, L.P. (filed with the Company's Annual Report on Form 10-K on March 16, 2000

EXHIBIT NO.	DESCRIPTION
	and incorporated herein by reference).
10.32	Option Agreement, dated March 1998, between the Operating Partnership and Comcourt Land, L.P. (filed with the Company's Annual Report on Form 10-K on March 16, 2000 and incorporated herein by reference).
10.33	Option Agreement, dated September 28, 1998, between Jolly Acres Limited Partnership, Arbitrage Land Limited Partnership and the Operating Partnership (filed with the Company's Current Report on Form 8-K on October 13, 1998 and incorporated herein by reference).
10.34	Agreement of Sale, dated December 19, 2002, between Jolly Knolls, LLC and the Operating Partnership (filed herewith).
10.35	Indemnity Deed of Trust Note, dated January 24, 2003, by Corporate Office Properties, LP for the benefit of Jolly Knolls, LLC (filed herewith).
13.1	Portions of the Annual Report of Corporate Office Properties Trust as of and for the year ended December 31, 2002 (filed herewith).
13.2	Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2002 (filed herewith).
21.1	Subsidiaries of Registrant (filed herewith).
23.1	Consent of Independent Accountants (filed herewith).
99.1	Certification of the Chief Executive Officer under Title 18, Section 1350 of the United States Code, as adopted under Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.2	Certification of the Chief Operating Officer under Title 18, Section 1350 of the United States Code, as adopted under Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.3	Certification of the Chief Financial Officer under Title 18, Section 1350 of the United States Code, as adopted under Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* - Indicates a compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CORPORATE OFFICE PROPERTIES TRUST

Date: March 27, 2003

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

Date: March 27, 2003

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Jay H. Shidler (Jay H. Shidler)	Chairman of the Board and Trustee	March 27, 2003
/s/ Clay W. Hamlin, III (Clay W. Hamlin, III)	Chief Executive Officer and Trustee	March 27, 2003
/s/ Randall M. Griffin	President and Chief Operating Officer	March 27, 2003

(Randall M. Griffin)		
/s/ Roger A. Waesche, Jr. (Roger A. Waesche)	Senior Vice President and Chief Financial Officer	March 27, 2003
/s/ Betsy Z. Cohen (Betsy Z. Cohen)	Trustee	March 27, 2003
/s/ Kenneth D. Wethe (Kenneth D. Wethe)	Trustee	March 27, 2003
/s/ Robert L. Denton (Robert L. Denton)	Trustee	March 27, 2003
/s/ Kenneth S. Sweet, Jr. (Kenneth S. Sweet, Jr.)	Trustee	March 27, 2003
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	March 27, 2003
/s/ Thomas F. Brady (Thomas F. Brady)	Trustee	March 27, 2003

CERTIFICATION

I, Clay W. Hamlin, III, certify that:

1. I have reviewed this annual report on Form 10-K of Corporate Office Properties Trust;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003	By:	/s/ Clay W. Hamlin, III Clay W. Hamlin, III Chief Executive Officer

CERTIFICATION

I, Randall M. Griffin, certify that:

1. I have reviewed this annual report on Form 10-K of Corporate Office Properties Trust;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14

and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

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

CERTIFICATION

I, Roger A. Waesche, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Corporate Office Properties Trust;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President and
Chief Financial Officer

Exhibit 10.1.5

Fourth Amendment
To
Second Amended and Restated
Limited Partnership Agreement
Of
Corporate Office Properties, L.P.

This Fourth Amendment (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement Of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership"), is made and entered into as of November 27, 2000 by the undersigned.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of December 7, 1999 (the "Partnership Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. Pursuant to Section 11.1 (b) (iii), the General Partner desires to amend the Partnership Agreement to reflect the admission, substitution, termination and/or withdrawal of various limited partners in accordance with the terms of the Partnership Agreement.

NOW THEREFORE, the General Partner, intending to be legally bound, hereby amends the Partnership Agreement as follows, effective as of the date first set forth above.

1. Exhibit 1, Schedule of Partners, as attached hereto and by this reference made a part hereof, is hereby substituted for and intended to replace any prior Exhibit 1 attached to a prior Amendment to the Partnership Agreement, and as attached hereto shall be a full and complete listing of all the general and limited partners of the Partnership as of the date of this Amendment, same being intended and hereby superceding all prior Exhibit 1 listings.

In Witness Whereof, the General Partner has executed this Amendment as of the day and year first above written.

Corporate Office Properties Trust, a
Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President

Exhibit 1

Schedule of Partners

General Partner	Partnership Units	Series A Preferred Partnership Units	Series B Preferred Partnership Units	Series C Preferred Partnership Units
Corporate Office Properties Trust	18,275,296	1	1,250,000	
Limited Partners and Preferred Limited Partners				
United Properties Group, Incorporated				1,016,662
Jay H. Shidler	452,878			
Shidler Equities, L.P.	2,995,439			
Clay W. Hamlin, III	587,292			
LBCW Limited Partnership	3,246,007			
Anthony Muscatello	90,905			
Lynn B. Hamlin	121,411			
Robert L. Denton	434,910			
James K. Davis	51,589			
John E. De B. Blockey, Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	300,625			
Henry D. Bullock	116,553			
Frederick K. Ito Trust	29,140			
June Y. I. Ito Trust	29,135			
Reger Investment Fund	268,671			
Denise J. Liszewski	34,333			
Samuel Tang	22,889			
David P. Hartsfield	30,519			
Lawrence J. Taff	13,733			
Kimberly F. Acquino	5,874			
M.O.R. XXIX Associates Limited Partnership	148,381			
M.O.R. 44 Gateway Associates Limited Partnership	1			
Enterprise Nautical, Inc.	50,000			
John Parsinen	90,000			
John Parsinen, Jr.	10,000			
New Parkway Domain Group Enterprises, LLC	206,768			
M.O.R. Commons Limited Partnership	7			
John Edward De Burgh Blockey and Sanda Juanita Blockey	50,476			
	27,662,832	1	1,250,000	1,016,662

Series Preferred Units	Preferred Limited Partner	No. of Preferred Units	Liquidation Preference Per Preferred Unit	Priority Return Percentage	Priority	Conversion Factor	Conversion Commencement Date
A	General Partner	1	$ 25	1.375%	Senior	1.8748	8/28/2000
B	General Partner	1,250,000	$ 25	2.50%	Senior	None	N/A
C	UPG	1,016,662	$ 25	**	Senior	2.381	12/22/2000

* Priority Return Percentage is expressed per Distribution Period.

** Priority Percentage Return for the Series C Preferred Units shall be:
2.25% from December 21, 1999 to December 20, 2009;
2.625% from December 21, 2009 to December 20, 2014; and
3.00% thereafter.

The Distribution Period for the Series C Preferred Units shall be each calendar quarter ending March 31, June 30, September 30 and December 31 of each year.

Exhibit 10.1.6

FIFTH AMENDMENT TO
SECOND AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT OF
CORPORATE OFFICE PROPERTIES, L.P.

THIS FIFTH AMENDMENT (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership") is made and entered into as of January 25, 2001, by and among the undersigned parties.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act (the "Act") and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of January, 1999, as amended by that certain First Amendment to Second Amended and Restated Limited Partnership Agreement dated as of December 21, 1999, that certain Second Amendment to Second Amended and Restated Limited Partnership Agreement dated as of December 21, 1999, that certain Third Amendment to Second Amended and Restated Limited Partnership Agreement dated as of September 29, 2000, and that certain Fourth Amendment to Second Amended and Restated Limited Partnership Agreement dated as of November 27, 2000 (as amended, the "Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. The General Partner has issued a promissory note (the "Note") that is convertible at any time after January 25, 2001 by the holder thereof or the General Partner into 544,000 Series D Cumulative Convertible Redeemable Preferred Shares, par value $.01, of the General Partner (the "Series D Preferred REIT Shares").

D. As required under Sections 4.2(B) and (C) of the Agreement, the General Partner has transferred the net proceeds of the Note (or cause them to be transferred) to or for the benefit of the Partnership in exchange for Partnership Interests in the Partnership having terms substantially the same as the Note (the "Partnership Note"), and upon Conversion of the Note on the date hereof, the Partnership Note is being converted into Preferred Units having designations, rights and preferences substantially similar to the economic rights of the holders of the Series D Preferred REIT Shares (the "Series D Preferred Units").

E. The General Partner desires to amend the Agreement to acknowledge the contribution of the net proceeds of the Note by the General Partner to the Partnership in exchange for the Partnership Note and provide for the Conversion of the Promissory Note into the Series D Preferred Units as set forth below. Unless otherwise defined herein, all

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capitalized terms used in this Amendment shall have the same meanings as set forth in the Agreement.

NOW THEREFORE, in consideration of the foregoing and of the mutual premises set forth herein, the General Partner, intending to be legally bound hereby, hereby amends the Agreement as follows, effective as of the date set forth above.

1. The foregoing recitals to this Amendment are hereby incorporated in and made a part of this Amendment.

(a) Upon the conversion of the Note and the simultaneous conversion of the Partnership Note on the date hereof, the Partnership is issuing to the General Partner 544,000 Series D Preferred Units, equal to the number of Series D Preferred REIT Shares issued by the General Partner upon conversion of the Note.

(b) For purposes of the Agreement, including the maintenance of Capital Accounts, the General Partner shall be treated as making a Capital Contribution of $11,968,000, equal to the product of $22.00 times the number of Series D Preferred Units issued to the General Partner.

(c) The General Partner is hereby amending Exhibit 1 to the Agreement by substituting for the existing addendum to Exhibit 1 the Addendum to Exhibit 1 in the form attached hereto to reflect the issuance of the Series D Preferred Units to the General Partner.

2. Except as explicitly modified by this Amendment, all of the provisions of the Agreement are hereby ratified and confirmed, and shall remain in full force and effect.

(Remainder of Page Intentionally Left Blank)

In witness whereof, the General Partner has executed this Amendment as of the day and year first above written.

CORPORATE OFFICE PROPERTIES TRUST.
a Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Name: Roger A. Waesche, Jr.
Title: Senior Vice President and
Chief Financial Officer

Exhibit 1 Addendum

Series Preferred Units	Preferred Limited Partner	No. of Preferred Units	Liquidation Preference Per Preferred Unit	Priority Percentage Return*	Priority	Conversion Factor	Conversion Commencement Date
A	General Partner	1	$ 25	1.375%	Senior	1.8748	8/28/2000
B	General Partner	1,250,000	$ 25	2.50%	Senior	None	N/A

C	UPG	1,016,662	$	25	**	Senior	2.381	12/22/2000
D	General Partner	544,000	$	25	1.00%	Senior	***	***

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* Priority Return Percentage is expressed as a percentage of the Liquidation Preference per Distribution Period. See the Agreement for the definitions of "Priority Return Percentage," "Liquidation Preference" and "Distribution Period."

** Priority Percentage Return for the Series C Preferred Units shall be:
2.25% from December 21, 1999 to December 20, 2009;
2.625% from December 21, 2009 to December 20, 2014; and
3.00% thereafter.
The Distribution Period for the Series C Preferred Units shall be each calendar quarter ending March 31, June 30, September 30 and December 31 of each year.

*** With respect to any series of Preferred Units issued to the General Partner pursuant to Section 4.2(B) of the Agreement, the Conversion Commencement Date and the applicable Conversion Factor shall correspond to the conversion commencement date and conversion factor of the related issuance of securities by the General Partner as provided in Section 4.2(B) of the Agreement. See Section 9.8(A)(1) of the Agreement.

Exhibit 10.1.8

Seventh Amendment
To
Second Amended and Restated
Limited Partnership Agreement
Of
Corporate Office Properties, L.P.

This Seventh Amendment (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement Of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership"), is made and entered into as of August 30, 2001 by the undersigned.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of December 7, 1999 (the "Partnership Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. Pursuant to Section 11.1 (b) (iii), the General Partner desires to amend the Partnership Agreement to reflect the admission, substitution, termination and/or withdrawal of various limited partners in accordance with the terms of the Partnership Agreement.

NOW THEREFORE, the General Partner, intending to be legally bound, hereby amends the Partnership Agreement as follows, effective as of the date first set forth above.

1. Exhibit 1, Schedule of Partners, as attached hereto and by this reference made a part hereof, is hereby substituted for and intended to replace any prior Exhibit 1 attached to a prior Amendment to the Partnership Agreement, and as attached hereto shall be a full and complete listing of all the general and limited partners of the Partnership as of the date of this Amendment, same being intended and hereby superceding all prior Exhibit 1 listings.

In Witness Whereof, the General Partner has executed this Amendment as of the day and year first above written.

Corporate Office Properties Trust, a
Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President

Exhibit 1 - Addendum

Schedule of Partners

General Partner	**Partnership Units**
Corporate Office Properties Trust	18,475,902
Limited Partners and Preferred Limited Partners	
United Properties Group, Incorporated	
Jay H. Shidler	452,878
Shidler Equities, L.P.	2,217,182
Clay W. Hamlin, III	417,138
LBCW Limited Partnership	3,246,007
CHLB Partnership	212,316
Robert L. Denton	434,910
James K. Davis	51,589
John E. De B. Blockey, Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	300,625
Henry D. Bullock	116,553
Frederick K. Ito Trust	29,140
June Y. I. Ito Trust	29,135
Bernice Reger	268,671
Denise J. Liszewski	34,333
Samuel Tang	22,889
Lawrence J. Taff	13,733
Kimberly F. Acquino	5,874
M.O.R. XXIX Associates Limited Partnership	148,381
M.O.R. 44 Gateway Associates Limited Partnership	1
John Parsinen	90,000
John D. Parsinen, Jr.	10,000
New Parkway Domain Group Enterprises, LLC	206,768
M.O.R. Commons Limited Partnership	7
John Edward De Burgh Blockey and Sanda Juanita Blockey	50,476
RA&DM, Inc.	3,103
Manekin Investment Associates 3, LLC	307,239
	27,144,850

Exhibit 10.1.10

Ninth Amendment
To
Second Amended and Restated
Limited Partnership Agreement
Of
Corporate Office Properties, L.P.

This Seventh Amendment (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement Of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership"), is made and entered into as of October 16, 2001, by the undersigned.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of December 7, 1999 (the "Partnership Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. Pursuant to Section 11.1 (b) (iii), the General Partner desires to amend the Partnership Agreement to reflect the admission, substitution, termination and/or withdrawal of various limited partners in accordance with the terms of the Partnership Agreement.

NOW THEREFORE, the General Partner, intending to be legally bound, hereby amends the Partnership Agreement as follows, effective as of the date first set forth above.

1. Exhibit 1, Schedule of Partners, as attached hereto and by this reference made a part hereof, is hereby substituted for and intended to replace any prior Exhibit 1 attached to a prior Amendment to the Partnership Agreement, and as attached hereto shall be a full and complete listing of all the general and limited partners of the Partnership as of the date of this Amendment, same being intended and hereby superceding all prior Exhibit 1 listings.

In Witness Whereof, the General Partner has executed this Amendment as of the day and year first above written.

Corporate Office Properties Trust, a
Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President

Schedule of Common Unit Partners

General Partner	**Common Units**
Corporate Office Properties Trust	18,488,835
Limited Partners and Preferred Limited Partners	
Jay H. Shidler	452,878
Shidler Equities, L.P.	2,995,439
Clay W. Hamlin, III	587,292
LBCW Limited Partnership	3,246,007
Robert L. Denton	434,910
James K. Davis	51,589
John E. De B. Blockey, Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	300,625
Henry D. Bullock	116,553
Frederick K. Ito Trust	29,140
June Y. I. Ito Trust	29,135
RP Investments, LLC	268,671
Denise J. Liszewski	34,333
Samuel Tang	22,889
Lawrence J. Taff	13,733
Kimberly F. Acquino	5,874
M.O.R. XXIX Associates Limited Partnership	148,381
M.O.R. 44 Gateway Associates Limited Partnership	1
John Parsinen	90,000
John D. Parsinen, Jr.	10,000
New Parkway Domain Group Enterprises, LLC	206,768
M.O.R. Commons Limited Partnership	7
John Edward De Burgh Blockey and Sanda Juanita Blockey	50,476
Anthony Muscatello	90,905
Lynn Hamlin	121,411
RA&DM, Inc.	3,103
Manekin Investment Associates 3, LLC	307,239
	28,106,194

EXHIBIT 1

Addendum

Series Preferred Units	Preferred Limited Partner	No. of Preferred Units	Liquidation Preference Per Preferred Unit	Priority Percentage Return*	Priority	Conversion Factor	Conversion Commencement Date
A	General Partner	1	$ 25	1.375%	Senior	1.8748	8/28/2000
B	General Partner	1,250,000	$ 25	2.50%	Senior	None	N/A
C	UPG	1,016,662	$ 25	**	Senior	2.381	12/22/2000
D	General Partner	544,000	$ 25	1.00%	Senior	***	***
E	General Partner	1,150,000	$ 25	2.5625%	Senior	None	N/A
F	General Partner	1,425,000	$ 25		Senior	None	N/A

* Priority Return Percentage is expressed as a percentage of the Liquidation Preference per Distribution Period. *See* the Agreement for the definitions of "Priority Return Percentage," "Liquidation Preference" and "Distribution Period."

** Priority Percentage Return for the Series C Preferred Units shall be:

2.25% from December 21, 1999 to December 20, 2009;
2.625% from December 21, 2009 to December 20, 2014; and
3.00% thereafter.

The Distribution Period for the Series C Preferred Units shall be each calendar quarter ending March 31, June 30, September 30 and December 31 of each year.

*** With respect to any series of Preferred Units issued to the General Partner pursuant to Section 4.2(B) of the Agreement, the Conversion Commencement Date and the applicable Conversion Factor shall correspond to the conversion commencement date and conversion factor of the related issuance of securities by the General Partner as provided in Section 4.2(B) of the Agreement. *See* Section 9.8(A)(1) of the Agreement.

Exhibit 10.1.11

Tenth Amendment
To
Second Amended and Restated
Limited Partnership Agreement
Of
Corporate Office Properties, L.P.

This Tenth Amendment (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement Of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership"), is made and entered into as of December 29, 2001 by the undersigned.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of December 7, 1999 (the "Partnership Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. Pursuant to Section 11.1 (b) (iii), the General Partner desires to amend the Partnership Agreement to reflect the admission, substitution, termination and/or withdrawal of various limited partners in accordance with the terms of the Partnership Agreement.

NOW THEREFORE, the General Partner, intending to be legally bound, hereby amends the Partnership Agreement as follows, effective as of the date first set forth above.

1. Exhibit 1, Schedule of Partners, as attached hereto and by this reference made a part hereof, is hereby substituted for and intended to replace any prior Exhibit 1 attached to a prior Amendment to the Partnership Agreement, and as attached hereto shall be a full and complete listing of all the general and limited partners of the Partnership as of the date of this Amendment, same being intended and hereby superceding all prior Exhibit 1 listings.

In Witness Whereof, the General Partner has executed this Amendment as of the day and year first above written.

Corporate Office Properties Trust, a
Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President

Schedule of Partners

General Partner	**Partnership Units**
Corporate Office Properties Trust	18,542,289
Limited Partners and Preferred Limited Partners	
Jay H. Shidler	452,878
Shidler Equities, L.P.	2,995,439
Clay W. Hamlin, III	580,492
LBCW Limited Partnership	3,246,007
Robert L. Denton	434,910
James K. Davis	51,589
John E. De B. Blockey, Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	300,625
Henry D. Bullock	116,553
Frederick K. Ito Trust	29,140
June Y. I. Ito Trust	29,135
RPInvestments, LLC	268,671
Denise J. Liszewski	34,333
Samuel Tang	22,889
Lawrence J. Taff	13,733
Kimberly F. Acquino	5,874
M.O.R. XXIX Associates Limited Partnership	148,381
M.O.R. 44 Gateway Associates Limited Partnership	1
John Parsinen	90,000
New Parkway Domain Group Enterprises, LLC	206,768
M.O.R. Commons Limited Partnership	7
John Edward De Burgh Blockey and Sanda Juanita Blockey	50,476
Anthony Muscatello	90,905
Lynn Hamlin	121,411
RA&DM, Inc.	3,103
Manekin Investment Associates 3, LLC	307,239
Nichols School	250
The Baldwin School	1,000
Philadelphia Youth Tennis	1,000
Johns Hopkins University, Office of Treasurer	550
National Prostate Cancer Coalition	1,000
The Trustees of the University of Pennsylvania	3,000
	28,122,648

EXHIBIT 1

Addendum

Series Preferred Units	Preferred Limited Partner	No. of Preferred Units	Liquidation Preference Per Preferred Unit	Priority Percentage Return*	Priority	Conversion Factor	Conversion Commencement Date
A	General Partner	1	$ 25	1.375%	Senior	1.8748	8/28/2000
B	General Partner	1,250,000	$ 25	2.50%	Senior	None	N/A
C	UPG	1,016,662	$ 25	**	Senior	2.381	12/22/2000
D	General Partner	544,000	$ 25	1.00%	Senior	***	***
E	General Partner	1,150,000	$ 25	2.5625%	Senior	None	N/A
F	General Partner	1,425,000	$ 25		Senior	None	N/A

* Priority Return Percentage is expressed as a percentage of the Liquidation Preference per Distribution Period. *See* the Agreement for the definitions of "Priority Return Percentage," "Liquidation Preference" and "Distribution Period."

** Priority Percentage Return for the Series C Preferred Units shall be:

2.25% from December 21, 1999 to December 20, 2009;
2.625% from December 21, 2009 to December 20, 2014; and
3.00% thereafter.

The Distribution Period for the Series C Preferred Units shall be each calendar quarter ending March 31, June 30, September 30 and December 31 of each year.

*** With respect to any series of Preferred Units issued to the General Partner pursuant to Section 4.2(B) of the Agreement, the Conversion Commencement Date and the applicable Conversion Factor shall correspond to the conversion commencement date and conversion factor of the related issuance of securities by the General Partner as provided in Section 4.2(B) of the Agreement. *See* Section 9.8(A)(1) of the Agreement.

Eleventh Amendment
To
Second Amended and Restated
Limited Partnership Agreement
Of
Corporate Office Properties, L.P.

This Eleventh Amendment (the "Amendment") to the Second Amended and Restated Limited Partnership Agreement Of Corporate Office Properties, L.P., a Delaware limited partnership (the "Partnership"), is made and entered into as of December 15, 2002, by the undersigned.

Recitals

A. The Partnership is a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act and governed by that certain Second Amended and Restated Limited Partnership Agreement dated as of December 7, 1999 (the "Partnership Agreement").

B. The sole general partner of the Partnership is Corporate Office Properties Trust, a real estate investment trust formed under the laws of the State of Maryland (the "General Partner").

C. Pursuant to Section 11.1 (b) (iii), the General Partner desires to amend the Partnership Agreement to reflect the admission, substitution, termination and/or withdrawal of various limited partners in accordance with the terms of the Partnership Agreement.

NOW THEREFORE, the General Partner, intending to be legally bound, hereby amends the Partnership Agreement as follows, effective as of the date first set forth above.

1. Exhibit 1, Schedule of Partners, as attached hereto and by this reference made a part hereof, is hereby substituted for and intended to replace any prior Exhibit 1 attached to a prior Amendment to the Partnership Agreement, and as attached hereto shall be a full and complete listing of all the general and limited partners of the Partnership as of the date of this Amendment, same being intended and hereby superceding all prior Exhibit 1 listings.

In Witness Whereof, the General Partner has executed this Amendment as of the day and year first above written.

Corporate Office Properties Trust, a
Maryland Real Estate Investment Trust

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Senior Vice President

Schedule of Partners

General Partner	**Partnership Units**
Corporate Office Properties Trust	21,569,614
Limited Partners and Preferred Limited Partners	
Jay H. Shidler	452,878
Shidler Equities, L.P.	2,995,439
Clay W. Hamlin, III	568,492
LBCW Limited Partnership	3,164,407
Robert L. Denton	434,910
James K. Davis	51,589
John E. De B. Blockey, Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	300,625
Henry D. Bullock	116,553
Frederick K. Ito Trust	29,140
June Y. I. Ito Trust	29,135
RPInvestments, LLC	268,671
Denise J. Liszewski	34,333
Samuel Tang	22,889
Lawrence J. Taff	13,733
Kimberly F. Acquino	5,874
M.O.R. XXIX Associates Limited Partnership	148,381
M.O.R. 44 Gateway Associates Limited Partnership	1
John Parsinen	90,000
M.O.R. Commons Limited Partnership	7
John Edward De Burgh Blockey and Sanda Juanita Blockey	50,476
Anthony Muscatello	90,905
Lynn Hamlin	121,411
	30,559,463

EXHIBIT 1

Addendum

Series Preferred Units	Preferred Limited Partner	No. of Preferred Units	Liquidation Preference Per Preferred Unit	Priority Percentage Return*	Priority	Conversion Factor	Conversion Commencement Date
B	General Partner	1,250,000	$ 25	2.50%	Senior	None	N/A
C	UPG	1,016,662	$ 25	**	Senior	2.381	12/22/2000
D	General Partner	544,000	$ 25	1.00%	Senior	***	***
E	General Partner	1,150,000	$ 25	2.5625%	Senior	None	N/A
F	General Partner	1,425,000	$ 25		Senior	None	N/A

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* Priority Return Percentage is expressed as a percentage of the Liquidation Preference per Distribution Period. *See* the Agreement for the definitions of "Priority Return Percentage," "Liquidation Preference" and "Distribution Period."

** Priority Percentage Return for the Series C Preferred Units shall be:

2.25% from December 21, 1999 to December 20, 2009;
2.625% from December 21, 2009 to December 20, 2014; and
3.00% thereafter.

The Distribution Period for the Series C Preferred Units shall be each calendar quarter ending March 31, June 30, September 30 and December 31 of each year.

*** With respect to any series of Preferred Units issued to the General Partner pursuant to Section 4.2(B) of the Agreement, the Conversion Commencement Date and the applicable Conversion Factor shall correspond to the conversion commencement date and conversion factor of the related issuance of securities by the General Partner as provided in Section 4.2(B) of the Agreement. *See* Section 9.8(A)(1) of the Agreement.

Exhibit 10.6.2

EMPLOYMENT AGREEMENT
RANDALL M. GRIFFIN

This Employment Agreement (this “Agreement”), is made and entered into as of the 12th day of September, 2002, by and between Corporate Office Properties L.P., a Maryland limited liability company (the “Employer”), and Corporate Office Properties Trust, a Maryland business trust (“COPT”), and Randall M. Griffin (the “Executive”).

RECITALS

A. The Executive and former Employer Corporate Office Management Inc. (COMI) and current employer Corporate Office Properties, L.P. (COPLP) executed an agreement effective as of December 16, 1999 providing for the employment of the Executive by the former/current Employer upon the terms and conditions therein stated (the “Prior Agreement”).

B. The Employer (as referenced in the first paragraph) wishes to terminate the Prior Agreement and to renegotiate a new Agreement to assure itself of the continued services of the Executive for the period provided in this Agreement and the Executive is willing to continue in the employ of the Employer on a full-time basis for said period, and upon the other terms and conditions hereinafter provided.

C. The Employer recognizes that circumstances may arise in which a change of control of the Employer or COPT, through acquisition or otherwise, may occur, thereby causing uncertainty of employment without regard to the competence or past contributions of the Executive, and that such uncertainty may result in the loss of valuable services of the Executive. Accordingly, the Employer and the Executive wish to provide reasonable security to the Executive against changes in the employment relationship in the event of any such change of control.

D. COPT has agreed to become a party to this Agreement for the purpose of assuming the liabilities, obligations and duties of the Employer to the extent provided herein.

E. It is the intention of the Employer and the Executive that, notwithstanding the date of execution hereof, the Prior Agreement shall be terminated and this Agreement shall become effective as of July 1, 2002.

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. TERMINATION OF PRIOR AGREEMENT. The Prior Agreement is hereby terminated and this Agreement shall become effective as of July 1, 2002 (the “Effective Date”).

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2. POSITION AND DUTIES. As of the Effective Date, the Employer hereby employs the Executive as the President and Chief Operating 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 Trustees 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.

3. 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 annualized rate of Four Hundred Fifteen Thousand Dollars ($415,000.00) 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 Board and Compensation Committee of COPT (“Compensation Committee”) during the term hereof, in accordance with the established compensation policies of the Compensation Committee.

(b) PERFORMANCE BONUS. The Executive shall be entitled to an annual cash “Performance Bonus,” payable within ninety (90) days after the end of the fiscal year of the Employer the amount (if any) of which shall be determined by the Board based upon the recommendation of the Compensation Committee.

(c) STOCK OPTION/RESTRICTED SHARES. Executive shall be entitled to stock options and/or restricted shares as determined by the Compensation Committee and the Board.

(d) 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 or the Compensation Committee, and which Perquisite Policy is hereby incorporated by reference, as amended by the Board or the Compensation Committee 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 the Compensation Committee. Executive shall also receive additional benefits as follows:

(i) a one thousand two hundred fifty dollar ($1,250.00) per month automobile allowance and

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(ii) six thousand dollars ($6,000.00) per year for personal financial planning and personal income tax preparation.

(e) 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.

4. TERM AND TERMINATION.

(a) BASIC TERM. The Executive’s employment hereunder shall be for a six (6) year basic term (the “Basic Term”), commencing as of the Effective Date. After the Basic Term, the Executive’s term of employment shall automatically be extended for a continuous, self-renewing one (1) year term without further action of

the parties unless either party shall have served written notice on the other at least six (6) months prior to the expiration of the Basic Term that this Agreement shall terminate at the end of the Basic Term. If this Agreement is extended beyond the Basic Term, either party may at any time thereafter give written notice to the other party that the term of this Agreement will expire on the date that is one (1) year following the date of such written notice. Subject to the foregoing and other applicable terms of this Agreement, this Agreement may be terminated by either party, with or without cause, effective 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 for any reason other than expiration of the term hereof, termination upon disability in accordance with the provisions of paragraph (f) of this Section 4, or a "for-cause" termination in accordance with the provisions of paragraph (d) of this Section 4, 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 "Termination Payment" equal to the sum of: (w) three (3) times the rate of annualized Base Salary then payable to the Executive, plus (x) three (3) times the average of the three (3) most recent annual Performance Bonuses that the Executive received; provided, however that if the Executive has been employed by the Employer fewer than three (3) years, then the amount set forth in (x) above, shall be equal to three (3) times the average of the annual Performance Bonuses that the Executive has theretofore received from the Employer. For purposes of calculating the Termination Payment amounts due, the Executive's employment with the Employer shall be agreed to have commenced on July 1, 1999. In the event of a termination governed by this subparagraph (b) of Section 4, the Employer shall also: (y) allow a period of eighteen (18) months following the termination of employment for the Executive (but in no event beyond the expiration of any option term or period specified in the option agreement with the Executive) to exercise any options granted under any stock option or share incentive plan established by Employer or COPT ("Stock Plan"); 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 (but not less than twelve (12) months) 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.

(ii) Notwithstanding the vesting schedule otherwise applicable, in the event of a termination governed by this subparagraph (b) of Section 4, the Executive shall be fully vested in all of the Executive's options and restricted shares under any Stock Plan or similar program.

(iii) Any cash payments to the Executive under this Section 4(b) will be made monthly over twelve (12) months, unless otherwise mutually agreed by the parties to minimize the Executives' tax burden in any year.

(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 4, 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 Sections 5 and 6 hereof. The Executive shall in such event be entitled to a Termination Payment of Base Salary and Performance Bonus compensation as well as all of the Post-Termination Perquisites and Benefits, as if such termination of his employment had been effectuated pursuant to paragraph (b) of this Section 4.

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, the position with the Employer as set forth in Section 2 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, 8815 Centre Park Drive, Columbia, Maryland 21045, 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) a material violation by the Executive of any applicable material law or regulation respecting the business of the Employer; (ii) 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 in the opinion of a reasonable third party disqualifies the Executive from serving as an officer or director of the Employer; or (iii) 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. In the event the Employer terminates the Executive's employment "for cause" the Executive shall be entitled only to the Base Salary through the date of the termination of the Executive's employment "for cause" and any other additional benefit in accordance with applicable plans, programs or agreements with the Employer.

(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. Notwithstanding the vesting schedule otherwise applicable in the event of a termination governed by this subparagraph (e) of Section 4, all of options and restricted shares granted to the Executive under any Stock Plan or similar program shall be fully vested.

(f) TERMINATION UPON DISABILITY. The Employer may terminate the Executive's employment after the Executive is determined to be disabled under the long-term disability program of the Employer then covering the Executive or by a physician engaged by the Employer and reasonably approved by the

Executive. 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 11 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. Notwithstanding the vesting schedule otherwise applicable, in the event of a termination governed by this subparagraph (f) of Section 4, the Executive shall be fully vested in all of the Executive's options and restricted shares under any Stock Plan or similar program.

(g) TERMINATION UPON CHANGE OF CONTROL.

(i) In the event of a Change in Control (as defined below) 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 Termination Payment equal to the sum of: (w) the rate of annualized Base Salary then payable to the Executive multiplied by the number of years then remaining in the contract term (but not less than three (3) years); plus (x) the average of the three (3) most recent Performance Bonuses that the Executive received (or if less, the average of the annual Performance Bonuses that the Executive has theretofore received from the Employer) multiplied by the number of years then remaining in the contract term (but not less than three (3) years). The Employer shall also continue for the Executive the Post-Termination Perquisites and Benefits as provided in paragraph (b) of this Section 4; provided, however, that notwithstanding the vesting schedule otherwise applicable, immediately following a Change in Control (whether or not the Executive's employment is terminated), the Executive shall be fully vested in all of Executive's options and restricted shares outstanding under any Stock Plan or similar program and shall be allowed a period of eighteen (18) months following the termination of employment of the Executive for the Executive's exercise of such options. 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 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of the

combined voting power embodied in the then outstanding voting securities of COPT or the Employer; or

2. Approval by the stockholders of COPT or the Employer of: (1) a merger or consolidation of COPT or the Employer, if the stockholders of COPT or 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 (50%) 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 COPT or 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 COPT or the Employer.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty percent (50%) 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 indirectly by the stockholders of COPT or the Employer in the same proportion as their ownership of stock in COPT or 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 to 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 deficiency 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.

(h) VOLUNTARY TERMINATION. In the event of a termination of employment by the Executive on his own initiative, other than a termination due to death, disability or a Constructive Discharge, the Executive shall have the same entitlements as provided in paragraph (d) of this Section 4 for a termination "for-cause."

5. 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.

6. NON-COMPETITION 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 3 and 4 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 suburban office property (i) in any geographic market or submarket in which the

Employer owns more than 750,000 s.f. of properties either as of the date hereof or as of the date of 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 the *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 successor 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 5 and 6 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 11 of this Agreement, which decision, if rendered adverse to the Executive, may include permanent injunctive relief to be granted by the court.

7. 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 purposes hereof, an affiliate of the Employer shall mean any corporation or other entity directly or indirectly controlling, controlled by, or under common control with the Employer. The Employer shall be secondarily liable to the Executive for the obligations hereunder in the event the affiliate of the Employer cannot or refuses to honor such obligations. For all relevant purposes hereof, the tenure of the Executive shall be deemed to include the aggregate term of his employment by the Employer or its affiliate.

8. 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 (except into a trust for purposes of estate planning), 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.

9. 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 9, the Employer shall defend, hold harmless and indemnify the Executive (and his heirs, personal representatives, 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 organizational 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 or 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 attorneys' 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 the Employer has agreed to provide insurance coverage or indemnification under this Section 9, 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.

10. ASSUMPTION BY COPT. By its execution of this Agreement, COPT agrees to be secondarily liable to the Executive, and shall assume the liabilities, obligations and duties of the Employer as contained in this Agreement in the event the Employer cannot or refuses to honor such obligations.

11. 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. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or by operation of law.

(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 Maryland 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 6, 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 Baltimore, MD 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 Baltimore, Maryland, 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 (1) 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 bear 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 6.

(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 Executive's 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.

"Employer" Corporate Office Properties, L.P., a Maryland limited liability company	"Executive"
By: /s/ Clay W. Hamlin, III Clay W. Hamlin, III, CEO	/s/ Randall M. Griffin Randall M. Griffin 8815 Centre Park Drive, Suite 400 Columbia, MD 21045

Corporate Office Properties Trust, a Maryland business trust

By: /s/ Clay W. Hamlin, III
Clay W. Hamlin, III, CEO

EMPLOYMENT AGREEMENT
ROGER A. WAESCHE, JR.

This Employment Agreement (this "Agreement"), is made and entered into as of the 12th day of September, 2002, by and between Corporate Office Properties L.P., a Maryland limited liability company (the "Employer"), and Corporate Office Properties Trust, a Maryland business trust ("COPT"), and Roger A. Waesche, Jr. (the "Executive").

RECITALS

A. The Executive and former Employer Corporate Office Management Inc. (COMI) and current employer Corporate Office Properties, L.P. (COPLP) executed an agreement effective as of December 16, 1999 providing for the employment of the Executive by the former/current Employer upon the terms and conditions therein stated (the "Prior Agreement").

B. The Employer (as referenced in the first paragraph) wishes to terminate the Prior Agreement and to renegotiate a new Agreement to assure itself of the continued services of the Executive for the period provided in this Agreement and the Executive is willing to continue in the employ of the Employer on a full-time basis for said period, and upon the other terms and conditions hereinafter provided.

C. The Employer recognizes that circumstances may arise in which a change of control of the Employer or COPT, through acquisition or otherwise, may occur, thereby causing uncertainty of employment without regard to the competence or past contributions of the Executive, and that such uncertainty may result in the loss of valuable services of the Executive. Accordingly, the Employer and the Executive wish to provide reasonable security to the Executive against changes in the employment relationship in the event of any such change of control.

D. COPT has agreed to become a party to this Agreement for the purpose of assuming the liabilities, obligations and duties of the Employer to the extent provided herein.

E. It is the intention of the Employer and the Executive that, notwithstanding the date of execution hereof, the Prior Agreement shall be terminated and this Agreement shall become effective as of July 1, 2002.

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. TERMINATION OF PRIOR AGREEMENT. The Prior Agreement is hereby terminated and this Agreement shall become effective as of July 1, 2002 (the "Effective Date").

2. POSITION AND DUTIES. As of the Effective Date, the Employer hereby employs the Executive as Senior Vice-President and Chief Financial 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 Trustees 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.

3. 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 annualized rate of Two Hundred Sixty Five Thousand Dollars ($265,000.00) 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 Board and Compensation Committee of COPT ("Compensation Committee") during the term hereof, in accordance with the established compensation policies of the Compensation Committee.

(b) PERFORMANCE BONUS. The Executive shall be entitled to an annual cash "Performance Bonus," payable within ninety (90) days after the end of the fiscal year of the Employer the amount (if any) of which shall be determined by the Board based upon the recommendation of the Compensation Committee.

(c) STOCK OPTION/RESTRICTED SHARES. Executive shall be entitled to stock options and/or restricted shares as determined by the Compensation Committee and the Board.

(d) 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 or the Compensation Committee, and which Perquisite Policy is hereby incorporated by reference, as amended by the Board or the Compensation Committee 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 the Compensation Committee. Executive shall also receive additional benefits as follows:

(i) a $1,000.00 dollars ($1,000.00) per month automobile allowance; and

(ii) five thousand dollars ($5,000.00) per year for personal financial planning and personal income tax preparation.

(e) 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.

4. TERM AND TERMINATION.

(a) BASIC TERM. The Executive's employment hereunder shall be for a six (6) year basic term (the "Basic Term"), commencing as of the Effective Date. If either the Executive or the Employer notifies the Compensation Committee in writing at least six (6) months but not more than one (1) year prior to the expiration of the Basic Term that the Agreement is set to terminate at the end of the Basic Term, the Agreement shall automatically be extended after the Basic Term for a continuous, self-renewing one (1) year term without further action of the parties unless, within ninety (90) days after receiving such notice, the Compensation Committee notifies the parties in writing that this Agreement shall not be extended beyond the end of the Basic Term. If this Agreement is extended beyond the Basic Term, either party may at any time thereafter give written notice to the other party that the term of this Agreement will expire on the date that is one (1) year following the date of such written notice. Subject to the foregoing and other applicable terms of this Agreement, the Executive's employment may be terminated by either party, with or without cause, effective as of the first (1st) business day after written notice to that effect is delivered to the other party.

(b) POST-TERMINATION SALARY CONTINUATION. After the expiration of the Basic Term, or after the expiration of any renewal term, the Employer shall continue payment of the Executive's Base Salary in periodic installments corresponding to the regular payroll periods of the Employer for a period of one year from the date of the expiration of the term of this Agreement.

(c) PREMATURE TERMINATION.

(i) In the event of the termination of the employment of the Executive under this Agreement by the Employer for any reason other than expiration of the Basic Term hereof or any renewal term, termination upon disability in accordance with the provisions of paragraph (g) of this Section 4, or a "for-cause" termination in accordance with the provisions of paragraph (e) of this Section 4, 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 "Premature Termination Payment" equal to the sum of: (w) three (3) times the rate of annualized Base Salary then payable to the Executive, plus (x) three (3) times the average of the three (3) most recent annual Performance Bonuses that the Executive received. In the event of a termination governed by this subparagraph (c) of Section 4, the Employer shall also: (y) allow a period of eighteen (18) months following the termination of employment for the Executive (but in no event beyond the expiration of any option term or period specified in the option agreement with the Executive) to exercise any options granted under any stock option or share incentive plan established by Employer or COPT ("Stock Plan"); 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 (but not less than twelve (12) months) 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.

(ii) Notwithstanding the vesting schedule otherwise applicable, in the event of a termination governed by this subparagraph (c) of Section 4, the Executive shall be fully vested in all of the Executive's options and restricted shares under any Stock Plan or similar program.

(iii) Any cash payments to the Executive under this Section 4(c) will be made monthly over twelve (12) months, unless otherwise mutually agreed by the parties to minimize the Executives' tax burden in any year.

(d) CONSTRUCTIVE TERMINATION. If at any time during the term of this Agreement, except in connection with a "for-cause" termination pursuant to paragraph (e) of this Section 4, 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 Sections 5 and 6 hereof. The Executive shall in such event be entitled to a termination payment as well as all of the Post-Termination Perquisites and Benefits, as if such termination of his employment had been effectuated pursuant to paragraph (c) of this Section 4.

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, the position with the Employer as set forth in Section 2 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, 8815 Centre Park Drive, Columbia, Maryland 21045, as of the Effective Date of this Agreement; or

(v) The Employer otherwise commits a material breach of its obligations under this Agreement.

(e) 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) a material violation by the Executive of any applicable material law or regulation respecting the business of the Employer; (ii) 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 in the opinion of a reasonable third party disqualifies the Executive from serving as an officer or director of the Employer; or (iii) 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. In the event the Employer terminates the Executive's employment "for cause" the Executive shall be entitled only to the Base Salary through the date of the termination of the Executive's employment "for cause" and any other additional benefit in accordance with applicable plans, programs or agreements with the Employer.

(f) 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. Notwithstanding the vesting schedule otherwise applicable in the event of a termination governed by this subparagraph (f) of Section 4, all of options and restricted shares granted to the Executive under any Stock Plan or similar program shall be fully vested.

(g) TERMINATION UPON DISABILITY. The Employer may terminate the Executive's employment after the Executive is determined to be disabled under the long-term disability program of the Employer then covering the Executive or by a physician engaged by the Employer and reasonably approved by the Executive. 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 11 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. Notwithstanding the vesting schedule otherwise applicable, in the event of a termination governed by this subparagraph (g) of Section 4, the Executive shall be fully vested in all of the Executive's options and restricted shares under any Stock Plan or similar program.

(h) TERMINATION UPON CHANGE OF CONTROL.

(i) In the event of a Change in Control (as defined below) 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 Termination Payment equal to the sum of: (w) three (3) times the rate of annualized Base Salary then payable to the Executive, plus (x) three (3) times the average of the three (3) most recent annual Performance Bonuses that the Executive received. The Employer shall also continue for the Executive the Post-Termination Perquisites and Benefits for the same period and to the same extent as provided in paragraph (c) of this Section 4; provided, however, that notwithstanding the vesting schedule otherwise applicable, immediately following a Change in Control (whether or not the Executive's employment is terminated), the Executive shall be fully vested in all of Executive's options and restricted shares outstanding under any Stock Plan or similar program and shall be allowed a period of eighteen (18) months following the termination of employment of the Executive for the Executive's exercise of such options. 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 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of the combined voting power embodied in the then outstanding voting securities of COPT or the Employer; or

2. Approval by the stockholders of COPT or the Employer of: (1) a merger or consolidation of COPT or the Employer, if the stockholders of COPT or 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 (50%) 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 COPT or 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 COPT or the Employer.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty percent (50%) 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 indirectly by the stockholders of COPT or the Employer in the same proportion as their ownership of stock in COPT or 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 to 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 deficiency 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.

(i) VOLUNTARY TERMINATION. In the event of a termination of employment by the Executive on his own initiative, other than a termination due to death, disability or a Constructive Discharge, the Executive shall have the same entitlements as provided in paragraph (e) of this Section 4 for a termination "for-cause."

5. 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.

6. NON-COMPETITION 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 3 and 4 hereof, the Executive hereby agrees that, except with the express prior written consent of the Employer, for a period equal to either (i) twelve (12) months if the Executive's employment is terminated as a result of the expiration of the term of this Agreement or (ii) twenty-four (24) months after the termination of the Executive's employment with the Employer for any other reason, (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 suburban office property in any geographic market or submarket in which the Employer owns more than 750,000 s.f. of properties either as of the date hereof or as of the date of 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 the *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 successor 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 5 and 6 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 11 of this Agreement, which decision, if rendered adverse to the Executive, may include permanent injunctive relief to be granted by the court.

7. 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 purposes hereof, an affiliate of the Employer shall mean any corporation or other entity directly or indirectly controlling, controlled by, or under common control with the Employer. The Employer shall be secondarily liable to the Executive for the obligations hereunder in the event the affiliate of the Employer cannot or refuses to honor such obligations. For all relevant purposes hereof, the tenure of the Executive shall be deemed to include the aggregate term of his employment by the Employer or its affiliate.

8. 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 (except into a trust for purposes of estate planning), 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.

9. 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 9, the Employer shall defend, hold harmless and indemnify the Executive (and his heirs, personal representatives, 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 organizational 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 or 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 attorneys' 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 the Employer has agreed to provide insurance coverage or indemnification under this Section 9, 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.

10. ASSUMPTION BY COPT. By its execution of this Agreement, COPT agrees to be secondarily liable to the Executive, and shall assume the liabilities, obligations and duties of the Employer as contained in this Agreement in the event the Employer cannot or refuses to honor such obligations.

11. 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. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or by operation of law.

(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 Maryland 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 6, 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 Baltimore, MD 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 Baltimore, Maryland, 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 (1) 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 bear 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 6.

(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 Executive's 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.

"Employer"
Corporate Office Properties L.P., a
Maryland limited liability corporation

By: /s/ Clay W. Hamlin, III
Clay W. Hamlin, III, CEO

"Executive"

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
8815 Centre Park Drive, Suite 400
Columbia, MD 21045

Corporate Office Properties Trust, a Maryland
business trust

By: /s/ Clay W. Hamlin, III
Clay W. Hamlin, III, CEO

FIRST AMENDMENT TO
SECOND AMENDED AND RESTATED
SENIOR SECURED REVOLVING CREDIT AGREEMENT

This **FIRST AMENDMENT TO SECOND AMENDED AND RESTATED SENIOR SECURED REVOLVING CREDIT AGREEMENT**(this "**Amendment**"), dated as of July 23, 2002, is entered into by and among**CORPORATE OFFICE PROPERTIES, L.P.**, a Delaware limited partnership ("**Borrower**"), **CORPORATE OFFICE PROPERTIES TRUST**, a Maryland real estate investment trust ("**COPT**"), any Mortgaged Property Subsidiary that is or may become a party to the Credit Agreement (together with Borrower and COPT, the "**Loan Parties**"), **DEUTSCHE BANK TRUST COMPANY AMERICAS** (fka Bankers Trust Company) and the other Lenders that are or may become a party to the Credit Agreement (individually, a "**Lender**" and collectively, the "**Lenders**") and **DEUTSCHE BANK TRUST COMPANY AMERICAS** (fka Bankers Trust Company) as agent for the Lenders (in such capacity, "**Agent**").

R E C I T A L S

A. The Loan Parties, the Lenders and Agent have entered into that certain Second Amended and Restated Senior Secured Revolving Credit Agreement dated as of March 8, 2002 (the "**Credit Agreement**"). Initially capitalized terms not otherwise defined in this Amendment shall have the respective definitions ascribed to them in the Credit Agreement.

B. By entering into this Amendment, the Loan Parties, the Lenders and Agent desire to amend the Credit Agreement as more particularly set forth herein.

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing Recitals (which by this reference are incorporated herein) and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Increase in Letter of Credit Sublimit.** Subsection 2.16.1(ii) of the Credit Agreement is amended and restated in its entirety as follows:

"(ii) any Letter of Credit, if after giving effect to such issuance, the Letter of Credit Usage would exceed $10,000,000;"

2. **Representations and Warranties.** Acknowledging that each of the following representations and warranties is given to induce Agent and the other Lenders to enter into this Amendment and the documents related thereto, each of Loan Parties hereby represents and warrants to Agent and the other Lenders that:

(a) The execution and delivery of this Amendment and the other documents related thereto do not contravene, result in the breach of or constitute a default under any deed of

trust, loan agreement, indenture or other contract or agreement to which any Loan Party is a party or by which any Loan Party or any of their respective properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and does not violate or contravene any law, order, decree, rule, regulation or restriction to which any Loan Party or any of the Mortgaged Properties is subject;

(b) This Amendment and the other documents related thereto, if any, constitute the legal, valid and binding obligations of Loan Parties that are parties thereto, and are enforceable against such Loan Parties in accordance with their respective terms;

(c) The respective execution and delivery of, and performance under, this Amendment and the other documents related thereto are within the applicable Loan Parties' respective power and authority without the joinder or consent of any other party and have been duly authorized by all requisite action and are not in contravention of law or their respective organizational documents;

(d) There exists no Event of Default or Potential Event of Default under the Loan Documents and there are no offsets, claims or defenses with respect to any of the Obligations, including the Guarantied Obligations under the COPT Guaranty;

(e) Except for those representations and warranties that are expressly limited to apply to or as of a specific date, all the representations and warranties of the Loan Parties under the Loan Documents and all the representations and warranties of COPT under the COPT Guaranty are true and correct in all material respects on the date hereof, all of which are hereby ratified and reaffirmed for all purposes;

(f) There has been no amendment or supplement or change to the organizational and governance documents of the Loan Parties that were delivered and certified to Agent and the other Lenders at or subsequent to Closing Date, all of which organizational and governance documents are in full force and effect on the date hereof; and

(g) As of the date hereof, each of the Loan Parties is in legal existence and good standing under the laws of the state of its respective formation or creation and are duly authorized to conduct business in which their respective Mortgaged Properties are located.

3. **Ratification; Restatement.** Each of the Loan Parties restates and remakes all of the covenants and agreements contained in the Credit Agreement and other Loan Documents as of the date hereof, and acknowledges and agrees that, except as modified herein, the Credit Agreement has not been otherwise modified or amended and remains in full force and effect. The Security Documents are hereby ratified and confirmed as valid, subsisting and continuing to secure the Notes, the Loan Documents and any other Obligations, as modified by this Amendment and all related documents. Nothing herein shall in any manner diminish, impair or extinguish the Notes, the Security Documents, or any of the other Obligations. The recitals set forth above are true, accurate and complete.

4. **Conditions Precedent to Effectiveness.** This Amendment shall not become effective, nor shall Agent and the other Lenders be obligated hereunder, until each of the following conditions precedent in favor of Agent and the other Lenders has been satisfied:

(a) The applicable Loan Parties shall have executed and delivered to Agent this Amendment and all other documents to be executed in connection herewith (including any amendments to or restatements of the Mortgages, Security Documents, other Loan Documents or financing statements and fixture filings required by Agent);

(b) No Event of Default or Potential Event of Default under the Loan Documents shall exist and be continuing; and

(c) Agent shall have received from the Loan Parties all certificates and other evidence and opinions of counsel as Agent shall in its sole and absolute

discretion require concerning, inter alia, the Loan Parties' respective due power and authority to enter into, deliver and perform their respective obligations under this Amendment and all other documents executed in connection therewith.

5. Miscellaneous.

(a) Conflicts. In the event of any conflict between the terms and provisions of the Credit Agreement and this Amendment, the terms and provisions of this Amendment shall control and govern.

(b) Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be considered an original but all of which, when taken together, shall constitute but one and the same instrument.

(c) Further Assurances. Each of the Loan Parties hereby agrees to execute and deliver to Agent, promptly upon request from Agent, such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated in this Amendment and the other documents related thereto or to perfect the liens, security interests, collateral assignments and financing statements as Agent may request to more fully evidence the security and collateral contemplated in such documents.

[Remainder of page intentionally blank.]

IN WITNESS WHEREOF, the parties to this Amendment have caused this Amendment to be executed as of the date first above written.

LOAN PARTIES:

CORPORATE OFFICE PROPERTIES, L.P.,
a Delaware limited partnership

By: Corporate Office Properties Trust, a Maryland real estate investment trust, its sole general partner

By: /s/ Roger A. Waesche, Jr.
Name: Roger A. Waesche, Jr.
Title: Senior Vice President

CORPORATE OFFICE PROPERTIES TRUST,
a Maryland real estate investment trust

By: /s/ Roger A. Waesche, Jr.
Name: Roger A. Waesche, Jr.
Title: Senior Vice President

LENDERS AND AGENT:

DEUTSCHE BANK TRUST COMPANY AMERICAS
(fka Bankers Trust Company),
as a Lender and the Agent

By: /s/ Brenda Casey
Name: Brenda Casey
Title: Vice President

THE BANK OF NOVA SCOTIA,
as a Lender

By: /s/ NEIL J.CRAWFORD
Name: NEIL J.CRAWFORD
Title: DIRECTOR

FLEET NATIONAL BANK,
as a Lender

By: /s/ James B. McLaughlin
Name: James B. McLaughlin
Title: Director

CHEVY CHASE BANK, FSB,
as a Lender

By: /s/ J.Jordan O'Neill, III
Name: J.Jordan O'Neill, III
Title: Vice President

BRANCH BANKING & TRUST COMPANY,
as a Lender

By: /s/ Elizabeth L. Paulson
Name: Elizabeth L. Paulson
Title: Senior Vice President

SUNTRUST BANK
(formerly Crestar Bank),
as a Lender

By: /s/ Nancy B Richards
Name: Nancy B Richards
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ John Scott
Name: John Scott
Title: Assistant Vice President

PROVIDENT BANK,
A MARYLAND BANKING INSTITUTION,
as a Lender

By: /s/ Carole A. Stafford
Name: Carole A. Stafford
Title: Vice President

Exhibit 10.34

AGREEMENT OF SALE

THIS AGREEMENT OF SALE (this "**Agreement**") is made as of this 19th day of December, 2002 (the **"Effective Date"**), by and between **JOLLY KNOLLS, LLC**, a Maryland limited liability company **("Seller"**), and **CORPORATE OFFICE PROPERTIES, L.P.**, a Delaware limited partnership ("**Buyer**").

Background

Seller is the owner in fee simple of that certain parcel of land known as "Cedar Knolls" (the "**Land**"), located in Anne Arundel County, Maryland (the "**County**"), within "The National Business Park" ("**National Business Park**"), and containing approximately 108.183 acres. The Land is more particularly shown on the plats entitled "The National Business Park Phase 4 Formerly Cedar Knolls Property Previously Recorded in Liber 9138, folio 677", consisting of plats 1 through 7 and recorded among the Land Records at Plat Book 246, pp. 23 through 29, plats 12850 through 12856 (collectively, the "**Subdivision Plat**").

Under the Subdivision Plat, the Land has been divided into two phases. The first phase is that portion of the Land which has been subdivided into eight (8) Lots, numbered 21 through 25 and 30 through 32, inclusive, on the Subdivision Plat. Lots Nos. 21-25 and 30-32 are herein referred to collectively as the "**Lots**" and individually, as a "**Lot**". The second phase is that portion of the Land which is shown on plat 5 of the Subdivision Plat as the "**Reserve Parcel**". The Land, as described on the Subdivision Plat, also contains (i) roadways to be dedicated to the County with an aggregate acreage of approximately 3.784 acres (the "**Roadways**"); (ii) three (3) open space parcels with an aggregate acreage of approximately 17.339 acres (each individually, an "**Open Space Parcel**", and collectively the "**Open Space Parcels**"); and (iii) a flood plain area comprising approximately 1.192 acres (the "**Flood Plain Area**").

All of the Land has been annexed and is subject to the Declaration (as hereinafter defined). The Lots as now subdivided will be permitted under applicable law to have a total FAR (as hereinafter defined) of approximately 900,000 square feet. It is anticipated that if the Reserve Parcel is subdivided it will have a total FAR of not less than 350,000 square feet.

Seller desires to sell the Property (as hereinafter defined in Section 2) to Buyer and Buyer desires to purchase the Property from

Seller, upon the terms, covenants and conditions set forth in this Agreement.

Agreements

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Seller and Buyer, the parties hereto covenant and agree as follows:

SECTION 1. DEFINITIONS. As used herein, the following terms shall have the meanings indicated:

"**Additional Guaranty**" is defined in Subsection 3.1.2.

"**Alternative Sale Structure**" is defined in Section 2.

"**Assignment Agreement**" means the agreement by and among Seller, Arbitrage Land Limited Partnership "("**Arbitrage**"), Jolly Acres Limited Partnership ("**Jolly Acres**") and Corporate Office Properties, L.P., in recordable form, in which Seller, Arbitrage and Jolly Acres shall assign to Corporate Office Properties, L.P., jointly and severally and non-exclusively with Seller, their rights as "Declarant" under the Declaration, and Arbitrage and Jolly Acres, the remaining two Declarants under the Declaration. The Assignment Agreement shall be in the form attached hereto as **Exhibit G-1**.

"**Assignment of Member Interests**" is defined in Section 2.

"**Association**" means the Maryland nonprofit corporation organized or to be organized pursuant to the Declaration.

"**Closing Dates**" means, collectively, the First Closing Date and the Second Closing Date.

"**Closing Statement**" is defined in Subsection 5.3.5.

"**Closings**" means, collectively, the First Closing and the Second Closing.

"**Completion of the Ponds**" means the Seller's completion of the three ponds referenced in the Mass Grading Permit for purposes of sediment control, two of which ponds have been completed as sediment control ponds as of the Effective Date and the third of which ponds will be completed by Seller as a sediment control pond and may be located offsite on Lot 17R.

"**COPT**" means Corporate Office Properties Trust, a Maryland real estate investment trust.

"**County**" is defined above in the Background Section.

"**Declaration**" means the Declaration of Covenants, Conditions and Restrictions dated April 21, 2000 and recorded among the Land Records of the County at Liber 9853, folio 591, as amended by a First Amendment to Declaration of Covenants, Conditions and Restrictions dated July 6, 2001 and recorded among the Land Records of the County at Liber 11048, folio 310.

"**Deed of Trust**" is defined in Subsection 3.1.2.

"**Default Rate**" means an annual interest rate equal to the greater of (i) fifteen percent (15%); and (ii) eight percent (8%) in excess of the prime rate as announced from time to time in the "Money Rates" section of the Wall Street Journal.

"**Easement Agreement**" means that easement agreement in recordable form, granting to Seller, its successors and assigns, a non-exclusive perpetual easement for vehicular and pedestrian access, ingress and egress over the Roadways to allow for access to and from the Reserve Parcel to public roadways. In addition, the Easement Agreement shall grant to Seller, its successors and assigns, an easement to install, maintain, operate and replace utility lines, cables, conduits and other utility lines

for utility service for any portion of the Reserve Parcel. The Easement Agreement shall be in the form attached hereto as **Exhibit E**.

"**EDUs**" are defined in Subsection 6.2.

"**Environmental Feasibility Period**" means that period of time commencing on the Effective Date and ending thirty (30) days thereafter.

"**Existing Title Information**" means the Commonwealth Land Title Insurance Policy No. 207-875508, dated April 23, 1999, as updated by a letter dated November 15, 2002 from Commonwealth Land Title Insurance Company, copies of which are attached as **Exhibit F**.

"**FAR**" means the square footage of floor area of a Structure determined in accordance with Article 28, Section 1-106 (a) of the Anne Arundel County Zoning Code in effect from time to time. As of the Effective Date, the "floor area" is defined by such section to mean "the sum of the gross horizontal areas, other than parking areas not part of the structure, of all stories of a structure measured from the exterior faces of the exterior walls or from the centerline of party walls, including all basement floors, interior balconies or mezzanines, elevator shafts, stairwells, and enclosed porches and the floor area of each accessory structure located on the same lot…."

"**FAR Covenant**" means a covenant in the form attached as **Exhibit C-1** hereto which shall provide that from and after the First Closing Date, except as otherwise provided in the FAR Covenant, the total FAR for Phase One may not be increased in excess of 900,000 (the "**Cumulative FAR Amount**").

"**Financing Statement**" means a UCC-1 financing statement in form and content reasonably satisfactory to Seller, perfecting Seller's security interest in those items secured by the Deed of Trust or IDOT, as applicable, and required or permitted to be perfected by a financing statement.

"**First Closing**" is defined in Subsection 5.1.1.

"**First Closing Date**" means January 24, 2003, or on such earlier date and time designated byBuyer by written notice to Seller given not less than five (5) days prior to such date.

"**Flood Plain Area**" is defined above in the Background Section.

"**Guaranty**" is defined in Subsection 3.1.2.

"**Hotel Covenant**" means a covenant to be included in each deed for the Property (whether a deed to the Buyer or, if the Alternative Sale Structure is used, any Deed to Newco1 or Newco2) which provides that prior to December 29, 2005, the portion of the Property conveyed by such deed shall not be developed or used for hotel uses.

"**IDOT**" is defined in Section 3.1.2.

"**Land**" is defined above in the Background Section.

"**Land Records**" means the Land Records of Anne Arundel County, Maryland.

"**Lot**" and "**Lots**" are defined above in the Background Section.

"**Mass Grading Permit**" means the mass grading permit NBR 302008668 from Anne Arundel County Planning and Code Enforcement to Seller (listed as Jolly Knolls Ltd Liability Company) in connection with the installation of three (3) ponds and mass grading, a copy of which permit is attached hereto as **Exhibit L**.

"**Mass Grading Permit Holder**" means the Seller (listed as Jolly Knolls Ltd LiabilityCompany on the Mass Grading Permit).

"**Mass Grading Permit Collateral**" means all bonds and letters credit posted or delivered by Seller to the County to secure the obligations under the Mass Grading Permit, including, but not limited to, the Grading & Sediment Control Bond No. 929203095 dated November 20, 2001 from Seller, as principal, and National Fire Insurance Company of Hartford, as surety, in the amount of $1,001,784.10 for the benefit of the County.

"**Modification Agreement**" means an agreement modifying the Cumulative FAR Amountunder the FAR Covenant, which is entered into pursuant to the provisions of Section 3 of the FAR Covenant.

"**National Business Park**" is defined above in the Background Section.

"**Newco1**" is defined in Section 2.

"**Newco1 Deed**" means the deed from Seller to Newco1, which will be used only if the Alternative Sale Structure is utilized with respect to the First Closing. The Newco1 Deed shall be in the form attached hereto as **Exhibit K**.

"**Newco2**" is defined in Section 2.

"**Non-Feasibility Notice**" is defined in Subsection 4.1.

"**Note**" is defined in Subsection 3.1.2.

"**Open Space Parcel**" is defined above in the Background Section.

"**Permitted Exceptions**" means the following: (a) all real estate taxes and assessments, both general and special, not yet due and payable as of the First Closing Date or Second Closing Date, as applicable, (b) zoning ordinances and subdivision regulations, (c) all matters of public record, including all matters set forth on the Existing Title Information except for Title Defects that Seller agrees to correct pursuant to Subsection 5.2.3 below; (d) all matters that would be revealed by a true and accurate survey, including all matters set forth on the Existing Title Information, except for Title Defects that Seller agrees to correct pursuant to Subsection 5.2.3 below; (e) the FAR Covenant, (f) any other title matters approved or deemed approved by Buyer in accordance with this Agreement; (g) the Hotel Covenant, (h) the Easement Agreement, (i) matters that result from acts of Buyer, (j) the Declaration, (k) such other matters as may reasonably be required by the County or other applicable governmental authorities, including but not limited to a subdivision plat, in connection with the subdivision of the Reserve Parcel, (l) easements, covenants and other matters of title entered into after the Effective Date by Seller and/or by the Association that are reasonably necessary in connection with the subdivision, development, construction, operation or ownership of the Property, provided such matters of title do not materially and adversely affect the use of any Lot for its intended purpose, and (m) the Second

FAR Covenant.

"**Phase 1 Environmental Assessment**" is defined in Subsection 4.1.

"**Phase One**" means, collectively, the Lots, the Roadways, the Open Space Parcel and the Floodplain Area.

"**Phase One Deed**" means the deed to Buyer referred to in Section 5.3.1 or the Newco1 Deed, as applicable.

"**Phase One Loan Documents**" means the Note, the Guaranty, Financing Statement, Deed of Trust, the FAR Covenant, the Second FAR Covenant, and any certificates, assignments, and other documents executed in connection herewith or therewith, and all current and future supplements, amendments and attachments thereto. If the Alternative Sale Structure is used, the Loan Documents shall include the Additional Guaranty and IDOT.

"**Phase One Opinion Letter**" means an opinion of counsel with respect to the existence of the Buyer and COPT, the Buyer's and COPT's authorization of the Phase One Loan Documents, the due execution and enforceability of the Phase One Loan Documents. The Phase One Opinion Letter shall be in the form attached hereto as **Exhibit I-1**.

"**Phase One Purchase Price**" is Twenty Million Nine Hundred Ninety-Three Thousand One Hundred Forty-Six Dollars ($20,993,146).

"**Phase One Purchase Price Balance**" means Eighteen Million Four Hundred Thirty-Three Thousand Eighty-Three Dollars and Zero Cents ($18,433,083.00), which is the balance of the Phase One Purchase Price, after payment by Buyer to Seller of the Phase One Purchase Price Initial Payment.

"**Phase One Purchase Price Initial Payment**" is Two Million Five Hundred Sixty Thousand Sixty-Three Dollars and Zero Cents ($2,560,063.00).

"**Property**" is defined in Section 2.

"**Reserve Parcel**" is defined above in the Background Section.

"**Reserve Parcel Additional Guaranty**" is defined in Subsection 3.2.2.

"**Reserve Parcel Deed of Trust**" is defined in Subsection 3.2.2.

"**Reserve Parcel Financing Statement**" means a UCC-1 financing statement in form and content reasonably satisfactory to Seller, perfecting Seller's security interest in those items secured by the Reserve Parcel Deed of Trust or Reserve Parcel IDOT, as applicable, and required or permitted to be perfected by a financing statement.

"**Reserve Parcel Guaranty**" is defined in Subsection 3.2.2.

"**Reserve Parcel IDOT**" is defined in Subsection 3.2.2.

"**Reserve Parcel Loan Documents**" means the Reserve Parcel Note, the Reserve Parcel Guaranty, Reserve Parcel Financing Statement, Reserve Parcel Deed of Trust, the FAR Covenant, the Second FAR Covenant and any certificates, assignments, and other documents executed in connection herewith or therewith, and all current and future supplements, amendments and attachments thereto. If the Alternative Sale Structure is used, the Reserve Parcel Loan Documents shall include the Reserve Parcel Additional Guaranty and Reserve Parcel IDOT.

"**Reserve Parcel Note**" is defined in Subsection 3.2.2.

"**Reserve Parcel Opinion Letter**" means an opinion of counsel with respect to the existence of the Buyer and COPT, the Buyer's and COPT's authorization of the Reserve Parcel

Loan Documents, the due execution and enforceability of the Reserve Parcel Loan Documents. The Reserve Parcel Opinion Letter shall be in the form attached hereto as **Exhibit I-2**.

"**Reserve Parcel Purchase Price**" is Eight Million Seven Hundred Fifty Thousand Dollars ($8,750,000.00), which dollar amount shall increase at the rate of 3% per annum after October 1, 2002. As an example, if the Second Closing occurs on June 2, 2003, then the Reserve Parcel Purchase Price shall be $8,925,479.45, calculated as follows: (a) $8,750,000.00, plus (b) $8,750,000.00 multiplied by three percent (3%) times 244/365 days.

"**Reserve Parcel Purchase Price Balance**" is the sum of the Reserve Parcel Purchase Price less the Reserve Parcel Purchase Price Initial Payment.

"**Reserve Parcel Purchase Price Initial Payment**" is that product which equals twenty percent (20%) of the Reserve Parcel Purchase Price. As an example, if the Reserve Parcel Purchase Price is $8,925,479.45, then the Reserve Parcel Purchase Price Initial Payment shall be $1,785,095.89.

"**Roadways**" is defined above in the Explanatory Statement.

"**Second Assignment Agreement**" means the agreement by and among Seller, Arbitrage, Jolly Acres and Corporate Office Properties, L.P. in recordable form, in which Seller, Arbitrage and Jolly Acres shall assign to Corporate Office Properties, L.P., all their remaining rights as "Declarant" under the Declaration. The Assignment Agreement shall be in the form attached hereto as **Exhibit G-2**.

"**Second Closing**" is defined in Subsection 5.1.1.

"**Second Closing Date**" means that date which is sixty (60) days after the recordation of a subdivision plat by the County for the Reserve Parcel or on such earlier date and time designated by Buyer by written notice to Seller given not less than five (5) days prior to such date. The subdivision plat for the Reserve Parcel shall subdivide the Reserve Parcel into one or more lots. The Second Closing Date is anticipated to occur in June of 2003.

"**Second FAR Covenant**" means a covenant in the form attached as **Exhibit C-2** hereto which shall provide that from and after the First Closing Date until the day immediately prior to the twentieth (20th) anniversary of the First Closing Date, except as otherwise provided in the Second FAR Covenant, the total FAR for Phase One and the Reserve Parcel in the aggregate may not be increased in excess of 1,300,000.

"**Structure**" means a building or other structure that, under applicable law, is included for purposes of determining the floor area ratio or other density calculation for allowable buildings on a Lot.

"**Subdivision Plat**" is defined above in the Background Section.

"**Termination Notice**" is defined in Subsection 4.3.

SECTION 2. SALE AND PURCHASE. Subject to the terms and conditions set forth in this Agreement, Seller hereby agrees to sell to Buyer, and Buyer hereby agrees to purchase from Seller, the Land, and all improvements thereon, and any and all rights, alleys, ways, waters, privileges, appurtenances and advantages, to the same belonging or in anyway appertaining (all of which are sometimes hereinafter collectively referred to as the "**Property**"). The parties agree that in order to reduce the amount of transfer and recordation taxes which may be payable in connection with the transfer of the Property, Buyer may require that the sale be structured (herein, the "**Alternative Sale Structure**") as a contribution of Phase One by the Seller to a newly formed limited liability company to be named Jolly COPT I, LLC ("**Newco1**") pursuant to a deed in the form attached hereto as **Exhibit K** and as the contribution of the Reserve Parcel by the Seller to a newly formed limited liability company to be named Jolly COPT II, LLC ("**Newco2**") pursuant to a deed substantially similar to the form attached hereto as **Exhibit K** immediately prior to the applicable Closing, and at the applicable Closing the Buyer shall purchase one hundred percent (100%) of the membership interests in Newco1 or Newco2, as applicable, from the Seller for the Phase One Purchase Price or Reserve Parcel Purchase Price, as applicable. The total cost of transfer and recordation taxes for transferring the Property to Newco1 and Newco2 shall be divided equally between Seller and Buyer and paid by them at the time of transfer. If Buyer elects to use the Alternative Sale Structure, Buyer shall notify Seller at least ten (10) business days prior to the First Closing Date or Second Closing Date, as applicable, and the parties shall, in good faith and with all due diligence, negotiate and prepare the forms of the documents to be used in connection with the Alternative Sale Structure, which the parties anticipate being Articles of Organization, an Operating Agreement to be prepared by Buyer and an Assignment of Member Interests in the form attached hereto as **Exhibit H** ("**Assignment of Member Interests**"). In the event the County, the State of Maryland or any other governmental authority attempts to impose, or imposes, any transfer, recordation or other taxes or charges on the transfer to Buyer of the membership interests in Newco1 or Newco2, or on the deed to Newco1 or Newco2, or on the recordation of the IDOT (whether at the time of recordation or thereafter), Seller and Buyer shall share and promptly pay equally, fifty percent (50%) by Seller and fifty percent (50%) by Buyer, any costs and expenses of defending such matter and paying any such transfer, recordation or other taxes or charges. The provisions of this Section shall survive the Closings.

SECTION 3. PURCHASE PRICE AND PAYMENT.

3.1. Payment of Phase One Purchase Price. At the First Closing, the Phase One Purchase Price shall be payable by Buyer to Seller as follows:

3.1.1. Payment. The Phase One Purchase Price Initial Payment shall be paid by a wire transfer of immediately available federal funds.

3.1.2. Note, Financing Statement, Guaranty and Deed of Trust The balance of the Phase One Purchase Price shall be paid by way of a Note ("**Note**") from Buyer in the amount of the Phase One Purchase Price Balance, which Note shall provide for interest at the rate of three percent (3%), interest to begin accruing from October 1, 2002 (which date the parties acknowledge precedes the First Closing Date by more than three months), shall have a maturity date of December 31, 2007, and shall be in the form attached hereto as **Exhibit A-1**. The Note shall be

guaranteed by a Guaranty to Seller from COPT (the "**Guaranty**"), which Guaranty shall be in the form attached hereto as **Exhibit A-2** and shall be secured by a Purchase Money Deed of Trust, Assignment of Leases and Rents and Security Agreement from the Buyer (the "**Deed of Trust**") and by the Financing Statement. The Deed of Trust shall be a first lien on Phase One, exclusive of Lot No. 21, and shall be in the form attached hereto as **Exhibit A-3**. If the Alternative Sale Structure is used, the Note shall also be guaranteed by an additional guaranty (the "**Additional Guaranty**") from Newco1 (following Seller's transfer of its member interests therein), which Additional Guaranty shall be in substantially the same form as the Guaranty. The Additional Guaranty shall be secured by an Indemnity Deed of Trust ("**IDOT**") from Newco1, which IDOT shall be in substantially the same form as the Deed of Trust, except for any necessary changes to re-draft the Deed of Trust from a purchase money deed of trust to an IDOT and by a Financing Statement (and in the event of the IDOT structure, appropriate changes shall be made to the Guaranty).

3.2. Payment of Reserve Parcel Purchase Price. At the Second Closing, the Reserve Parcel Purchase Price shall be payable by Buyer to Seller as follows:

3.2.1. Payment. The Reserve Parcel Purchase Price Initial Payment shall be paid by a wire transfer of immediately available federal funds. Any payment of monies to Seller under Section 3.2 of the FAR Covenant, after crediting such payment first against any monies unpaid under the Note or Deed of Trust shall be credited against the Reserve Parcel Purchase Price Initial Payment and any remaining balance shall be credited against the payments due under the Reserve Parcel Note.

3.2.2. Reserve Parcel Note, Reserve Parcel Financing Statement, Reserve Parcel Guaranty and Reserve Parcel Deed of Trust The balance of the Reserve Parcel Purchase Price shall be paid by way of a Note ("**Reserve Parcel Note**") from Buyer in the amount of the Reserve Parcel Purchase Price Balance, which Reserve Parcel Note shall provide for interest at the rate of three percent (3%), interest to begin accruing from the Second Closing Date, shall have a maturity date of December 31, 2007, and shall be in the form attached hereto as **Exhibit A-4**. The Reserve Parcel Note shall provide for principal and interest payments on each anniversary of the Second Closing Date that will occur prior to the maturity date of December 31, 2007, and shall provide for the final payment being due on the maturity date of December 31, 2007. The principal payment for each of the annual installments due on each anniversary date and for the principal payment due on the aforementioned maturity date shall be determined by dividing the Reserve Parcel Purchase Price Balance by the number of annual installments to be made plus one (for the maturity date payment). As an example, if the Second Closing Date occurs on June 2, 2003, then equal annual installments of principal shall be due on June 2, 2004, June 2, 2005, June 2, 2006, June 2, 2007 and on the maturity date of December 31, 2007, and the amount of each installment shall be determined by dividing the Reserve Parcel Purchase Price Balance by 5 (which is the total of the four annual payments plus the one final payment on the maturity date). As an example, if the Second Closing Date occurs on June 2, 2003, then the Reserve Parcel Note shall be in the amount of $7,140,383.56, and each of the annual payments of principal will be $1,428,076.71 (plus all outstanding interest due on such dates) and the final maturity date payment of principal will be $1,428,076.72 (plus all outstanding interest due on the maturity date of December 31, 2007). The Reserve Parcel Note shall be guaranteed by a Guaranty to Seller from COPT (the "**Reserve Parcel**

Guaranty"), which Reserve Parcel Guaranty shall be in the form attached hereto as **Exhibit A-5** and shall be secured by a Purchase Money Deed of Trust, Assignment of Leases and Rents and Security Agreement from the Buyer (the "**Reserve Parcel Deed of Trust**") and by the Reserve Parcel Financing Statement. The Reserve Parcel Deed of Trust shall be a first lien on the Reserve Parcel, and shall be in the form attached hereto as **Exhibit A-6**. If the Alternative Sale Structure is used, the Reserve Parcel Note shall also be guaranteed by an additional guaranty (the "**Reserve Parcel Additional Guaranty**") from Newco2 (following Seller's transfer of its member interests therein), which Reserve Parcel Additional Guaranty shall be in substantially the same form as the Reserve Parcel Guaranty. The Reserve Parcel Additional Guaranty shall be secured by an Indemnity Deed of Trust ("**Reserve Parcel IDOT**") from Newco2, which Reserve Parcel IDOT shall be in substantially the same form as the Reserve Parcel Deed of

Trust, except for any necessary changes to re-draft the Reserve Parcel Deed of Trust from a purchase money deed of trust to an IDOT and by a Financing Statement (and in the event of the IDOT structure, appropriate changes shall be made to the Reserve Parcel Guaranty).

SECTION 4. FEASIBILITY PERIOD, ENTRY ON THE PROPERTY AND BOARD APPROVAL

4.1. Feasibility Period. During the Environmental Feasibility Period and thereafter until the applicable Closing unless Buyer issues the Non-Feasibility Notice, and subject to Seller's prior reasonable approval, Buyer, its agents, employees, contractors and engineers may enter upon the Property at its own risk and, while thereon, conduct such surveys, tests, studies, investigations and the like as Buyer, in Buyer's sole and absolute discretion, may deem necessary or appropriate. Seller acknowledges that Buyer shall have the right to perform standard testing of the Property, including standard environmental testing as is customarily done in connection with a Phase I assessment (the "**Phase 1 Environmental Assessment**") for the type of Land. Buyer acknowledges that a representative of Seller may accompany Buyer and Buyer's agents during such testing. Notwithstanding anything contained herein to the contrary, no intrusive testing or destructive sampling on or within the Property shall be performed without the prior written consent of the Seller in its reasonable discretion. Unless prohibited by law, Buyer shall provide, in any contract with a consultant or other agent for work pertaining to a site assessment or environmental inspection of the Property, a confidentiality clause limiting disclosure of all results to Buyer and Seller, and a clause requiring that a similar confidentiality clause be included in each subcontract related thereto. Buyer agrees to deliver to Seller, within five (5) days after receipt thereof copies of all surveys, test results, analyses, reports and similar material generated with respect to the Property, or any portion thereof. In the event that the Phase I Environmental Assessment discloses any environmental conditions at the Property which are not acceptable to Buyer, Buyer shall have the right to terminate this Agreement by giving written notice (the "**Non-Feasibility Notice**") of such conclusion to Seller on or before the last day of the Environmental Feasibility Period. If Buyer timely delivers to Seller its Non-Feasibility Notice, this Agreement shall thereupon automatically terminate, in which event neither party hereto shall have any further obligation hereunder to the other party hereto, except to the extent that any obligation set forth herein expressly survives termination of this Agreement. If, on the other hand, Buyer fails to deliver the Non-Feasibility Notice to Seller within the Environmental Feasibility Period, then: (a) Buyer shall be deemed to have concluded that the environmental condition of the Property is acceptable; and (b) the parties shall proceed with the Closings under this Agreement. The

provisions of this Subsection 4.1 shall survive the Closings and the termination of this Agreement.

4.2. Repair and Insurance. Buyer agrees to indemnify, defend and hold Seller harmless from any and all losses, liabilities, claims, costs, damages and expenses (including reasonable attorneys' fees) arising as a result of Buyer's (or any of its agents) entry and activities on the Property. If the Property shall be damaged as a result of Buyer's activities, Buyer shall repair such property to substantially the same condition in which it existed immediately before Buyer's entry thereon. Buyer shall keep the Property free of any liens or third party claims resulting from Buyer's (or its agents, employees, contractors and engineers) activities thereon. Prior to Buyer's (or its agents, employees, contractors and engineers) entry upon the Property, Buyer shall (i) obtain and maintain commercial general liability insurance in the amount of $5,000,000 combined single limit, covering personal injury, bodily injury and property damage, which policy of insurance shall name Seller as an additional insured; and (ii) deliver to Seller a Certificate of Insurance evidencing such coverage. Buyer shall cease or cause its subcontractors and agents to cease, promptly upon Seller's request, any activity or work, that in Seller's reasonable judgment, shall increase the cost to Seller or otherwise interfere with or delay completion by Seller of the performance of its obligations under this Agreement. The provisions of this Subsection 4.2 shall survive the Closings and the termination of this Agreement.

4.3. Board Approval. If COPT's Board of Trustees does not approve the Buyer's execution of this Agreement, Buyer shall have the right to terminate this Agreement by giving written notice of such to Seller ("**Termination Notice**") on or before the last day of the Environmental Feasibility Period. If Buyer timely delivers to Seller its Termination Notice, this Agreement shall thereupon automatically terminate, in which event neither party hereto shall have any further obligation hereunder to the other party hereto, except to the extent that any obligation set forth herein expressly survives termination of this Agreement. If, on the other hand, Buyer fails to deliver the Termination Notice to Seller within the Environmental Feasibility Period, then the parties shall proceed with the Closings under this Agreement.

SECTION 5. CLOSINGS, TITLE, DELIVERIES AND POSSESSION.

5.1. Closings and Guaranty.

5.1.1. Closings. Subject to the provisions of Section 7, the consummation of the transactions contemplated by this Agreement shall take place in two closings. The first closing (the "**First Closing**") shall be for the purchase of Phase One and shall be held on the First Closing Date. The second closing (the "**Second Closing**") shall be for the purchase of the Reserve Parcel and shall be held on the Second Closing Date. The Closings shall be held at a location designated by Buyer in Columbia, Maryland or elsewhere within the Baltimore metropolitan area. Notwithstanding anything contained herein to the contrary, if the Second Closing Date has not occurred on or before the seventh (7th) anniversary of the Effective Date for reasons other than a failure of Buyer or Seller to close in breach of its obligation to do so, then this Agreement shall automatically terminate with respect to Buyer's obligation to purchase and Seller's obligation to sell the Reserve Parcel without the necessity of any action on the part of Seller or Buyer, in which event the parties hereto shall thereafter be relieved of any and all further rights,

liabilities and obligations under this Agreement, except to the extent that any right, obligation or liability set forth herein expressly survives termination of this Agreement.

5.1.2. Guaranty. COPT guarantees to Seller, its successors and assigns, the due and punctual performance by Buyer of its obligations under this Agreement to purchase the Reserve Parcel (or the membership interests in Newco2 if the Alternative Sale Structure is used) on the Second Closing Date. If, in breach of its obligation to do so, Buyer fails to close on its purchase of the Reserve Parcel (or the purchase of the membership interests in Newco2 if the Alternative Sale Structure is used) on the Second Closing Date, COPT shall promptly purchase the Reserve Parcel (or membership interests in Newco2, if applicable) within three (3) business days after Buyer's default, for the Reserve Parcel Purchase Price and otherwise in accordance with the terms of this Agreement. The liability of COPT under this Subsection shall be primary, direct and immediate and not conditional or contingent on pursuit by Seller of any remedies it may have against Buyer, its successors and assigns. COPT agrees that Seller may, without affecting COPT's rights hereunder, modify, waive, amend or terminate any of the provisions of this Agreement. COPT shall pay to Seller all costs and expenses (including reasonable attorneys' fees and court costs) incurred by Seller in enforcing this guaranty. The provisions of this Subsection shall survive the First Closing.

5.2. Title.

5.2.1. Title and Title Commitment. Within twenty (20) days after the Effective Date, Buyer may, at its sole costand expense, cause a title insurance company acceptable to Buyer (the "**Title Company**") to issue and deliver to Buyer a title commitment for the Property (the "**Title Commitment**"). Following Buyer's receipt of the Title Commitment, Buyer shall determine whether the condition of title of the Property as set forth in the Title Commitment is acceptable to Buyer.

5.2.2. Title Notice and Survey Title Notice. In the event that the condition of title of the Property as set forth in the Title Commitment or on a survey which Buyer may obtain is not acceptable to Buyer, Buyer shall, on or before that date which is twenty (20) days after the Effective Date, give Seller written notice (the "**Title Notice**") that the condition of title of the Property as set forth in the Title Commitment is not acceptable (which Title Notice shall enumerate the unacceptable aspects of the Title Commitment (the "**Title Defects**")). Buyer agrees that Title Defects shall not include any Permitted Exceptions.

5.2.3. Curing Title Defects. In the event that the condition of title of the Property as set forth in the Title Commitment is not acceptable to Buyer, and Buyer gives the Title Notice to Seller, Seller shall, within five (5) days after receipt of the Title Notice, notify Buyer in writing (the "**Seller's Title**

Notice") as to which of the Title Defects, if any, Seller, at Seller's sole cost and expense, will undertake promptly to eliminate to the reasonable satisfaction of Buyer. In the event Seller elects not to eliminate all such Title Defects to the reasonable satisfaction of Buyer, or if Seller fails to respond to Buyer within such five (5) day period, then, in any of such events, Buyer shall, at its option, within three (3) days after the earlier of (i) receipt of Seller's Title Notice or (ii) expiration of the five (5) day period if Seller has failed to respond, elect in writing either to (a) proceed to the applicable Closing subject to the Title Defects which Seller

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has not agreed to cure, in which event said objections shall be deemed to be waived for all purposes, or (b) terminate this Agreement by giving notice thereof to Seller and the parties hereto shall thereafter be relieved of any and all further rights, liabilities and obligations under this Agreement except to the extent that any right, obligation or liability set forth herein expressly survives termination of this Agreement. If Buyer does not notify Seller of its election within such three (3) day period, Buyer shall be deemed to have waived its objections and shall proceed to the applicable Closing subject to the Title Defects which Seller has not agreed to cure.

5.2.4. Owner's Affidavit. Upon request by Buyer, at each of the Closings Seller shall execute an Owner's affidavit for the benefit of the Title Company in the form attached hereto as **Exhibit B**. Seller shall not be required to execute any other affidavits, including, but not limited to, any non-imputation affidavit if the parties use the Alternative Sale Structure.

5.2.5. Liens and Similar Encumbrances. Notwithstanding the foregoing, any deeds of trust, mortgages, judgment liens, mechanics or materialmen's liens against the Property which were placed or caused by Seller shall be deemed Title Defects, whether Buyer gives written notice of such or not, and shall be removed by Seller, at its cost and expense, at or before the applicable Closing.

5.3. Deliveries by Seller at the Closings. At each Closing (unless indicated otherwise), Seller shall take those actions, and deliver to Buyer those documents, hereinafter referred to in this Subsection (all of which documents shall, unless hereinafter expressly provided otherwise, be dated as of the First Closing Date or Second Closing Date, as applicable):

5.3.1. Conveyance of Property. Assuming that the Alternative Sale Structure is used, (i) prior to the applicable Closing,Seller shall convey to Newco1 or Newco2 the title to Phase One or the Reserve Parcel, as applicable, subject to the provisions of Subsection 5.2 above and subject to the Permitted Encumbrances, by a special warranty deed in the form attached hereto as **Exhibit K**; and (ii) at the applicable Closing, Seller shall execute an Assignment of Member Interests in the form attached hereto as **Exhibit H** with respect to the member interests in Newco1 or Newco2, as applicable. If the Alternative Sale Structure is not used, Seller shall convey to Buyer the title to Phase One or the Reserve Parcel, as applicable, subject to the provisions of Subsection 5.2 above and subject to the Permitted Encumbrances, by a special warranty deed substantially in the form attached hereto as **Exhibit K**.

5.3.2. Easement Agreement. In the event that the Alternative Sale Structure is used with respect to Phase One, then prior to the First Closing the Easement Agreement shall be executed by Seller (i) in its capacity as owner of the Reserve Parcel, and (ii) as owner of Jolly COPT I, LLC, which shall own Phase One after the conveyance of Phase One pursuant to the Newco1 Deed, and the Easement Agreement shall be recorded prior to the transfer of membership interests in Newco1 to Buyer. In the event that the Alternative Sale Structure is not used with respect to Phase One, the form of the Easement Agreement shall be revised to be a declaration to be executed solely by Seller and shall be recorded immediately prior to the Phase One Deed. The parties acknowledge that all easements granted in the Easement Agreement are appurtenant to the Reserve Parcel and that upon the Second Closing Date, the then owner of the Reserve Parcel (including Jolly COPT I, LLC if the Alternative Sale Structure is used) shall have the sole right to

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use and enjoy such easements and Seller shall have no such easement rights (except in its capacity as beneficiary of the Reserve Parcel Deed of Trust).

5.3.3. FIRPTA. Seller shall execute and deliver to Buyer a FIRPTA Non-Foreign Person Certification, in form and substance reasonably satisfactory to Buyer.

5.3.4. Certificate. Seller shall execute and deliver to Buyer a certificate to the effect that all representations made by Seller to Buyer are true and correct in all material respects on and as of the First Closing Date or Second Closing Date, as applicable, with the same effect as if such representations and warranties had been made on and as of such applicable Closing Date, which certificate and the certifications therein shall survive each Closing and not merge into the deed or other closing documents.

5.3.5. Closing Statement. Seller shall execute and deliver a Closing Statement ("**Closing Statement**") that shall, among other items, set forth the Phase One Purchase Price or Reserve Parcel Purchase Price, as applicable, all credits against such Phase One Purchase Price or Reserve Parcel Purchase Price, as applicable, the amounts of all prorations and other adjustments to such Phase One Purchase Price or Reserve Parcel Purchase Price, as applicable, and all disbursements made at each Closing on behalf of Buyer and Seller.

5.3.6. FAR Covenant and Hotel Use. At the First Closing, Seller shall execute and deliver the FAR Covenant which shall be recorded prior to the Easement Agreement and the Phase One Deed (or prior to the Newco1 Deed) and immediately prior to the Second FAR Covenant. Buyer hereby covenants that it shall not develop or use any portion of the Property for hotel use prior to December 29, 2005.

5.3.7. Assignment Agreement. At the First Closing, Seller shall execute and deliver the Assignment Agreement. Seller shall execute and deliver the Second Assignment Agreement at the later of (i) the Second Closing Date; and (ii) payment in full of the Note and the Reserve Parcel Note. The obligations of Seller under this Subsection 5.3.7 shall survive the Closings.

5.3.8. FAR Covenant Termination, Assignment of FAR Covenant. In addition to the termination date set out in the FAR Covenant, the FAR Covenant shall terminate and Seller shall execute such documents as Buyer may reasonably request to effectuate such termination, if either one of the following occurs: (i) Buyer complies with the terms of Section 3 of the FAR Covenant and the Cumulative FAR Covenant is increased to 1,250,000, or (ii) after the Second Closing, and after payment in full of the Note and the Reserve Parcel Note. The provisions of this Subsection 5.3.8 shall survive the Closings. Additionally, prior to exercising its rights of assignment under Section 10 of the FAR Covenant, the Declarant thereunder shall provide evidence reasonably satisfactory to Buyer that the assignee has knowledge of and will agree to the foregoing provisions of this Section 5.3.8.

5.3.9 Second FAR Covenant. At the First Closing, Seller shall execute and deliver the Second FAR Covenant which shall be recorded after the FAR Covenant and prior to the Easement Agreement.

5.3.10. Other Documents. Seller shall execute and/or deliver to Buyer such other documents and materials as are reasonably necessary to consummate the transactions contemplated hereby. The provisions of this Subsection 5.3.10 shall survive the Closings.

5.4. Deliveries by Buyer at or Prior to Closings. At each Closing (unless indicated otherwise), Buyer shall take those actions, and deliver to Seller those documents, hereinafter referred to in this Subsection (all of which documents shall, unless hereinafter expressly provided otherwise, be dated as of the First Closing Date or Second Closing Date, as applicable):

5.4.1. Execution of Note, Guaranty and Deed of Trust. At the First Closing, Buyer shall execute the Note and Deed of Trust and COPT shall execute the Guaranty. If the Alternative Sale Structure is used, Buyer shall also deliver originals of the Additional Guaranty and IDOT, executed by Newco1.

5.4.2. Execution of Reserve Parcel Note, Reserve Parcel Guaranty and Reserve Parcel Deed of Trust. At the Second Closing, Buyer shall execute the Reserve Parcel Note and Reserve Parcel Deed of Trust and COPT shall execute the Reserve Parcel Guaranty. If the Alternative Sale Structure is used, Buyer shall also deliver originals of the Reserve Parcel Additional Guaranty and Reserve Parcel IDOT, executed by Newco2.

5.4.3. Assignment of Member Interests. If the Alternative Sale Structure is used with respect to the First Closing, then at the First Closing, Buyer shall execute and deliver to Seller the Assignment of Member Interests with respect to the member interests in Newco1. If the Alternative Sale Structure is used with respect to the Second Closing, then at the Second Closing, Buyer shall execute and deliver to Seller the Assignment of Member Interests with respect to the member interests in Newco2.

5.4.4. Assignment. At the First Closing, Corporate Office Properties, L.P. shall execute and deliver to Seller the Assignment Agreement. Corporate Office Properties, L.P. shall execute and deliver to Seller the Second Assignment Agreement at the later of (i) the Second Closing Date; and (ii) payment in full of the Note and the Reserve Parcel Note. The obligations of Corporate Office Properties, L.P. under this Subsection 5.4.4 shall survive the Closings.

5.4.5. Certificate. Buyer shall execute and deliver to Seller a certificate to the effect that all representations made by Buyer to Seller are true and correct in all material respects on and as of the First Closing Date or Second Closing Date, as applicable, with the same effect as if such representations and warranties had been made on and as of such Closing Date, which certificate and the certifications therein shall survive each Closing and not merge into the deed or other closing documents.

5.4.6. Closing Statement. Buyer shall execute and deliver to Seller the Closing Statement.

5.4.7. Title Policy. At the First Closing, Buyer shall deliver to Seller, at Buyer's expense, a 1992 ALTA Loan Title Insurance Policy written by a title insurance company reasonably acceptable to Seller, insuring a first deed of trust lien on Phase One, in an amount equal to the amount of the Note, listing the Seller as a named insured, deleting all standard exceptions and removing (by endorsement or written waiver) any creditor's rights exception or exclusion from the Loan Title policy, with affirmative insurance over any claim of fraudulent conveyance. At the Second Closing, Buyer shall deliver to Seller, at Buyer's expense, a 1992 ALTA Loan Title Insurance Policy written by a title insurance company reasonably acceptable to Seller, insuring a first deed of trust lien on the Reserve Parcel, in an amount equal to the amount of the Reserve Parcel Note, listing the Seller as a named insured, deleting all standard exceptions and removing (by endorsement or written waiver) any creditor's rights exception or exclusion from the Loan Title policy, with affirmative insurance over any claim of fraudulent conveyance.

5.4.8. Resolutions. At the First Closing, COPT shall deliver to Seller a certificate from the secretary of COPT, certifying that the transactions contemplated hereby, including, but not limited to, any confession of judgment provisions contained in the Note, Deed of Trust (or IDOT, if the Alternative Sale Structure is used) or any other Loan Documents, were approved by COPT, acting on behalf of itself and as the general partner of Buyer. At the Second Closing, COPT shall deliver to Seller a certificate from the secretary of COPT, certifying that the transactions contemplated hereby, including, but not limited to, any confession of judgment provisions contained in the Reserve Parcel Note, Reserve Parcel Deed of Trust (or Reserve Parcel IDOT, if the Alternative Sale Structure is used) or any other Loan Documents, were approved by COPT, acting on behalf of itself and as the general partner of Buyer.

5.4.9. Opinion of Counsel. At the First Closing, Buyer shall deliver to Seller the Phase One Opinion Letter. At the Second Closing, Buyer shall deliver to Seller the Reserve Parcel Opinion Letter.

5.4.10. Other Documents. Buyer shall execute and/or deliver to Seller such other documents and materials as are reasonably necessary to consummate the transactions contemplated hereby.

5.5. Possession. At each Closing, Seller shall deliver to Buyer possession of Phase One or the Reserve Parcel, as applicable, free of any and all tenancies and other rights or claims of right to its use or occupancy.

SECTION 6. CLOSING COSTS; ADJUSTMENTS.

6.1. Closing Costs. Buyer shall pay the costs of examination of title and title insurance premiums, and each party shall pay its own attorneys' fees. Buyer and Seller shall divide equally all transfer and recordation taxes, documentary stamp taxes, recording fees and other similar taxes and fees associated with the transfer of the Property from Seller to Buyer or to Newco1 and Newco2. Seller shall pay any agricultural land transfer tax which may be payable with respect to the Property and this transaction.

6.2. Prorations and Adjustments. Seller shall be responsible for all expenses allocable to the period prior to the First Closing Date or Second Closing Date, as applicable. Buyer shall be responsible for all expenses for the period beginning at 12:01 a.m. on the First Closing Date or Second Closing Date, as applicable. At each Closing, all items of expense shall be prorated in accordance with this principle. The term "**expenses**" shall include but not be limited to real property taxes, assessments (including but not limited to assessments under the Declaration), front foot benefit charges, metropolitan charges and utility charges (water, electricity, etc.). At each Closing, Buyer shall reimburse Seller for all prepaid water and sewer connection fees associated with the applicable Lot, in consideration of obtaining vouchers from Seller to deliver to the County as part of the building permit process sufficient for the proposed development. The rate of reimbursement for such prepaid water and sewer connection fees shall be Five Thousand Sixty-four Dollars ($5,064.00) per Equivalent Dwelling Units ("**EDUs**"), which amount is based on the current (as of the Effective Date) County fee for EDUs, and which amount shall be increased or decreased, as appropriate, if the County fee for water and sewer connections is increased or decreased. The reimbursement shall be based upon the building contemplated by Buyer's Building Permit. If Buyer does not have a Building Permit at the time of each Closing, then the reimbursement shall be delayed until ten (10) business days after Buyer obtains a Building Permit for such Lot. Notwithstanding the foregoing, Buyer shall have no obligation to reimburse Seller for EDU's if Seller does not provide vouchers to Buyer for such EDUs; provided, however, that Buyer will be required to pay to the County any water and sewer connection fees associated with such Lot. The obligations under this Section 6.2 shall survive the Closings.

6.3. Special Taxing District. Simultaneously with the execution of this Agreement, the parties hereto have executed the disclosure regarding the National Business Park Disclosure of Special Taxing District attached hereto as **Exhibit D.**

SECTION 7. CONDITIONS PRECEDENT TO CLOSINGS.

7.1. Conditions to Buyer's Obligations. Buyer's obligation hereunder to complete each Closing shall be conditioned upon the satisfaction (or

Buyer's written waiver thereof) of each of the following conditions precedent:

7.1.1. Title. The title to Phase One or the Reserve Parcel, as applicable, shall at the respective Closing be as set forth in the provisions of Subsection 5.2.

7.1.2. Performance of Seller's Obligations. Seller shall have fully performed its obligations under this Agreement.

7.1.3. Representations. Each of Seller's representations under the provisions of Subsection 8.1 shall be true and accurate as of the First Closing Date or Second Closing Date, as applicable.

7.2. Benefit of Satisfaction. Buyer alone shall have the benefit of the satisfaction of the conditions precedent set forth in the provisions of Subsection 7.1, and shall be entitled to waive Buyer's rights thereto. In the event that any of the conditions are not satisfied (or waived) by Buyer, then Buyer shall be entitled to terminate this Agreement.

7.3. Conditions to Seller's Obligations. Seller's obligation hereunder to complete each Closing shall be conditioned upon the satisfaction (or Seller's written waiver thereof) of each of the following conditions precedent:

7.3.1. Performance of Buyer's Obligations. Buyer shall have fully performed its obligations under this Agreement.

7.3.2. Representations. Each of Buyer's representations under the provisions of Subsection 8.2 shall be true and accurate as of the First Closing Date or Second Closing Date, as applicable.

7.4. Benefit of Satisfaction. Seller alone shall have the benefit of the satisfaction of the conditions precedent set forth in the provisions of Subsection 7.3, and shall be entitled to waive Seller's rights thereto. In the event that any of the conditions are not satisfied (or waived) by Seller, then Seller shall not be obligated to proceed to the applicable Closing.

SECTION 8. REPRESENTATIONS.

8.1. Seller's Representations. To induce Buyer to enter into this Agreement, Seller represents to Buyer that the following matters are true and correct as of the Effective Date and will be true and correct on the Closing Dates:

8.1.1. Authority. Seller is a Maryland limited liability company, duly organized, validly existing and in good standing under the laws of the State of Maryland. Seller has taken all action necessary to enable it to conduct its business and consummate the transactions contemplated by this Agreement, has duly authorized the execution and performance of this Agreement and the person executing this Agreement on behalf of the sole member of Seller has been authorized to so act, and such execution and performance will not violate the terms of Seller's organizational documents.

8.1.2. Breach of Other Agreements. Seller has no knowledge of any contract, agreement, undertaking, law, order, regulation or instrument to which Seller is a party or by which Seller is bound that would be violated by the Seller's execution of this Agreement.

8.1.3. Other Agreements. Other than this Agreement, Seller has not entered into any contract of sale, option agreement, right of first refusal or other agreement for the sale of the Property.

8.1.4. Zoning. To the best of Seller's knowledge, as of the Effective Date the Property is zoned W-1.

8.1.5. Hazardous Materials. To the best of Seller's actual knowledge, and except as may be disclosed to Buyer in the Phase I Environmental Assessment or any other environmental reports obtained by Buyer pursuant to Subsection 4.1, Seller has not used, generated, stored or disposed, and from and after the Effective Date, except to the extent consistent

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with current real estate industry practices for such type of property and permitted under governmental regulations, will not use, generate, store or dispose on, under or about the Property any hazardous waste toxic materials or any friable asbestos or substance containing asbestos. Notwithstanding the foregoing, Seller hereby notifies Buyer that Seller has demolished structures containing a residential detention facility on a portion of the Property. Seller shall have no liability to Buyer with respect to such rubble and makes no representations or warranties regarding the contents of such rubble.

8.1.6. Underground Storage Tanks. To the best of Seller's knowledge, there are no underground storage tanks located on the Property.

8.1.7. As Is. Buyer hereby agrees and acknowledges that, except as set forth in Subsections 8.1.1 though 8.1.6 above, neither Seller nor any agent, attorney, employee or representative of Seller has made any representation whatsoever regarding the subject matter of this transaction, or any part thereof, including (without limiting the generality of the foregoing) representations as to the physical nature or physical condition of the Property or the capabilities thereof, and that Buyer, in executing, delivering and/or performing this Agreement, does not rely upon any statement and/or information to whomever made or given, directly or indirectly, orally or in writing, by any individual, firm or corporation unless such statement or information is expressly incorporated herein. Buyer agrees that the Property shall be (directly or indirectly) sold to Buyer "as is, where is" as of the date hereof.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN TO THE CONTRARY, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE PHYSICAL CONDITION OF THE PROPERTY OR THE SUITABILITY THEREOF FOR ANY PURPOSE. SELLER HEREBY EXPRESSLY DISCLAIMS ANY WARRANTIES OF MERCHANTABILITY AND/OR FITNESS FOR A PARTICULAR PURPOSE AND ANY OTHER WARRANTIES OR REPRESENTATIONS AS TO THE PHYSICAL CONDITION OF THE PROPERTY. BUYER, BY EXECUTION OF THIS AGREEMENT AGREES THAT IT HAS INSPECTED THE PROPERTY AND THAT BUYER SHALL ACCEPT SAME "AS IS" AND "*WITH ALL FAULTS*".

8.2. Buyer's Representations. To induce Seller to enter into this Agreement, Buyer represents to Seller that the following matters are true and correct as of the Effective Date and will be true and correct on the Closing Dates:

8.2.1. Authority. Buyer is a limited partnership, duly organized and validly existing under the laws of the State of Delaware, qualified to do business in the State of Maryland and in good standing under the laws of the State of Delaware and the State of Maryland. Buyer has taken all action necessary to enable it to conduct its business and consummate the transactions contemplated by this Agreement, has duly authorized the execution and performance of this Agreement, and such execution and performance will not violate the terms of Buyer's organizational documents.

8.2.2. Breach of Other Agreements. Buyer has no knowledge of any contract, agreement, undertaking, law, order, regulation or instrument to which Buyer is a party or by which Buyer is bound that would be violated by the Buyer's execution of this Agreement.

8.3. Survival of Representations. The representations set out in Subsections 8.1 and 8.2 above shall terminate on the first anniversary of the First Closing Date and Second Closing Date, as applicable.

SECTION 9. COOPERATION. Buyer agrees to cooperate with Seller with respect to the subdivision of the Reserve Parcel into one or more lots, including, but not limited to, the execution of subdivision plats or any revisions thereto. Buyer shall promptly review and respond to all materials supplied to it by or on behalf of Seller in connection with such subdivision. Seller shall use its best efforts in proceeding with the subdivision of the Reserve Parcel.

SECTION 10. MASS GRADING PERMIT. Seller shall give Buyer notice of Seller's Completion of the Ponds. Seller shall proceed with due diligence and use commercially reasonable efforts to pursue Completion of the Ponds, subject to being prevented or delayed, retarded or hindered by act of God, weather of unusual severity, fire, earthquake, flood, explosion, action of the elements, war (declared or undeclared), invasion, insurrection, riot, mob violence, sabotage, malicious mischief, inability to procure or general shortage of labor, equipment, facilities, materials or supplies in the open market, failure of transportation, strikes, lockouts, action of labor unions, condemnation, public requisition, laws, order of government or civil defense authorities, or any other cause, whether similar or dissimilar to the foregoing, not within the reasonable control of the Seller. Within sixty (60) days after the earlier to occur of (i) Seller's notice to Buyer of Seller's Completion of the Ponds, or (ii) the date that Buyer commences grading or construction activities of any kind on any portion of the Property, Seller will cause the Mass Grading Permit to be transferred to Buyer (or Buyer's designee) and all of the obligations of the Mass Grading Permit Holder to be released in writing, the documentation for which shall be satisfactory to Seller in its sole discretion, and Buyer shall cooperate with Seller with respect thereto. Additionally, within such sixty (60) day time period, Buyer shall cause to be substituted all of the Mass Grading Permit Collateral with its own bond, letter of credit or other collateral as may be required by the County to the end and effect that the Seller and the Mass Grading Permit Holder shall have no further obligations to the County under the Mass Grading Permit. Upon the transfer of the Mass Grading Permit to Buyer, Buyer shall complete or cause the completion of the work required under the Mass Grading Permit under the name of Buyer or Buyer's designee, including the conversion of all of the sediment control ponds to stormwater management ponds. Notwithstanding the foregoing, if the transfer of the permit occurs prior to the date of Seller's Completion of the Ponds, then Seller shall continue its Completion of the Ponds under the permit held by Buyer, except that Buyer shall be responsible for any work caused by Buyer's grading activities. The provisions of this Section shall survive the Closings.

SECTION 11. CONDEMNATION. Notwithstanding anything contained in this Agreement to the contrary, if before either Closing any of the respective Property is taken by condemnation or the exercise of any power of eminent domain, or if any formal or informal notice or advice of such condemnation or an intention so to condemn is issued or becomes known to

Seller, Seller shall promptly notify Buyer thereof, and Buyer may, at Buyer's sole discretion, terminate this Agreement by giving Seller notice thereof, in which event the parties hereto shall thereafter have no liability to each other hereunder except to the extent that any right, obligation or liability set forth herein expressly survives termination of this Agreement. If Seller gives such notice to Buyer, and Buyer does not terminate this Agreement, as aforesaid: (a) the Phase One Purchase Price or Reserve Parcel Purchase Price, as applicable, shall remain the same, and at such Closing (i) Seller shall pay to Buyer any award made for such condemnation which is received by Seller before the applicable Closing, and (ii) Seller shall assign to Buyer all of Seller's right, title and interest in and to any award made for such condemnation with respect to such portion of the Land after the applicable Closing; and (b) Buyer may thereafter receive all of the proceeds of such condemnation and contest, in Seller's and/or Buyer's names, the validity of such condemnation and/or the amount of the proceeds offered or awarded therein.

SECTION 12. DEFAULT.

12.1. Buyer's Default In the event Buyer defaults in its obligations to purchase the Property (or to purchase the membership interests in Newco1 or Newco2, as applicable, if the Alternative Sale Structure is used), Seller shall be entitled after such default to exercise any and all rights and seek any and all remedies which Seller may hold or to which Seller may be entitled at law or in equity, including, but not limited to, the right to (i) terminate this Agreement; and (ii) pursue an action in equity for the specific performance of this Agreement. Buyer specifically acknowledges and agrees that Seller's right to enforce specific performance of Buyer's obligations under this Agreement constitutes a fundamental condition and material inducement to Seller's entering into this Agreement. The exercise of any one of Seller's rights or remedies under this Agreement shall not be deemed to be in lieu of, or a waiver of, any other right or remedy available to Seller.

12.2. Seller's Default. In the event Seller defaults in any of the terms, provisions, covenants or agreements to be performed by Seller hereunder, Buyer's only remedies shall be to terminate this Agreement or to pursue an action in equity for the specific performance of this Agreement. In no event shall Seller be liable to Buyer for any damages.

SECTION 13. NOTICES. Any notice to be provided hereunder to a party hereto shall be in writing and shall be sent (i) as certified mail in the United States mails, postage prepaid, return receipt requested, to the address of such party or person which is set forth hereinafter, (ii) via overnight delivery with a nationally recognized carrier, (iii) if such party's or person's receipt thereof is acknowledged in writing, given by hand or other actual delivery to such party or person, or (iv) by telecopier to the telecopy number set forth below (provided that a copy shall also be sent via ordinary mail, deposited with the postal service on the day the telecopy is sent). The addresses of the parties for the receipt of notices shall be as follows:

if to Seller:	Jolly Knolls, LLC c/o Constellation Real Estate, Inc. 8815 Centre Park Drive, Suite 104 Columbia, Maryland 21045 Attn: Managing Director Telecopier No. (410) 992-5573
with a copy to:	Constellation Energy Group 250 W. Pratt Street 23rd floor Baltimore, MD 21201 Attention: Donna M. Levy, Esq. Telecopier No. (410) 783-3079

with a copy to: Richard Rubin, Esq.
Neuberger, Quinn, Gielen, Rubin & Gibber, P.A.
One South Street, 27th Floor
Baltimore, MD 21202
Telecopier No. (410) 332-8562

if to Buyer: Corporate Office Properties, L.P.
8815 Centre Park Drive
Columbia, Maryland 21045
Attn: General Counsel
Telecopier No. (410) 992-7534

subject to the right of any party to designate a different address by notice similarly given. Any notice, demand, request, consent, approval, designation or other communication so sent shall be deemed to have been given, made or communicated as the case may be, on the second day after the date the same was deposited in the United States mail as certified mail with postage thereon fully prepaid, on the first business day after the date the same was delivered to a nationally recognized overnight carrier, on the same day as sent by hand delivery or in the case of telecopy, then the time of transmission.

SECTION 14. COMMISSIONS. Each party hereto hereby represents and warrants to the other that in connection with the sale and purchase of the Property, the party so representing and warranting has not dealt with any real estate broker, agent or finder, and there is no commission, charge or other compensation due on account thereof. Each party hereto shall indemnify and hold harmless the other against and from any inaccuracy in such party's representation.

SECTION 15. GENERAL.

15.1. Complete Understanding. This Agreement represents the complete understanding between the parties hereto as to the subject matter hereof, and supersedes all prior written or oral negotiations, representations, guaranties, warranties, promises, statements or agreements between the parties hereto as to the Property, the condition thereof or any other matter whatsoever, made or furnished by any real estate broker, agent, employee or other person representing or purporting to represent either party hereto.

15.2. Amendment. This Agreement may be amended by and only by an instrument executed and delivered by each party hereto.

15.3. Waiver. No party hereto shall be deemed to have waived the exercise of any right which it holds hereunder unless such waiver is made expressly and in writing (and no delay or omission by any party hereto in exercising any such right shall be deemed a waiver of its future exercise). No such waiver made as to any instance involving the exercise of any such right shall be deemed a waiver as to any other such instance, or any other such right.

15.4. Applicable Law. This Agreement shall be given effect and construed by application of the laws of Maryland, and any action or proceeding arising hereunder shall be brought in the courts of Maryland.

15.5. Headings. The headings of the sections, subsections, paragraphs and subparagraphs hereof are provided herein for and only for convenience of reference, and shall not be considered in construing their contents.

15.6. Assignment; Guaranty by Buyer. Except as hereinafter provided in this Subsection,Buyer may not transfer and assign, in whole or in part, its rights and interests under this Agreement without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Buyer may assign this Agreement in whole or in part without the consent of Seller to (i) any entity controlled by, controlling, or under common control with Buyer or COPT (where control shall mean owning directly or indirectly fifty percent (50%) or more of the voting stock or voting interest of such entity), or (ii) any purchaser or transferee, or any entity controlled by, controlling, or under common control with any purchaser or transferee, of all or a portion of Buyer's real property within National Business Park. Buyer shall notify Seller of any permitted transfer or assignment at least ten (10) days prior to such transfer or assignment. Buyer acknowledges that Seller is relying on the expertise and financial ability of Buyer. Therefore, in the event of an assignment by Buyer, Corporate Office Properties, L.P. shall, by virtue of such assignment, automatically be deemed to guaranty to Seller, its successors and assigns, all the obligations of the assignee, as buyer, under this Agreement. If such assignee defaults under this Agreement, Corporate Office Properties, L.P. shall promptly perform such assignee's obligations hereunder. The liability of the Corporate Office Properties, L.P. under this Subsection shall be primary, direct and immediate and not conditional or contingent on pursuit by Seller of any remedies it may have against the assignee buyer. Corporate Office Properties, L.P. agrees that Seller may, without affecting Corporate Office Properties, L.P. rights hereunder, modify, waive, amend or terminate any of the provisions of this Agreement. Corporate Office Properties, L.P. shall

pay to Seller all costs and expenses (including reasonable attorneys' fees and court costs) incurred by Seller in enforcing this guaranty . The provisions of this Subsection shall survive the Closings.

15.7. Survival. The respective representations, warranties, covenants, indemnifications, obligations and agreements made by the parties hereto in this Agreement or in any certificate or other writing delivered pursuant to this Agreement shall be deemed to be material to, and to have been relied upon by, the party to whom they are made, and shall survive the Closings or any termination of this Agreement.

15.8. Severability. No determination by any court, governmental or administrative entity or otherwise that any provision of this Agreement or any amendment hereof is invalid or unenforceable in any instance shall affect the validity or enforceability of (a) any other such provision, or (b) such provision in any circumstance not controlled by such determination. Each such provision shall be valid and enforceable to the fullest extent allowed by, and shall be construed wherever possible as being consistent with, applicable law.

15.9. Time of Essence. Time shall be of the essence in the performance of all terms of this Agreement.

15.10. Attorneys' Fees. In the event of any litigation arising out of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and court costs.

15.11. Binding Effect. This Agreement shall be binding upon and inure to the benefit of Seller and Buyer and their respective heirs, personal representatives, successors and assigns.

15.12. Disclaimer of Partnership Status. Nothing in the provisions of this Agreement shall be deemed in any way to create between the parties hereto any relationship of partnership, joint venture or association, and the parties hereto hereby disclaim the existence of any such relationship.

15.13. Interpretation. Both parties to this Agreement have been represented by counsel and all provisions of this Agreement have been fully negotiated. No provision of this Agreement shall be interpreted against either party merely because such provision was drafted by such party or such party's counsel.

15.14. Rule Against Perpetuities. If the rule against perpetuities or any other rule of law would invalidate this Agreement or any portion hereof or would limit the time during which this entire Agreement or any portion hereof shall be effective due to the potential failure of an interest in property created herein to vest within a particular time, then each such interest in property shall be effective only from the date hereof until the passing of twenty-one (21) years after the death of the last survivor of the members of the Senate of the United States of America representing the State of Maryland who are serving on the date hereof, but each such interest in property shall be extinguished after such time, and all other interests in property created herein and all other provisions hereof shall remain valid and effective without modification.

15.15. Performance Dates. If any date for the performance of any obligation shall fall on a weekend or a legal banking holiday, then the date for the performance of such obligation shall be extended to the next weekday which is not a legal banking holiday.

15.16. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall comprise but one and the same instrument.

15.17. Recitals. The parties agree that the Background section of this Agreement shall be an integral part of this Agreement and not merely prefatory thereto.

15.18. Exhibits. Each document referred to herein as being annexed hereto as an exhibit or schedule or otherwise designated herein as an exhibit or schedule hereto is hereby made a part hereof.

Listing of Exhibits

A-1.	Form of Note
A-2.	Form of Guaranty
A-3.	Form of Deed of Trust
A-4	Form of Reserve Parcel Note
A-5	Form of Reserve Parcel Guaranty
A-6	Form of Reserve Parcel Deed of Trust
B.	Form of Owner's Affidavit
C-1.	Form of FAR Covenant
C-2.	Form of Second FAR Covenant
D.	Special Taxing District Form
E.	Form of Easement Agreement
F.	Existing Title Information
G-1.	Form of Assignment Agreement (Declarant)
G-2.	Form of Second Assignment Agreement (Declarant)
H.	Form of Assignment of Member Interests
I-1.	Form of Opinion Letter-Phase One
I-2	Form of Opinion Letter-Reserve Parcel
J.	Intentionally Deleted
K.	Form of Deed
L.	Copy of Mass Grading Permit

Signatures begin on next page

IN WITNESS WHEREOF, each party hereto has executed this Agreement, or caused it to be executed on its behalf by its duly authorized representatives, with the intention of creating a document under seal on the date first above written.

WITNESS:

SELLER:

JOLLY KNOLLS, LLC

By: **CPI Jolly Knolls, Inc.**, sole member

/s/ Steven D. Kesler

By: /s/ Steven S. Koren (SEAL)
Steven S. Koren, Managing Director

BUYER:

CORPORATE OFFICE PROPERTIES, L.P.

By: **Corporate Office Properties Trust**, general partner

/s/ John H. Gurley

By: /s/ Randall M. Griffin (SEAL)
Name: RANDALL M. GRIFFIN
Title: PRESIDENT & COO

Corporate Office Properties Trust joins in the execution of this Agreement for purposes of agreeing to the provisions of Subsections 3.1.2, 3.2.2, 4.3, 5.1.2, 5.4.1, 5.4.2 and 5.4.8 above.

Corporate Office Properties Trust

/s/ John H. Gurley	By:	/s/ Randall M. Griffin	(SEAL)
	Name:	RANDALL M. GRIFFIN	
	Title:	PRESIDENT & COO	

Exhibit 10.35

INDEMNITY DEED OF TRUST NOTE

$18,433,083.00

Columbia, Maryland
January 24, 2003

FOR VALUE RECEIVED, CORPORATE OFFICE PROPERTIES, L.P, a Delaware limited partnership ("**Borrower**"), promises to pay to the order of **JOLLY KNOLLS, LLC**, a Maryland limited liability company ("**Lender**"; the Lender and any assignee or other lawful owner of this Note being hereinafter called the "**Holder**"), at its principal office in Columbia, Maryland, or at such other place or to such other party as the holder hereof may from time to time designate, the principal sum of Eighteen Million Four Hundred Thirty-Three Thousand Eighty-Three Dollars and Zero Cents ($18,433,083.00) (the "**Principal Sum**"), together with interest on the unpaid Principal Sum, on the terms set forth in this Note. Every word or term in this Note that is capitalized for the purpose of indicating a particular meaning and not specifically defined herein has the meaning set forth in the Deed of Trust (hereinafter defined).

BORROWER FURTHER PROMISES, COVENANTS AND AGREES AS FOLLOWS:

1. **Definitions, Rules of Construction.**

1.1 Definitions. As used in this Note, the terms defined in the preamble hereto shall have the respective meanings specified therein, and the following terms, when used in this Note, shall have the definitions provided in this Section 1:

"**Additional Guaranty**" means a Guaranty of even date herewith from COPT I, as guarantor, to Lender, which is secured, in part, by the Deed of Trust.

"**Business Day**" means a day other than a Saturday, Sunday or legal holiday.

"**COPT I**" means Jolly COPT I, LLC, a Maryland limited liability company, which has the Borrower as its sole member.

"**County**" means Anne Arundel County, Maryland.

"**Deed of Trust**" means the Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement from COPT I, recorded or intended to be recorded in the Land Records of the County from Borrower to Richard Rubin and Susan M. Wilkins, Trustees, covering, *inter alia*, certain real property located in the County, as described therein (the "**Property**").

"**Default Rate**" means an annual interest rate equal to the greater of (i) fifteen percent (15%); and (ii) the rate of eight percent (8%) in excess of the "prime rate" as announced from time to time in the "Money Rates" section of the Wall Street Journal.

"**Financing Statement**" means the UCC-1 financing statement, perfecting Lender's security interest in those items secured by the Deed of Trust and required or permitted to be perfected by a financing statement.

"**Guaranty**" means a Guaranty of even date herewith from Corporate Office Properties Trust, as guarantor, to Lender.

"**Loan Documents**" means this Note, the Guaranty, the Additional Guaranty, the Deed of Trust, the Financing Statement, the Declaration Regarding FAR and the Master FAR Declaration recorded or intended to be recorded prior to the Deed of Trust, and any certificates, assignments, and other documents executed in connection herewith or therewith, and all current and future supplements, amendments and attachments thereto.

"**Maturity Date**" means December 31, 2007.

"**Note**" means this Indemnity Deed of Trust Note.

"**Payment Address**" is defined in Section 4 below.

1.2 Capitalized Terms. Any capitalized term used herein and not otherwise defined herein shall have the meaning given to such term in the Deed of Trust.

1.3 Rules of Construction. All references made (a) in the neuter, masculine or feminine gender shall be deemed to have been made in all such genders, and (b) in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well.

2. **Interest.** Commencing as of October 1, 2002 (which date is prior to the date hereof) and continuing until repayment in full of all sums due hereunder, the unpaid Principal Sum shall bear interest and be payable at the rate of three percent (3 %) per annum. All interest payable under the terms of this Note shall be calculated on the basis of a 365-day year and the actual number of days elapsed.

3. **Payments, Maturity Date.**

3.1 Payments. The unpaid Principal Sum, together with interest thereon at the rate provided above, shall be payable by Borrower to the Holder in five (5) yearly installments in the following manner:

(i) On or before January 10, 2004, a principal payment in the amount of Three Million Six Hundred Eighty-Six Thousand Six Hundred Sixteen Dollars and Sixty Cents ($3,686,616.60), together with accrued and unpaid interest on the Principal Sum;

(ii) On or before January 10, 2005, a principal payment in the amount of Three Million Six Hundred Eighty-Six Thousand Six Hundred Sixteen Dollars and Sixty Cents ($3,686,616.60), together with accrued and unpaid interest on the unpaid Principal Sum;

(iii) On or before January 10, 2006, a principal payment in the amount of Three Million Six Hundred Eighty-Six Thousand Six Hundred Sixteen Dollars and Sixty Cents ($3,686,616.60), together with accrued and unpaid interest on the unpaid Principal Sum;

(iv) On or before January 10, 2007, a principal payment in the amount of Three Million Six Hundred Eighty-Six Thousand Six

Hundred Sixteen Dollars and Sixty Cents ($3,686,616.60), together with accrued and unpaid interest on the unpaid Principal Sum; and

(v) On or before the Maturity Date, the remaining unpaid balance of the Principal Sum, together with accrued and unpaid interest on the unpaid Principal Sum, shall be due and payable.

3.2 Principal Curtailment. If Borrower makes a principal payment to Holder in excess of that required under Subsection 3.1 above, then such excess principal payment shall be credited against the next principal payment installment.

4. **Place and Time of Payment**. All payments of principal and interest shall be made during regular business hours at the principal office of Lender at 8815 Centre Park Drive, Suite 104, Columbia, Maryland 21045, or at such other place as the Holder may from time to time designate in writing (the "**Payment Address**") and shall be made in coin or currency of the United States of America, which at the time of payment is legal tender for the payment of public or private debts.

5. **Security for Note**. This Note is given to evidence a loan in the amount of the Principal Sum made to the Borrower by the Lender (the Borrower's receipt of which is hereby acknowledged), and is secured by the Guaranty and the Additional Guaranty.

6. **Application of Payments**. All payments made hereunder shall be applied first to late charges or other sums owing to the Holder, next to accrued interest, and then to principal.

7. **Prepayment.** The Borrower may prepay the unpaid Principal Sum in whole or in part, at any time or from time to time, without premium or penalty.

8. **Default**. If default be made in the payment of the whole or any part of the debt evidenced hereby beyond any applicable notice and cure period, or if an Event of Default (as defined in the Deed of Trust) be made in the performance of any of the terms, agreements, covenants, or conditions contained herein or contained in the Guaranty, Additional Guaranty or in any Loan Document, then, in any of these events, the entire unpaid balance of the Principal Sum due hereunder, plus all accrued interest, together with all other sums evidenced hereby or secured by the Guaranty and/or Additional Guaranty, shall, at the option of the holder hereof, at once become and be due and payable, without notice to Borrower or any other person.

9. **Default Rate of Interest**. On default for ten (10) days after written notice to Borrower in the payment of any installment of principal or interest, or either (provided that Borrower shall not be entitled to more than two notices of monetary default in any twelve month period), the entire unpaid principal balance shall bear interest thereafter at the Default Rate. Interest at the Default Rate shall be payable with the payment of the overdue amount, and otherwise shall be compounded on the first day of each and every calendar month until paid in full. Such interest calculation shall be made on the basis of a 365 day year.

10. **Late Charge**. Borrower covenants and agrees that if any sum required hereunder or under the Deed of Trust should not be received by the holder hereof within ten (10) days from its due date, a late charge of five percent (5%) of such overdue payment, including principal and interest, may (in addition to any other remedies provided for hereunder) be charged for the purpose of defraying expenses incident to handling such delinquent payments.

11. **Payment of Costs.** If, after any default hereunder or under the Deed of Trust, the Guaranty or the Additional Guaranty which continues beyond any applicable notice and cure period, the Holder retains an attorney with respect to any enforcement action which the Holder may be entitled to take, including but not limited to, any suit or action, which is instituted to collect any or all of the Principal Sum, any interest accrued thereon or any other sum falling due under the provisions of this Note, or if this Note is placed in the hands of an attorney for collection, the Borrower hereby agrees to pay all reasonable costs thereby incurred by the Holder, including reasonable attorneys' fees, all of which shall be added to and become part of the debt evidenced hereby.

12. **Confessed Judgment**. Upon the occurrence of a default in the payment of the whole or any part of the debt evidenced hereby beyond any applicable notice and cure period, or if an Event of Default (as defined in the Deed of Trust) be made in the performance of any of the terms, agreements, covenants, or conditions contained herein or contained in the Additional Guaranty, the Deed of Trust or in any Loan Document, Borrower authorizes and empowers any attorney or any clerk of any court of record in the United States of America to appear on behalf of Borrower in any court having jurisdiction, in one or more proceedings, or before any clerk thereof or other court official, and **TO CONFESS JUDGMENT AGAINST BORROWER, WITHOUT PRIOR NOTICE OR OPPORTUNITY OF BORROWER FOR PRIOR HEARING**, in favor of Lender or the Holder for and in the amount of the unpaid Principal Sum, all interest accrued and unpaid thereon, all other amounts due and payable by Borrower to Lender or the Holder under the terms of this Note, court costs, expenses, and attorneys' fees of five percent (5%) of the total amount then due hereunder. Notwithstanding the Lender's right to the attorneys' fees described above in connection with any confession of judgment proceeding, the Lender may only collect such actual reasonable attorneys' fees and expenses that are incurred by its counsel in connection therewith, and upon payment of the amount of the judgment, including such actual reasonable attorneys' fees and expenses, the judgment shall be considered satisfied. Borrower waives and releases, to the extent permitted by applicable law, the benefit of any and every statute, ordinance, rule of court and all errors and all rights of exemption, appeal, stay of execution, inquisition, other relief from the enforcement or immediate enforcement of a judgment or related proceedings on a judgment, and other rights to which Borrower may otherwise be entitled under the laws of the United States of America or of any state or possession of the United States of America now in force or which may hereafter be enacted. The authority and power to appear for and enter judgment against Borrower shall not be exhausted by one or more exercises thereof, or by any imperfect exercise thereof, and shall not be extinguished by any judgment entered pursuant thereto. Such authority and power may be exercised on one or more occasions, from time to time, in the same or different jurisdictions as often as Lender or the Holder shall deem necessary or advisable, for all of which this Note shall be sufficient authority.

13. **Commercial Loan**. Borrower stipulates and warrants that (a) the loan evidenced hereby is a "commercial loan" within the meaning of Section 12-101(c) of the Commercial Law Article of the Annotated Code of Maryland, and (b) all loan proceeds will be used for such commercial loan purpose.

14. **Severability**. If any provision (or any part of any provision) contained in this Note shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision (or remaining part of the affected provision) of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision (or part thereof) had never been contained herein, but only to the extent it is invalid, illegal, or unenforceable.

15. **Governing Law; Jurisdiction; Service of Process**. Borrower hereby acknowledges, consents and agrees (a) that the provisions of this Note

and the rights of all parties mentioned herein shall be governed by Maryland law and interpreted and construed in accordance with such laws (excluding Maryland conflict of laws), and (b) that the United States District Court for the Northern District of Maryland, or any Maryland court of competent jurisdiction, shall have jurisdiction in any proceeding instituted to enforce this Note, and any objections to venue are hereby waived. Borrower hereby consents to process being served in any suit, action, or proceeding instituted in connection with this Note by (a) the mailing of a copy thereof by certified mail, postage prepaid, return receipt requested, to it at its address designated herein and

(b) serving a copy thereof upon John H. Gurley, Esquire, the agent hereby designated and appointed by Borrower as Borrower's agent for service of process. Borrower irrevocably agrees that such service shall be deemed in every respect to be effective service of process in any such suit, action, or proceeding. Nothing in this Note shall affect the right of Lender to serve process in any manner otherwise permitted by law and nothing in this Note will limit the right of Lender otherwise to bring proceedings against Borrower in the courts of any other appropriate jurisdiction or jurisdictions.

16. **Time of the Essence**. The Borrower agrees that time is strictly of the essence hereof.

17. **Extensions**. The Maturity Date and/or any other date by which payment is required to be made hereunder may be extended by the Holder from time to time in its sole discretion, without in any way altering or impairing the Borrower's liability hereunder.

18. **Estoppel Certificates**. The Borrower agrees to furnish to the Holder at any time and from time to time, within fifteen (15) days after written request therefor, a written estoppel certificate, duly executed and acknowledged, setting forth the amount then due under this Note, and whether any claim, offset or defense then exists hereunder.

19. **Remedies Cumulative**. Each right, power, and remedy of Lender as provided for in this Note or any of the other Loan Documents, or now or hereafter existing under any applicable law or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Note or any of the other Loan Documents or now or hereafter existing under any applicable law. The exercise or beginning of the exercise by Lender of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by Lender of any or all such other rights, powers or remedies. No failure or delay by Lender to insist on the strict performance of any term, condition, covenant or agreement of this Note or any of the other Loan Documents, or to exercise any right, power or remedy consequent on a breach thereof, shall constitute a waiver of any such term, condition, covenant, or agreement or of any such breach, or preclude Lender from exercising any such right, power or remedy at a later time or times. No provision hereof may be waived or modified orally, but all such waivers or modifications shall be in writing, expressly waiving or modifying such provision and signed by the party against whom enforcement of any waiver or modification is sought.

20. **Assignability**. This Note may be assigned by the Lender or any subsequent Holder at any time and from time to time, and shall inure to the benefit of and shall be enforceable by the Lender and its successors and assigns and any other person to whom the Lender may grant an interest in the Borrower's obligations to the Lender, and shall be binding and enforceable against the Borrower and the Borrower's successors and assigns.

21. **Waiver of Jury Trial**. **BORROWER, ON BEHALF OF ITSELF AND ITS SUCCESSORS AND ASSIGNS, WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ALL RIGHT TO TRIAL BY JURY OF ANY AND ALL CLAIMS ARISING UNDER THIS NOTE, THE DEED OF TRUST, OR ANY OTHER DOCUMENTS AND AGREEMENTS EXECUTED IN CONNECTION, DIRECTLY OR INDIRECTLY, WITH THIS LOAN TRANSACTION, AND ANY AND ALL CLAIMS ARISING UNDER COMMON LAW OR UNDER ANY STATUTE OF ANY STATE OR THE UNITED STATES OF AMERICA, WHETHER ANY SUCH CLAIMS BE NOW EXISTING OR HEREAFTER ARISING, NOW KNOWN OR UNKNOWN. IN MAKING THIS WAIVER BORROWER ACKNOWLEDGES AND AGREES THAT ANY AND ALL CLAIMS MADE BY THE HOLDER OF THIS NOTE AGAINST THE BORROWER AND ALL CLAIMS MADE BY BORROWER AGAINST THE HOLDER OF THIS NOTE SHALL BE HEARD BY A JUDGE OF A COURT OF PROPER JURISDICTION AND SHALL NOT BE HEARD BY A JURY. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY THE BORROWER, AND THE BORROWER HEREBY REPRESENTS AND WARRANTS THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THE BORROWER FURTHER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS NOTE AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.**

Signature Appears on Next Page

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust Note on the day and year first above written, intending it to be a sealed instrument.

WITNESS:

/s/ Stephanie L. Shack

BORROWER:

CORPORATE OFFICE PROPERTIES, L.P.

By: **Corporate Office Properties Trust**, general partner

By: /s/ Roger A. Waesche, Jr. (SEAL)
Name: Roger A. Waesche, Jr.
Title: Senior Vice President

STATE OF MARYLAND)
) **TO WIT:**
COUNTY OF HOWARD)

I HEREBY CERTIFY that on January 24, 2003, before me, a Notary Public of the State of Maryland, personally appeared Roger A. Waesche, Jr., who acknowledged himself to be the Sr. Vice President of Corporate Office Properties Trust, a Maryland corporation, general partner of **Corporate Office Properties, L.P**., a Delaware limited partnership, and that he as such officer, being authorized so to do, executed the foregoing instrument on behalf of the corporation acting in its capacity as general partner of the limited partnership.

WITNESS my hand and Notarial Seal.

/s/ M. C. Powel
Notary Public
My Commission Expires: 6/ /06

Selected Financial Data

The following table contains summary financial data as of and for each of the years ended December 31, 1998 through 2002. Since this information is only a summary, you should refer to our Consolidated Financial Statements and notes thereto and the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Corporate Office Properties Trust
(Dollar and share information in thousands, except ratios and per share data)

	2002	2001	2000	1999	1998
Real Estate Operations:					
Revenues					
Rental revenue	$ 132,079	$ 107,166	$ 89,946	$ 66,747	$ 34,764
Tenant recoveries and other revenue	15,916	14,489	15,196	10,733	4,508
Revenue from real estate operations	147,995	121,655	105,142	77,480	39,272
Expenses					
Property operating	43,929	35,413	30,162	21,187	9,377
Interest	39,067	32,289	29,786	21,190	11,994
Amortization of deferred financing costs	2,189	1,818	1,382	975	423
Depreciation and other amortization	28,517	20,405	16,513	11,646	6,194
Reformation costs(1)	—	—	—	—	637
Expenses from real estate operations	113,702	89,925	77,843	54,998	28,625
Earnings from real estate operations before equity in income of unconsolidated real estate joint ventures	34,293	31,730	27,299	22,482	10,647
Equity in income of unconsolidated real estate joint ventures	169	208	—	—	—
Earnings from real estate operations	34,462	31,938	27,299	22,482	10,647
(Losses) earnings from service operations	(875)	(782)	(310)	198	139
General and administrative expenses	(6,697)	(5,289)	(4,867)	(3,204)	(1,890)
Income before gain on sales of real estate, minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	26,890	25,867	22,122	19,476	8,896
Gain on sales of real estate(2)	2,564	1,618	107	1,140	—
Income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	29,454	27,485	22,229	20,616	8,896
Minority interests	(7,451)	(8,487)	(8,016)	(5,788)	(4,524)
Income before income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	22,003	18,998	14,213	14,828	4,372
Income tax benefit, net of minority interests	242	269	—	—	—
Income from discontinued operations, net of minority interests(3)	1,273	970	1,034	1,117	324
Extraordinary item – loss on early retirement of debt, net of minority interests	(217)	(141)	(113)	(862)	—
Cumulative effect of accounting change, net of minority interests(4)	—	(174)	—	—	—
Net income	23,301	19,922	15,134	15,083	4,696
Preferred share dividends	(10,134)	(6,857)	(3,802)	(2,854)	(327)
Net income available to common shareholders	$ 13,167	$ 13,065	$ 11,332	$ 12,229	$ 4,369
Basic earnings per common share					
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.54	$ 0.62	$ 0.55	$ 0.71	$ 0.44
Net income available to common shareholders	$ 0.59	$ 0.65	$ 0.60	$ 0.72	$ 0.48
Diluted earnings per common share					
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.52	$ 0.60	$ 0.54	$ 0.64	$ 0.44
Net income available to common shareholders	$ 0.56	$ 0.63	$ 0.59	$ 0.66	$ 0.47
Weighted average common shares outstanding – basic	22,472	20,099	18,818	16,955	9,099
Weighted average common shares outstanding – diluted	24,547	21,623	19,213	22,574	19,237

	2002	2001	2000	1999	1998
Balance Sheet Data (as of period end):					
Investment in real estate(5)	$ 1,059,129	$ 927,053	$ 751,587	$ 696,489	$ 546,887
Total assets	$ 1,126,471	$ 984,210	$ 794,837	$ 721,034	$ 563,677
Mortgage and other loans payable	$ 705,056	$ 573,327	$ 474,349	$ 399,627	$ 306,824
Total liabilities	$ 737,088	$ 615,507	$ 495,549	$ 416,298	$ 317,700
Minority interests	$ 100,886	$ 104,782	$ 105,560	$ 112,635	$ 77,196
Shareholders' equity	$ 288,497	$ 263,921	$ 193,728	$ 192,101	$ 168,781
Debt to market capitalization	54.4%	53.7%	57.3%	57.6%	58.7%
Debt to undepreciated real estate assets	62.1%	58.6%	60.4%	55.9%	55.1%
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$ 62,242	$ 50,875	$ 35,026	$ 32,296	$ 12,863
Investing activities	$ (128,571)	$ (155,741)	$ (73,256)	$ (125,836)	$ (183,650)
Financing activities	$ 65,680	$ 106,525	$ 40,835	$ 93,567	$ 169,741
Funds from operations(6)(7)	$ 47,666	$ 40,419	$ 34,587	$ 27,428	$ 11,778
Funds from operations assuming conversion of share options, common unit warrants, preferred units and preferred shares(6)(7)	$ 50,824	$ 43,214	$ 37,504	$ 31,401	$ 15,517
Adjusted funds from operations assuming conversion of share options, common unit warrants, preferred units and preferred shares(7)(8)	$ 41,795	$ 34,609	$ 30,554	$ 26,056	$ 13,194
Cash dividends declared per common share	$ 0.86	$ 0.82	$ 0.78	$ 0.74	$ 0.66
Payout ratio(7)(9)	60.5%	62.6%	67.0%	64.3%	77.7%

Ratio of earnings to combined fixed charges and preferred share dividends	1.28	1.29	1.33	1.48	1.33
Property Data (as of period end):					
Number of properties owned[8]	110	98	83	79	57
Total rentable square feet owned (in thousands)[10]	8,942	7,801	6,473	6,076	4,977

(1) Reflects a non-recurring expense of $637 associated with our reformation as a Maryland Real Estate Investment Trust ("REIT") during the first quarter of 1998.

(2) Reflects gain from sales of properties and unconsolidated real estate joint ventures.

(3) Reflects income derived from real estate properties held for sale at December 31, 2002.

(4) Reflects loss recognized upon our adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (discussed in Note 3 to our Consolidated Financial Statements).

(5) Certain prior period amounts have been reclassified to conform with the current presentation.

(6) We consider Funds from Operations ("FFO") to be meaningful to investors as a measure of the financial performance of an equity REIT when considered with the financial data presented under generally accepted accounting principles ("GAAP"). Under the National Association of Real Estate Investment Trusts' ("NAREIT") definition, FFO means net income (loss) computed using GAAP, excluding gains (or losses) from debt restructuring and sales of real estate, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures, although we have included gains from the sales of properties to the extent such gains related to sales of non-operating properties and development services provided on operating properties. FFO adjusted for the conversion of dilutive securities adjusts FFO assuming conversion of securities that are convertible into our common shares when such conversion does not increase our diluted FFO per share in a given period. The FFO we present may not be comparable to the FFO of other REITs since they may interpret the current NAREIT definition of FFO differently or they may not use the current NAREIT definition of FFO. FFO is not the same as cash generated from operating activities or net income determined in accordance with GAAP. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. See the section entitled "Funds from Operations" within the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a reconciliation of income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change to FFO.

(7) The amounts reported for 1998 are restated from amounts previously reported due to a change in NAREIT's definition of FFO.

(8) We compute adjusted funds from operations assuming conversion of share options, common unit warrants, preferred units and preferred shares by subtracting straight-line rent adjustments and recurring capital improvements from FFO assuming conversion of share options, common unit warrants, preferred units and preferred shares.

(9) We compute payout ratio by dividing total common and convertible preferred share dividends and total distributions reported for the year by FFO assuming conversion of share options, common unit warrants, preferred units and preferred shares.

(10) Amounts reported for December 31, 2001 include two properties totaling 135,428 rentable square feet held through two joint ventures.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Corporate Office Properties Trust ("COPT") and subsidiaries (collectively, the "Company") is a fully- integrated and self-managed real estate investment trust ("REIT"). We focus principally on the ownership, management, leasing, acquisition and development of suburban office properties located in select submarkets in the Mid-Atlantic region of the United States. COPT is qualified as a REIT as defined in the Internal Revenue Code of 1986 and is the successor to a corporation organized in 1988. We conduct our real estate ownership activity through our operating partnership, Corporate Office Properties, L.P. (the "Operating Partnership"), for which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies. The Operating Partnership also owns Corporate Office Management, Inc. ("COMI"), which owns interests in entities that provide real estate-related services primarily to us but also to third parties (see Note 1 to the Consolidated Financial Statements). We refer to COMI and its subsidiaries as the "Service Companies" and their operating activity as the "Service Operations."

Interests in our Operating Partnership are in the form of common and preferred units. As of December 31, 2002, we owned approximately 71% of the outstanding common units and approximately 81% of the outstanding preferred units. The remaining common and preferred units in our Operating Partnership were owned by third parties, which included certain of our officers and Trustees.

The table entitled "Selected Financial Data" that precedes this section illustrates the significant growth our Company underwent over the periods reported. Most of this growth, particularly pertaining to revenues and earnings from real estate operations and total assets, was attributable to our addition of properties through acquisition and construction activities. We financed most of the acquisition and construction activities using debt and preferred and common equity, as indicated by the growth in our interest expense, preferred share dividends and weighted average common shares outstanding. The growth in our general and administrative expenses reflects the growth in management resources required to support the increased size of our portfolio.

In this section, we discuss our financial condition and results of operations for 2002 and 2001. This section includes discussions on, among other things:

- why various components of our Consolidated Statements of Operations changed from 2001 to 2002 and from 2000 to 2001;
- our accounting policies that require our most difficult, subjective or complex judgments and are most important to the portrayal of our financial condition and results of operations;
- our primary sources and uses of cash in 2002;
- how we raised cash for acquisitions and other capital expenditures during 2002;
- our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition, results of operations and liquidity;
- how we intend to generate cash for short and long-term capital needs; and
- the computation of our Funds from Operations for 2002, 2001 and 2000.

You should refer to our Consolidated Financial Statements and Selected Financial Data table as you read this section.

This section contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be

identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate” or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to: our ability to borrow on favorable terms; general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability; adverse changes in the real estate markets including, among other things, increased competition with other companies; risks of real estate acquisition and development, including, among other things, risks that

development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated; risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives; governmental actions and initiatives; and environmental requirements. We undertake no obligation to update or supplement forward-looking statements.

Corporate Office Properties Trust
Operating Data Variance Analysis

(Dollars for this table are in thousands, except per share data)

	For the Years Ended December 31,				For the Years Ended December 31,			
	2002	2001	Variance	% Change	2001	2000	Variance	% Change
Real Estate Operations:								
Revenues								
Rental revenue	$ 132,079	$ 107,166	24,913	23%	$ 107,166	$ 89,946	17,220	19%
Tenant recoveries and other revenue	15,916	14,489	1,427	10%	14,489	15,196	(707)	(4%)
Revenues from real estate operations	147,995	121,655	26,340	22%	121,655	105,142	16,513	16%
Expenses								
Property operating	43,929	35,413	8,516	24%	35,413	30,162	5,251	17%
Interest and amortization of deferred financing costs	41,256	34,107	7,149	21%	34,107	31,168	2,939	9%
Depreciation and other amortization	28,517	20,405	8,112	40%	20,405	16,513	3,892	24%
Expenses from real estate operations	113,702	89,925	23,777	26%	89,925	77,843	12,082	16%
Earnings from real estate operations before equity in income of unconsolidated real estate joint ventures	34,293	31,730	2,563	8%	31,730	27,299	4,431	16%
Equity in income of unconsolidated real estate joint ventures	169	208	(39)	(19%)	208	—	208	N/A
Earnings from real estate operations	34,462	31,938	2,524	8%	31,938	27,299	4,639	17%
Losses from service operations	(875)	(782)	(93)	12%	(782)	(310)	(472)	152%
General and administrative expense	(6,697)	(5,289)	(1,408)	27%	(5,289)	(4,867)	(422)	9%
Gain on sales of real estate	2,564	1,618	946	58%	1,618	107	1,511	1412%
Income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	29,454	27,485	1,969	7%	27,485	22,229	5,256	24%
Minority interests	(7,451)	(8,487)	1,036	(12%)	(8,487)	(8,016)	(471)	6%
Income tax benefit, net	242	269	(27)	(10%)	269	—	269	N/A
Income from discontinued operations, net	1,273	970	303	31%	970	1,034	(64)	(6%)
Extraordinary item — loss on early retirement of debt, net	(217)	(141)	(76)	54%	(141)	(113)	(28)	25%
Cumulative effect of accounting change, net	—	(174)	174	(100%)	(174)	—	(174)	N/A
Net income	23,301	19,922	3,379	17%	19,922	15,134	4,788	32%
Preferred share dividends	(10,134)	(6,857)	(3,277)	48%	(6,857)	(3,802)	(3,055)	80%
Net income available to common shareholders	$ 13,167	$ 13,065	$ 102	1%	$ 13,065	$ 11,332	$ 1,733	15%
Basic earnings per common share								
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.54	$ 0.62	$ (0.08)	(13%)	$ 0.62	$ 0.55	$ 0.07	13%
Net income available to common shareholders	$ 0.59	$ 0.65	$ (0.06)	(9%)	$ 0.65	$ 0.60	$ 0.05	8%
Diluted earnings per common share								
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.52	$ 0.60	$ (0.08)	(13%)	$ 0.60	$ 0.54	$ 0.06	11%
Net income available to common shareholders	$ 0.56	$ 0.63	$ (0.07)	(11%)	$ 0.63	$ 0.59	$ 0.04	7%

Results of Operations

While reviewing this section, you should refer to the "Operating Data Variance Analysis" table set forth on the preceding page, as it reflects the computation of the variances described in this section.

Comparison of the Years Ended December 31, 2002 and 2001

Overall, we believe that the economic slowdown in the United States affected our 2002 operations by decreasing occupancy in certain of our properties, which in turn led to decreased revenues in those properties. Occupancy in our portfolio decreased from 96.1% at December 31, 2001 to 93.0% at December 31, 2002; this decrease was felt most in our Baltimore/Washington Corridor properties, where occupancy decreased from 95.7% at December 31, 2001 to 91.0% at December 31, 2002. Lower occupancy rates and the resulting increased competition for tenants in our operating regions placed downward pressure on rental rates in most of these regions, a trend that will affect us further as we lease vacant space and renew leases scheduled to expire on occupied space. Our exposure to continued pressure on occupancy and rental rates in the short term is reduced somewhat by the fact that as of December 31, 2002, leases on only 9% of our occupied square feet were scheduled to expire in 2003.

The United States defense industry (comprised of the United States Government and defense contractors) expanded significantly in the Baltimore/Washington Corridor and Northern Virginia; the industry's expansion helped minimize the decrease in our occupancy levels in those regions, despite the otherwise softening leasing environment. Due to our increased leasing to tenants in the defense industry, the percentage of our total "annualized rental revenue" (defined as monthly contractual rental revenue plus expense reimbursements as of a specified date, annualized) derived from that industry increased as set forth below:

	% of Total Annualized Rental Revenue as of December 31,	
	2002	2001
Total Portfolio	37.6%	25.7%
Baltimore/Washington Corridor	45.4%	32.3%
Northern Virginia	81.8%	66.4%

We expect the percentage of our total annualized rental revenue derived from the defense industry to continue to increase.

We believe that the economic slowdown adversely affected a number of our tenants during the year. Although this trend did not result in significant increases in tenant receivables or bad debt expense, it did lead to an increased amount of tenant lease terminations, space downsizings and sub-leasing, as well as a slightly reduced tenant retention rate. We also had several tenants who were current in fulfilling their lease obligations as of December 31, 2002 that we believe could encounter financial difficulties in the foreseeable future.

We acquired two buildings in Northern Virginia, six in the Baltimore/Washington Corridor and one in Suburban Washington, D.C.; we also completed construction of five buildings in the Baltimore/Washington Corridor. The table below sets forth the changes in our regional allocation of annualized rental revenue resulting from these acquisition and construction activities and changes in leasing activity:

	% of Total Annualized Rental Revenue as of December 31,	
Region	2002	2001
Baltimore/Washington Corridor	62.2%	65.1%
Northern/Central New Jersey	11.5%	13.5%
Northern Virginia	11.2%	7.2%
Greater Philadelphia	6.5%	7.3%
Harrisburg, Pennsylvania	6.2%	6.9%
Suburban Washington, D.C.	2.4%	0.0%
	100.0%	100.0%

We typically view our changes in revenues from real estate operations and property operating expenses as being comprised of three main components:

- Changes attributable to the operations of properties owned and 100% operational throughout the two years being compared. We define these as changes from "Same-Store Properties." For example, when comparing 2001 and 2002, Same-Store Properties would be properties owned and 100% operational from January 1, 2001 through December 31, 2002. For further discussion of the concept of "operational," you should refer to the section entitled "Critical Accounting Policies and Estimates."
- Changes attributable to operating properties acquired during the two years being compared and newly-constructed properties that were placed into service and not 100% operational throughout the two years being compared. We define these as changes from "Property Additions."
- Changes attributable to properties sold. We define these as changes from "Sold Properties."

The table below sets forth the components of our changes in revenues from real estate operations and property operating expenses (dollars in thousands):

	Property Additions Dollar Change[1]	Same-Store Properties		Sold Properties Dollar Change	Other Dollar Change	Total Dollar Change
		Dollar Change	Percentage Change			
Revenues from real estate operations						
Rental revenue	$ 24,894	$ 1,267	1%	$ (1,248)	$ —	$ 24,913
Tenant recoveries and other revenue	4,746	(884)	(8%)	(86)	(2,349)	1,427
Total	29,640	383	0%	(1,334)	(2,349)	26,340
Property operating expenses	10,203	(1,457)	(5%)	(402)	172	8,516
Revenues from real estate operations less property operating expenses	$ 19,437	$ 1,840	3%	$ (932)	$ (2,521)	$ 17,824
Number of operating properties	31	78	N/A	2	N/A	111

(1) Includes 23 acquired properties and 8 newly-constructed properties.

As the table above indicates, our total increase in revenues from real estate operations and property operating expenses was attributable primarily to the Property Additions. However, the total revenues from these properties were adversely affected by property vacancies and the slow lease-up of newly-constructed buildings, conditions that we believe were attributable to the economic slowdown.

The increase in rental revenue from the Same-Store Properties includes a $2.4 million increase in net revenue from the early termination of leases. To explain further, when tenants terminate their lease obligations early, they typically pay a fee to break these obligations. We recognize such fees as revenue at the time of the lease terminations and write-off any deferred rents receivable (as described in the section of Note 3 to the Consolidated Financial Statements entitled "Revenue Recognition") associated with the leases against that revenue, the resulting remainder being the net revenue from the early termination of the leases. The $2.4 million increase includes $2.4 million in net revenue earned from one lease termination in December 2002.

The fact that our rental revenue from the Same-Store Properties would have decreased had it not been for the net revenue from early termination of leases described above was due mostly to decreased occupancy in these properties; the average month-end occupancy levels in these properties decreased from 96.6% in 2001 to 93.6% in 2002. We attribute the decrease in occupancy to the economic slowdown in the United States, which we believe adversely affected business conditions and office occupancy rates in most of our regions. This trend increased competition for tenants and placed downward pressure on rental rates. The decrease in tenant recoveries and other revenue from the Same-Store Properties was due primarily to the decrease in occupancy and decreased property operating expenses.

The decrease in the Same-Store Properties' property operating expenses included the following:

- $601,000, or 74%, decrease in expense associated with doubtful or uncollectible receivables, $518,000 of which was attributable to one tenant that declared bankruptcy in 2001;
- $582,000, or 30%, decrease in exterior repair and grounds maintenance due primarily to fewer special projects undertaken and the discontinuance of certain services in the spring and summer months due to drought conditions;
- $477,000, or 7%, decrease in utilities, most of which was attributable to certain tenants assuming responsibility for property utility payments;

- $270,000, or 38%, increase in property administrative costs due to increased general and administrative costs associated with employees engaged in property operating activities;
- $261,000, or 5%, increase in real estate taxes resulting primarily from increased assessments of property value; and
- $260,000, or 6%, decrease in cleaning due in large part to service no longer needed in certain vacated space.

The $2.3 million decrease in tenant recoveries and other revenue from other sources is attributable primarily to a $2.5 million decrease in fees earned for certain nonrecurring real estate services.

Our interest expense and amortization of deferred financing costs increased 21% due primarily to a 29% increase in our average outstanding debt balance resulting from our 2001 and 2002 acquisition and construction activities, offset by a decrease in our weighted average interest rates from 7.6% to 6.5%. Of the $8.1 million increase in our depreciation and other amortization expense, $6.5 million was attributable to the Property Additions.

General and administrative expenses increased $1.4 million or 27%, of which $1.0 million was attributable to additional employee bonus expense, including additional discretionary bonuses awarded to officers in the current year that were associated with performance in the prior year.

We had more real estate sale transactions in 2002, the combined gain for which exceeded the gain from our one sale in 2001; Notes 4 and 5 to the Consolidated Financial Statements contain further information regarding these real estate sales.

The amounts reported for minority interests on our Consolidated Statements of Operations represent primarily the portion of the Operating Partnership's net income not allocated to us. The 12% decrease in our income allocation to minority interests before giving effect to income tax benefit, discontinued operations, extraordinary item and cumulative effect of accounting change was due primarily to the increase in our ownership of the Operating Partnership resulting from common and preferred units acquired by us in 2001 and 2002 using proceeds from our sale of common shares of beneficial interest ("common shares") and classes of preferred shares during those periods.

The 48% increase in preferred share dividends was attributable to our issuance of three new series of preferred shares in 2001 (discussed in Note 10 to our Consolidated Financial Statements).

Basic and diluted earnings per common share decreased due to the effect of the additional common shares and common share equivalents outstanding in 2002 exceeding our growth in net income available to common shareholders.

Comparison of the Years Ended December 31, 2001 and 2000

The table below sets forth the components of our changes in revenues from real estate operations and property operating expenses (dollars in thousands):

	Property Additions Dollar Change(1)	Same-Store Properties		Sold Properties Dollar Change	Other Dollar Change	Total Dollar Change
		Dollar Change	Percentage Change			
Revenues from real estate operations						
Rental revenue	$ 17,474	$ 1,367	2%	$ (1,621)	$ —	$ 17,220
Tenant recoveries and other revenue	1,436	(2,567)	(20%)	(267)	691	(707)
Total	18,910	(1,200)	(1%)	(1,888)	691	16,513
Property operating expenses	4,279	1,482	5%	(512)	2	5,251
Revenues from real estate operations less property operating expenses	$ 14,631	$ (2,682)	(4%)	$ (1,376)	$ 689	$ 11,262
Number of operating properties	23	75	N/A	4	N/A	102

(1) Includes 15 acquired properties and 8 newly-constructed properties.

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

The increase in rental revenue from the Same-Store Properties was attributable primarily to increases in rental rates on renewed and re-tenanted space. The decrease in tenant recoveries and other revenue from the Same-Store Properties was attributable primarily to a decrease in anticipated operating cost levels in 2001 compared to 2000 and a change in our tenant composition.

The increase in the Same Store Properties' property operating expenses included the following:

- $737,000 due to increased expense associated with doubtful or uncollectible receivables, of which $614,000 was attributable to a tenant that declared bankruptcy;
- $425,000 due to increases in real estate taxes resulting primarily from increased assessments of property value; and
- $330,000 due to increased repair and maintenance costs related primarily to building exterior and ground improvement projects and heating and ventilation units.

The $691,000 increase in tenant recoveries and other revenue from other sources was attributable primarily to a $778,000 increase in fees earned for certain nonrecurring real estate services.

The 9% increase in our interest expense and amortization of deferred financing costs was due primarily to a 14% increase in our average outstanding debt balance resulting from our 2000 and 2001 acquisition and construction activities, offset somewhat by a decrease in our weighted average interest rates from 7.8% to 7.6%. Of the $3.9 million increase in our depreciation and other amortization expense, $2.8 million was attributable to the Property Additions.

Our gain on sales of real estate increased substantially because the gain on the one 2001 real estate sale exceeded the combined gains from three real estate sales in 2000; Note 4 to the Consolidated Financial Statements contains further information regarding the 2001 real estate sale.

The 80% increase in preferred share dividends was attributable to our issuance of three new series of preferred shares in 2001.

The $174,000 loss due to the cumulative effect of an accounting change resulted from our adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (discussed in Note 3 to our Consolidated Financial Statements).

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles ("GAAP"), which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 3 to our Consolidated Financial Statements. The following section is a summary of certain aspects of those accounting policies that both require our most difficult, subjective or complex judgments and are most important to the portrayal of our financial condition and results of operations. It is possible that the use of different reasonable estimates or assumptions in making these judgments could result in materially different amounts being reported in our Consolidated Financial Statements.

- When we acquire real estate properties, we allocate the components of these acquisitions using relative fair values computed using our estimates and assumptions. These estimates and assumptions affect the amount of costs allocated between land and different categories of building improvements as well as the amount of costs assigned to individual properties in multiple property acquisitions. These allocations also impact depreciation expense and gains or losses recorded on sales of real estate.
- When we construct or develop a property, we capitalize all costs associated with that property. Such costs include not only direct construction costs but also interest, real estate taxes and other costs associated with owning the property. We continue to capitalize these costs while construction and development activities are underway until a building becomes "operational." A building becomes operational the earlier of when leases commence on its space or one year from the completion of major construction activities on the building (the "construction completion date"). Our determination of the date construction and development activities are underway and the construction completion date occasionally requires judgments and estimates. These judgments and estimates affect how much in costs associated with these properties are capitalized or expensed. Since depreciation expense begins to be recorded when a building is operational, these judgments and estimates also affect depreciation expense.

- When leases commence on portions of a newly-constructed building's space at different times in the period prior to one year from the construction completion date, we consider that building "partially operational." When a building is partially operational, we allocate the costs referred to in the previous paragraph that are associated with the building between the portion that is operational and the portion under construction. The allocation of such costs requires estimates and assumptions that affect how much of these costs are capitalized or expensed.
- When our employees are engaged in activities associated with construction and development and acquiring real estate under construction or development, we capitalize direct labor and allocable overhead costs to these activities. Our capitalization process is designed to reflect the actual direct labor and allocable overhead costs by using estimates of these costs to derive hourly rates for employees directly engaged in these activities. We then multiply the actual hours that those employees were engaged in the activities by the hourly rates to compute the amounts to be capitalized.
- When we acquire an operating property, we value in-place operating leases carrying rents above or below market as of the date of the acquisition; we then amortize such values over the lives of the related leases. Our determination of these values requires us to estimate market rents for each of the leases and make certain other assumptions; these estimates and assumptions affect how much rental revenue we recognize for these leases.
- We recognize an impairment loss on a real estate asset if the asset's undiscounted expected future cash flows are less than its depreciated cost. We compute a real estate asset's undiscounted expected future cash flows using certain estimates and assumptions. As a result, these estimates and assumptions impact the amount of impairment loss that we recognize.
- We use four different accounting methods to report our investments in entities: the consolidation method, the equity method, the cost method and the financing method (see Note 2 to the Consolidated Financial Statements). We use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. We use the equity method when we own an interest in an entity and can exert significant influence over the entity's operations but cannot control the entity's operations. We use the cost method when we own an interest in an entity and cannot exert significant influence over the entity's operations. We use the financing method when we contribute real estate into a joint venture in exchange for cash and an ownership interest when there are provisions that give us the option in the future to acquire the ownership interests in the joint venture not owned by us. We review investments regularly for possible impairment using certain estimates and assumptions regarding undiscounted expected future cash flows. We also review these investments regularly for proper accounting treatment, although a key factor in this review, the determination of whether or not we can control or exert significant influence over an entity's operations, can be subjective in nature. Beginning in 2003, our determination of the accounting method to use for our investments in entities will be affected by Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN

46”), which was issued in January 2003. You should refer to Note 3 to our Consolidated Financial Statements for further information regarding FIN 46.

- We review our receivables regularly for potential collection problems in computing the allowance recorded against our receivables; this review process requires that we make certain judgments regarding collections that are inherently difficult to predict.

Liquidity and Capital Resources

In our discussion of liquidity and capital resources set forth below, we describe certain of our risks and uncertainties; however, they are not the only ones that we face.

Cash provided from operations is our primary source of liquidity to fund dividends and distributions, pay debt service and fund working capital requirements. We expect to continue to use cash provided by operations to meet our short-term capital needs, including all property operating expenses, general and administrative expenses, debt service, dividend and distribution requirements and recurring capital improvements and leasing commissions. We do not anticipate borrowing to meet these requirements. Factors that could negatively affect our ability to generate cash from operations in the future include the following:

- We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.
- When leases expire for our properties, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. For new tenants, or upon lease expiration of existing tenants, we generally must make improvements and pay other tenant-related costs for which we may not receive increased rents. We also may incur building-related capital improvements for which tenants

may not reimburse us. If a tenant leaves, we can expect to experience a vacancy for some period of time, as well as higher capital costs than if a tenant renews.

- As of December 31, 2002, three tenants accounted for approximately 25.2% of our total annualized rental revenue. Most of the leases of one of these tenants, the United States Government, provide for one-year terms or provide for early termination rights. The government may terminate most of its leases if, among other reasons, the Congress of the United States fails to provide funding. Our cash flow from operations would be negatively affected if any of our three largest tenants fail to make rental payments to us, or if the United States Government elects to terminate several of its leases and the space cannot be re-leased on satisfactory terms.
- One of our larger tenants or a number of our smaller tenants could experience financial difficulties, including bankruptcy, insolvency or general downturn of business, and be unable to fulfill their lease obligations by paying their rental payments in a timely manner or be less likely to renew their leases upon expiration.
- As mentioned in the section entitled “Results of Operations,” the United States defense industry (comprised of the United States Government and defense contractors) accounted for a significant percentage of our annualized rental revenue at December 31, 2002; we expect that this percentage will continue to increase. A reduction in government spending for defense could result in the reduced ability to fulfill lease obligations or decreased likelihood of lease renewal in the case of defense contractors or the early termination of leases or decreased likelihood of lease renewal in the case of the United States Government.
- A decline in the real estate market or economic conditions could occur in the Mid-Atlantic region of the United States, where all of our properties were located as of December 31, 2002, or in the Baltimore/Washington Corridor, where 62.2% of our annualized office rents were generated as of December 31, 2002.
- Numerous commercial properties compete for tenants with our properties. We believe that the recent economic slowdown in the United States adversely affected occupancy rates in our regions and our properties and, in turn, placed downward pressure on rental rates. Some of the properties competing with ours may be newer or have more desirable locations or the competing properties’ owners may be willing to accept lower rents than are acceptable to us. If occupancy rates in our regions do not improve or further decline, we may have difficulty leasing both existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.
- Much of our growth in recent years is attributable to our acquisition of properties. As we continue to acquire properties in the future, the operating performance of those properties may fall short of our expectations and adversely affect our financial performance.
- If short-term interest rates were to increase, the interest payments on our variable-rate debt would increase, although this increase may be reduced to the extent that we had interest rate swap and cap agreements outstanding.
- We may not be able to refinance our existing indebtedness on terms as favorable as the terms of our existing indebtedness, which would result in higher interest expense.
- Although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore properties damaged by a fire or other catastrophic event.

We historically have financed our long-term capital needs, including property acquisition and construction activities, through a combination of the following:

- cash from operations;
- borrowings from our secured revolving credit facility with Bankers Trust Company (the “Revolving Credit Facility”);
- borrowings from new loans;
- additional equity issuances of common shares, preferred shares, common units and/or preferred units;
- contributions from outside investors into real estate joint ventures; and
- proceeds from sales of real estate.

We often use our Revolving Credit Facility to initially finance much of our investing and financing activities. We then pay down our Revolving Credit Facility using proceeds from long-term borrowings collateralized by our properties as attractive financing conditions arise and equity issuances as attractive equity market conditions arise. Amounts available under the Revolving Credit Facility are generally computed based on 65% of the appraised value of properties pledged as collateral. As of March 6, 2003, the maximum amount available under our Revolving Credit Facility was $148.5 million, of which $17.0 million was unused.

Factors that could negatively affect our ability to finance our long-term capital needs in the future include the following:

- As a REIT, we must distribute 90% of our annual taxable income, which limits the amount of cash we have available for other business purposes, including amounts to fund our long-term capital needs.
- Our strategy is to operate with higher debt levels than most other REITs. However, these high debt levels could make it difficult to obtain additional

financing when required and could also make us more vulnerable to an economic downturn.

- We may not be able to refinance our existing indebtedness.
- Much of our ability to raise capital through the issuance of preferred shares, common shares or securities that are convertible into our common shares, including common units and convertible preferred units in our Operating Partnership, is dependent on the value of our common and preferred shares. As is the case with any publicly traded securities, certain factors outside of our control could influence the value of these shares. Moreover, if our financial position or results of operations decline, the value of the shares could be adversely affected.
- When we develop and construct properties, we run the risks that actual costs will exceed our budgets, that we will experience construction or development delays and that projected leasing will not occur.
- We finance certain real estate investments through joint ventures. Such investments run the risk that our joint venture partners may not fulfill their financial obligations as investors, in which case we may need to fund such partners' share of additional capital requirements.
- Equity real estate investments like our properties are relatively difficult to sell and convert to cash quickly, especially if market conditions are poor. The Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than four years. In addition, for certain of our properties that we acquired from the sellers using units in our Operating Partnership, we are restricted from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the sellers' consent. Due to all of these factors, we may be unable to sell a property at an advantageous time to fund our long-term capital needs.

Off-Balance Sheet Arrangements

We own real estate through joint ventures when suitable equity partners are available at attractive terms. Each of our real estate joint ventures has a two-member management committee that is responsible for making major decisions (as defined in the joint venture agreement), and we control one of the management committee positions in each case. All of our real estate joint venture investments owned during 2002 can be classified into one of the following two categories described below:

- Externally-managed construction joint ventures (the "Externally-Managed JVs"). These joint ventures construct buildings to be sold to third-parties or purchased by us. Our partners in all of these joint ventures are controlled by a company that owns, manages, leases and develops property in the Baltimore/Washington Corridor; that company also serves as the project manager for all of these joint ventures. During 2002, we were invested in six of these joint ventures, four of which were remaining at December 31, 2002; all of these were accounted for using the equity method of accounting (see Note 3 to the Consolidated Financial Statements). These joint ventures enable us to make use of the expertise of our partner and, in the case of certain projects, provide us with exposure to build for sale real estate opportunities not within our normal focus; the use of the joint venture structures provides further leverage to us both from a financing and risk perspective. We generally guarantee the repayment of construction loans for these projects in amounts proportional to our ownership percentage. In addition, we are obligated to acquire our partners' membership interest in each of the joint ventures in the event that all of the following occur:

  (1) an 18-month period passes from the date of completion of the shell of the final building to be constructed by the joint venture;
  (2) at the end of the 18-month period, the aggregate leasable square footage of the joint venture's buildings is 90% leased and occupied by tenants who are not in default under their leases; and
  (3) six months pass from the end of the 18-month period and either the buildings have not been sold or we have not acquired our partners' interests.

  The amount we would need to pay for our partners' membership interest is computed based on the amount that the partners would receive under the respective joint venture agreements in the event that the buildings were sold for a capitalized fair value (as defined in the agreements) on a defined date. As of December 31, 2002, none of the four remaining Externally-Managed JVs had completed the shell construction on their final buildings. We estimate the aggregate amount we would need to pay for our partners' membership interests in these joint ventures to be $2.1 million; however, since the determination of this amount is

dependent on the operations of the properties and none of these properties are both completed and occupied, this estimate is preliminary and could be materially different from the actual obligation.

- Construction joint ventures managed by us (the "Internally-Managed JVs"). During 2002, we invested in three of these joint ventures, one of which was remaining at December 31, 2002; two of these were accounted for using the financing method of accounting and one using the equity method of accounting (see Note 3 to the Consolidated Financial Statements). Our partners in these projects typically own a majority of the joint ventures and we serve as the project manager. The primary purpose behind the use of joint venture structures for these projects is to enable us to leverage most of the equity requirements and reduce our risk in construction and development projects. We serve as the sole guarantor for repayment of construction loans for these projects. The Internally-Managed JVs in which we were invested during 2002 all carried provisions making us solely responsible for funding defined additional investments in the joint venture to the extent that costs to complete construction exceed amounts funded by member investments previously made and existing construction loans. These projects also each carried provisions giving us the option to purchase our partner's joint venture interest for a pre-determined purchase price over a limited period of time; if we do not elect to exercise this purchase option in a project, our partner can appoint an additional representative to the joint venture's management committee, giving it control of such committee. Our partners can also typically gain control of the management committees of these joint ventures if the respective projects fail to attain certain defined performance criteria, such as construction completion and tenant occupancy target dates, although if this were to occur in a project, we would have the option to acquire the partner's interest for a pre-determined purchase price. The earliest date that we can exercise our option to acquire our partner's joint venture interest in the one Internally-Managed JV remaining as of December 31, 2002 is February 1, 2004, on which date the purchase price would be $5.4 million. Our partner in the one Internally-Managed JV remaining at December 31, 2002 can gain control of the project's management committee if construction of the building is not completed by November 2003, although if that were to occur, we would have the option of acquiring our partner's interest for $5.4 million.

The table below sets forth certain additional information regarding these categories of real estate joint ventures (in thousands):

Category of Real Estate Joint Venture	Investment Balances at 12/31/02	Net Cash Flow from (to) Category in 2002	Income from Category in 2002	Fees Earned from Category in 2002[1]	Balance of Debt Guaranteed by Us at 12/31/02	Obligation to Unilaterally Fund Additional Project Costs (if necessary)[2]
Externally-Managed JVs	$ 7,769	$ 1,717	$ 1,324	$ —	$ 5,908	$ —
Internally-Managed JVs	230	(6,570)	63	158	2,849	4,000
	$ 7,999	$ (4,853)	$ 1,387	$ 158	$ 8,757	$ 4,000

(1) Fees earned by us for construction, asset management and property management services provided to projects.
(2) Amounts reported in this column represent additional investments we could be required to fund on a unilateral basis. We and our partners are also required to fund proportionally (based on our ownership percentage) additional amounts when needed by the Externally-Managed JVs. In addition, we are required to fund 50% of additional amounts needed by the Internally-Managed JVs. We do not expect that any of these additional fundings will be necessary.

The net cash flow from Externally-Managed JVs during the year included $2.3 million generated from the sale of two projects during 2002; the income from Externally-Managed JVs included $1.2 million in gains earned from project sales. The net cash flow to Internally-Managed JVs included $11.8 million paid to acquire our partners' interests in two projects.

You should refer to Notes 5 and 18 for additional information pertaining to our investments in unconsolidated real estate joint ventures.

At December 31, 2002, we had $6.7 million in secured letters of credit with Bankers Trust Company for the purpose of further securing one of our mortgage loans payable with Teachers Insurance and Annuity Association of America ("TIAA"). These letters of credit were canceled in February 2003 when we added an additional building as security for the TIAA mortgage loan.

We had no other material off-balance sheet arrangements during 2002.

Tabular Disclosure of Contractual Obligations

The following table summarizes certain of our material contractual cash obligations associated with investing and financing activities as of December 31, 2002 (in thousands):

	For the Years Ended December 31,				
	2003	2004 to 2005	2006 to 2007	Thereafter	Total
Contractual obligations					
Mortgage loans payable[1]	$ 104,718	$ 188,965	$ 129,346	$ 282,027	$ 705,056
Acquisitions of properties[2]	29,809	—	—	—	29,809
Capital lease obligations[3]	38	44	3	—	85
Operating leases[3]	1,362	2,205	1,061	32,064	36,692
Total contractual cash obligations	$ 135,927	$ 191,214	$ 130,410	$ 314,091	$ 771,642
Other commitments[4]					
Guarantees of joint venture loans[5]	$ 5,908	$ 2,849	$ —	$ —	$ 8,757

(1) Our loan maturities in 2003 include $10.9 million in April, $16.0 million in August and $36.0 million in November, each of which may be extended for a one-year period, subject to certain conditions; they also include a $12.0 million maturity in July that may be extended for two six-month terms, subject to certain conditions. We expect to repay our other 2003 loan maturities primarily by obtaining new loans.
(2) Represents a 108-acre land parcel we were under contract to acquire for $29,809 from Constellation Real Estate, Inc., a related party. We acquired the first phase of this project on January 24, 2003 for $20,993, of which $18,433 was financed by a seller-provided mortgage loan. We expect to acquire the second phase by mid-2003 using proceeds from an additional seller-provided mortgage loan.
(3) We expect to pay these items using cash generated from operations.
(4) Not included in this section are amounts contingently payable by us to acquire the membership interests of certain real estate joint venture partners. See the section entitled "Off-Balance Sheet Arrangements" for further discussion of such amounts.
(5) We do not expect to have to fulfill our obligation as guarantor of joint venture loans.

In addition to the commitments set forth above, we had tenant improvement costs to incur on leases in place at December 31, 2002 that we expect to fund using cash flow from operations. We also had preliminary construction costs to incur on two projects that we expect to finance initially using cash reserves and long-term using construction loan facilities expected to be obtained. We had no other material contractual obligations as of December 31, 2002.

Investing and financing activities for the year ended December 31, 2002

During 2002, we acquired nine office buildings totaling 839,364 square feet for $107.3 million, three parcels of land for $8.2 million and a leasehold interest carrying a right to purchase an additional parcel of land for $466,000. These acquisitions were financed using the following:

- $62.6 million in borrowings from our Revolving Credit Facility;
- $46.7 million from new and assumed mortgage loans; and
- cash reserves for the balance.

During 2002, we completed the construction of five office buildings in the Baltimore/Washington Corridor totaling 410,551 square feet (excluding the construction activities of unconsolidated real estate joint ventures). Costs incurred on these buildings through December 31, 2002 totaled $66.0 million. These costs were funded in part using $36.3 million in proceeds from three construction loan facilities, all of which were repaid using borrowings from new loans. We also used $9.6 million in contributions from joint venture partners prior to our acquisition of the joint venture partners' interests in 2002 for $11.8 million; the acquisition of the joint venture partners' interests was funded using proceeds from a new loan and borrowings on our Revolving Credit Facility. The balance of the construction costs was funded primarily using proceeds from our Revolving Credit Facility and cash reserves.

As of December 31, 2002, we had construction activities underway on one new building totaling 123,743 square feet that was 60% operational and 63% leased (excluding the construction activities of unconsolidated real estate joint ventures). We estimate that land and construction costs will total approximately $23.1 million upon completion of this project. Land and construction costs incurred on this project through December 31, 2002 totaled $21.1 million. We have a construction loan facility in place totaling $14.0 million to finance the construction of this project; borrowings under this facility totaled $11.6 million at December 31, 2002. We also

used borrowings from our Revolving Credit Facility and cash reserves funded by a portion of our debt refinancing proceeds.

The table below sets forth the major components of our 2002 property additions (in thousands):

	For the Year Ended December 31, 2002
Acquisitions	$ 116,087
Property additions upon acquisition of joint venture partner interests	29,067 (1)
Construction and development	15,555

Tenant improvements on operating properties	4,213 (2)
Capital improvements on operating properties	3,264
	$ 168,186

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(1) During 2002, we acquired the ownership interests of partners in two real estate joint ventures for $11,809. Prior to these acquisitions, we were accounting for our investments in these joint ventures using the financing method of accounting (see Note 3 to our Consolidated Financial Statements). We recorded $29,067 in property additions upon completion of these acquisitions.

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

Significant activity during 2002 pertaining to our investments in unconsolidated real estate joint ventures included the following:

- sale of our investment in MOR Montpelier LLC for net proceeds of $1.1 million;
- acquisition of a 50% interest in MOR Montpelier 3 LLC, an entity developing a parcel of land located in Columbia, Maryland;
- sale of our investment in MOR Forbes LLC for net proceeds of $1.2 million; and
- acquisition of an 80% interest in MOR Forbes 2 LLC, an entity developing a parcel of land located in Lanham, Maryland.

Our investments in unconsolidated real estate joint ventures decreased $3.0 million during 2002 due primarily to a reimbursement to us of advances we had previously made to NBP 140, LLC combined with the net effect of the transactions described above.

During 2002, we sold an office building and three land parcels for $10.6 million, providing $2.3 million in mortgage loans to the purchasers. The net proceeds from these sales after transaction costs and the loans provided by us to the purchasers totaled $7.5 million; these proceeds were used as follows:

- $3.5 million to pay down our Revolving Credit Facility; and
- the balance to fund cash reserves.

During 2002, we borrowed $217.1 million under mortgages and other loans, excluding our Revolving Credit Facility; the proceeds from these borrowings were used as follows:

- $116.8 million to repay other loans;
- $51.3 million to finance acquisitions;
- $40.8 million to pay down our Revolving Credit Facility;
- $3.4 million to finance construction activities; and
- the balance to fund cash reserves.

On March 5, 2002, we participated in an offering of 10,961,000 common shares to the public at a price of $12.04 per share; Constellation Real Estate, Inc. (“Constellation”) sold 8,876,172 of these shares and we sold 2,084,828 of these shares. With the completion of this transaction, Constellation, which had been our largest common shareholder, no longer owned any of our shares. We contributed the net proceeds from the sale of the newly issued shares to our Operating Partnership in exchange for 2,084,828 common units. The Operating Partnership used most of the proceeds to pay down our Revolving Credit Facility.

Investing and financing activities subsequent to December 31, 2002

On January 23, 2003, we entered into a secured revolving credit agreement with Wachovia Bank, National Association, for a maximum principal amount of $25.0 million. This credit facility carries an interest rate of LIBOR plus 1.65% to 2.15%, depending on the amount of debt we carry relative to our total assets; we expect, based on our financing strategy, that the interest rate on this loan will be LIBOR plus 1.9%. The credit facility matures in two years, although individual borrowings under the loan mature one year from the borrowing date. We expect to use borrowings under this facility to finance acquisitions or pay down our Revolving Credit Facility. We borrowed $8.4 million on January 23, 2003, the proceeds of which were used primarily to pay down our Revolving Credit Facility.

On January 24, 2003, we completed the first phase of a $29.8 million, 108-acre land parcel acquisition from Constellation. The first phase was acquired for $21.0 million. This acquisition was financed primarily using an $18.4 million seller-provided mortgage loan that carries a stated fixed interest rate of 3% and provides for repayment with five equal annual installments. The purchase price and the mortgage loan were recorded at a discount to reflect the below market interest rate.

On January 31, 2003, we contributed a developed land parcel into a real estate joint venture called NBP 220, LLC (“NBP 220”) and subsequently received a $4.0 million distribution. Upon completion of this transaction, we owned a 20% interest in NBP 220. This real estate joint venture is an Internally-Managed JV, as defined in the section entitled “Off-Balance Sheet Arrangements.”

On March 4, 2003, we acquired an office building in Annapolis, Maryland totaling approximately 155,000 square feet for $18.0 million. This acquisition was financed primarily using proceeds from our Revolving Credit Facility.

Cash Flows

We generated net cash flow from operating activities of $62.2 million for the year ended December 31, 2002, an increase of $11.4 million from the prior year; this increase was due primarily to operating cash flow generated from our newly-acquired and newly-constructed properties. Our net cash flow used in investing activities for the year ended December 31, 2002 decreased $27.2 million from the prior year due primarily to a $20.8 million decrease in cash invested in and advanced to unconsolidated real estate joint ventures. Our net cash flow provided by financing activities for the year ended December 31, 2002 decreased $40.8 million from the prior year; this decrease included the following: a $123.8 million decrease in proceeds from mortgage and other loans; a $47.8 million decrease in proceeds from the issuance of equity instruments; a $14.0 million decrease in cash flow associated with other liabilities (due mostly to the acquisition of our partners’ interests in two real estate joint ventures accounted for using the financing method of accounting, as discussed in Note 3 to the Consolidated Financial Statements); and a $153.4 million decrease in repayments of mortgage and other loans.

Funds From Operations

We consider Funds from Operations (“FFO”) to be meaningful to investors as a measure of the financial performance of an equity REIT when considered with the financial data presented under GAAP. Under the National Association of Real Estate Investment Trusts’ (“NAREIT”) definition, FFO means net income (loss) computed using GAAP, excluding gains (or losses) from debt restructuring and sales of real estate, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures, although we have included gains from the sales of real estate to the extent such gains related to sales of non-operating properties and development services provided on operating properties. FFO adjusted for the conversion of dilutive securities adjusts FFO assuming conversion of securities that are convertible into our common shares when such conversion does not increase our diluted FFO per share in a given period. The FFO we present may not be

comparable to the FFO of other REITs since they may interpret the current NAREIT definition of FFO differently or they may not use the current NAREIT definition of FFO. FFO is not the same as cash generated from operating activities or net income determined in accordance with GAAP. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. Our FFO for the years ended December 31, 2002, 2001 and 2000 are summarized in the following table:

	For the Years Ended December 31, (Dollars and shares in thousands)		
	2002	2001	2000
Income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	$ 29,454	$ 27,485	$ 22,229
Add: Real estate-related depreciation and amortization	28,656	20,702	16,887
Add: Discontinued operations, gross	1,839	1,467	1,646
Less: Preferred unit distributions	(2,287)	(2,287)	(2,240)
Less: Preferred share dividends	(10,134)	(6,857)	(3,802)
Minority interest in other consolidated entities	59	(84)	(26)
Less: Gain on sales of real estate properties, excluding redevelopment portion (1)	(268)	(416)	(107)
Add: Income tax benefit, gross	347	409	—
Funds from operations	47,666	40,419	34,587
Add: Preferred unit distributions	2,287	2,287	2,240
Add: Convertible preferred share dividends	544	508	677
Add: Restricted common share dividends	283	—	—
Expense associated with dilutive options	44	—	—
Funds from operations assuming conversion of share options, common units warrants, preferred units and preferred shares	50,824	43,214	37,504
Less: Straight-line rent adjustments	(2,389)	(3,175)	(4,107)
Less: Recurring capital improvements	(6,640)	(5,430)	(2,843)
Adjusted funds from operations assuming conversion of share options, common unit warrants, preferred units and preferred shares	$ 41,795	$ 34,609	$ 30,554
Weighted average common shares	22,472	20,099	18,818
Conversion of weighted average common units	9,282	9,437	9,652
Weighted average common shares/units	31,754	29,536	28,470
Conversion of share options	936	406	164
Conversion of common unit warrants	—	—	231
Conversion of weighted average preferred shares	1,197	1,118	918
Conversion of weighted average preferred units	2,421	2,421	2,371
Restricted common shares	326	—	—
Weighted average common shares/units assuming conversion of share options, common unit warrants, preferred units and preferred shares	36,634	33,481	32,154

(1) A portion of the gain from the sales of real estate that is attributable to sales of non-operating properties and development services performed on operating properties is included in FFO.

Inflation

We were not significantly affected by inflation during the periods presented in this report due primarily to the relatively low inflation rates in our markets. Most of our tenants are obligated to pay their share of a building's operating expenses to the extent such expenses exceed amounts established in their leases, based on historical expense levels. In addition, some of our tenants are obligated to pay their full share of a building's operating expenses. These arrangements somewhat reduce our exposure to increases in such costs resulting from inflation.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks, the most predominant of which is change in interest rates. Increases in interest rates can result in increased interest expense under our Revolving Credit Facility and our other mortgage loans payable carrying variable interest rate terms. Increases in interest rates can also result in increased interest expense when our loans payable carrying fixed interest rate terms mature and need to be refinanced. Our debt strategy favors long-term, fixed-rate, secured debt over variable-rate debt to minimize the risk of short-term increases in interest rates. As of December 31, 2002, 68.2% of our mortgage and other loans

payable balance carried fixed interest rates. We also use interest rate swap and interest rate cap agreements to reduce the impact of interest rate changes.

The following table sets forth our long-term debt obligations, principal cash flows by scheduled maturity and weighted average interest rates at December 31, 2002 (dollars in thousands):

	For the Years Ended December 31,						
	2003[1]	2004[2]	2005	2006	2007	Thereafter	Total
Long term debt:							
Fixed rate	$ 8,783	$ 35,052	$ 25,913	$ 69,610	$ 59,736	$ 282,027	$ 481,121
Average interest rate	7.12%	7.15%	7.16%	7.08%	7.07%	6.24%	6.67%
Variable rate	$ 95,935	$ 128,000	$ —	$ —	$ —	$ —	$ 223,935
Average interest rate	3.25%	3.15%	—	—	—	—	3.24%

(1) Includes maturities of $10.9 million in April, $16.0 million in August and $36.0 million in November, each of which may be extended for a one-year period, subject to certain conditions; also includes a $12.0 million maturity in July that may be extended for two six-month terms, subject to certain conditions.

(2) Includes maturities of $128.0 million in March and $25.8 million in August, each of which may be extended for a one-year period, subject to certain conditions.

The fair market value of our mortgage and other loans payable was $741.6 million at December 31, 2002 and $584.7 million at December 31, 2001.

The following table sets forth information pertaining to our derivative contracts in place as of December 31, 2002 and their respective fair values:

Nature of Derivative	Notional Amount (in millions)	One-Month LIBOR base	Effective Date	Expiration Date	Fair value on December 31, 2002 (in thousands)
Interest rate swap	$ 100.0	5.760%	1/2/01	1/2/03	$ (12)
Interest rate swap	50.0	2.308%	1/2/03	1/3/05	(482)
Total					$ (494)

On January 3, 2003, we entered into an interest rate swap agreement with Deutsche Bank AG that fixes the one-month LIBOR base rate at 1.52% on a notional amount of $50.0 million. This swap agreement became effective on January 7, 2003 and carries a one-year term.

Based on our variable-rate debt balances, our interest expense would have increased by $1.5 million in 2002 and $1.1 million in 2001 if interest rates were 1% higher. Interest expense in 2002 was more sensitive to a change in interest rates than 2001 due to a higher average variable rate debt balance in 2002.

Recent Accounting Pronouncements

For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, you should refer to Note 3 to our Consolidated Financial Statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2002	December 31, 2001
Assets		
Investment in real estate:		
Operating properties, net	$ 999,771	$ 851,762
Property held for sale, net	16,792	—
Projects under construction or development	34,567	64,244
Total commercial real estate properties, net	1,051,130	916,006
Investments in and advances to unconsolidated real estate joint ventures	7,999	11,047
Investment in real estate, net	1,059,129	927,053
Cash and cash equivalents	5,991	6,640
Restricted cash	9,739	4,947
Accounts receivable, net	3,509	3,805
Investments in and advances to other unconsolidated entities	1,621	2,112
Deferred rent receivable	13,698	11,447
Deferred charges, net	19,848	16,884
Prepaid and other assets	11,260	9,551
Furniture, fixtures and equipment, net	1,676	1,771
Total assets	$ 1,126,471	$ 984,210
Liabilities and shareholders' equity		
Liabilities:		
Mortgage and other loans payable	$ 705,056	$ 573,327
Accounts payable and accrued expenses	11,670	10,674
Rents received in advance and security deposits	8,253	6,567
Dividends and distributions payable	9,794	8,965
Fair value of derivatives	494	3,781
Other liabilities	1,821	12,193
Total liabilities	737,088	615,507
Minority interests:		
Preferred units in the Operating Partnership	24,367	24,367
Common units in the Operating Partnership	76,519	80,158
Other consolidated partnerships	—	257
Total minority interests	100,886	104,782
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Preferred Shares of beneficial interest ($0.01 par value; 10,000,000 shares authorized) 40,693 designated as Series A Convertible Preferred Shares of beneficial interest (shares issued of 0 at December 31, 2002 and 1 at December 31, 2001)	—	—
1,725,000 designated as Series B Cumulative Redeemable Preferred Shares of beneficial interest (1,250,000 shares issued with an aggregate liquidation preference of $31,250 at December 31, 2002 and 2001)	13	13
544,000 designated as Series D Cumulative Convertible Redeemable Preferred Shares of beneficial interest (544,000 shares issued with an aggregate liquidation preference of $13,600 at December 31, 2002 and 2001)	5	5
1,265,000 designated as Series E Cumulative Redeemable Preferred Shares of beneficial interest (1,150,000 shares issued with an aggregate liquidation preference of $28,750 at December 31, 2002 and 2001)	11	11
1,425,000 designated as Series F Cumulative Redeemable Preferred Shares of beneficial interest (1,425,000 shares issued with an aggregate liquidation preference of $35,625 at December 31, 2002 and 2001)	14	14
Common Shares of beneficial interest ($0.01 par value; 45,000,000 shares authorized, shares issued of 23,772,732 at December 31, 2002 and 20,814,701 at December 31, 2001)	238	208
Additional paid-in capital	313,786	285,362
Cumulative distributions in excess of net income	(21,067)	(14,502)

Value of unearned restricted common share grants	(2,739)	(3,275)
Treasury shares, at cost (166,600 shares)	(1,415)	(1,415)
Accumulated other comprehensive loss	(349)	(2,500)
Total shareholders' equity	288,497	263,921
Total liabilities and shareholders' equity	$ 1,126,471	$ 984,210

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Operations
(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2002	**2001**	**2000**
Real Estate Operations:			
Revenues			
Rental revenue	$ 132,079	$ 107,166	$ 89,946
Tenant recoveries and other revenue	15,916	14,489	15,196
Revenue from real estate operations	147,995	121,655	105,142
Expenses			
Property operating	43,929	35,413	30,162
Interest	39,067	32,289	29,786
Amortization of deferred financing costs	2,189	1,818	1,382
Depreciation and other amortization	28,517	20,405	16,513
Expenses from real estate operations	113,702	89,925	77,843
Earnings from real estate operations before equity in income of unconsolidated real estate joint ventures	34,293	31,730	27,299
Equity in income of unconsolidated real estate joint ventures	169	208	—
Earnings from real estate operations	34,462	31,938	27,299
Service operations:			
Revenues	3,888	3,864	—
Expenses	(4,192)	(4,354)	—
Equity in loss of unconsolidated Service Companies	(571)	(292)	(310)
Losses from service operations	(875)	(782)	(310)
General and administrative expenses	(6,697)	(5,289)	(4,867)
Income before gain on sales of properties, minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	26,890	25,867	22,122
Gain on sales of real estate	2,564	1,618	107
Income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	29,454	27,485	22,229
Minority interests			
Common units in the Operating Partnership	(5,223)	(6,116)	(5,750)
Preferred units in the Operating Partnership	(2,287)	(2,287)	(2,240)
Other consolidated entities	59	(84)	(26)
Income before income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	22,003	18,998	14,213
Income tax benefit, net of minority interests	242	269	—
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	22,245	19,267	14,213
Income from discontinued operations, net of minority interests	1,273	970	1,034
Income before extraordinary item and cumulative effect of accounting change	23,518	20,237	15,247
Extraordinary item-loss on early retirement of debt, net of minority interests	(217)	(141)	(113)
Income before cumulative effect of accounting change	23,301	20,096	15,134
Cumulative effect of accounting change, net of minority interests	—	(174)	—
Net income	**23,301**	**19,922**	**15,134**
Preferred share dividends	(10,134)	(6,857)	(3,802)
Net income available to common shareholders	**$ 13,167**	**$ 13,065**	**$ 11,332**
Basic earnings per common share			
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.54	$ 0.62	$ 0.55
Discontinued operations	0.06	0.05	0.06
Extraordinary item	(0.01)	(0.01)	(0.01)
Cumulative effect of accounting change	—	(0.01)	—
Net income available to common shareholders	$ 0.59	$ 0.65	$ 0.60
Diluted earnings per common share			
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.52	$ 0.60	$ 0.54
Discontinued operations	0.05	0.04	0.06
Extraordinary item	(0.01)	—	(0.01)
Cumulative effect of accounting change	—	(0.01)	—
Net income available to common shareholders	$ 0.56	$ 0.63	$ 0.59

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Dollars in thousands)

(Dollars in thousands)	Preferred Shares	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Value of Unearned Restricted Common Share Grants	Treasury Shares	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 1999	$ 22	$ 176	$ 202,867	$ (7,547)	$ (3,417)	$ —	$ —	$ 192,101
Conversion of common units to common shares (1,047,545 shares)	—	11	8,514	—	—	—	—	8,525
Conversion of Preferred shares (984,307 shares)	(10)	19	(9)	—	—	—	—	—
Restricted common share grants issued (12,500 Shares)	—	—	97	—	(97)	—	—	—
Value of earned restricted share grants	—	—	4	—	115	—	—	119
Exercise of share options (24,467 shares)	—	—	169	—	—	—	—	169
Issuance of share options	—	—	206	—	—	—	—	206
Acquisition of treasury shares (166,600 shares)	—	—	—	—	—	(1,415)	—	(1,415)
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(2,460)	—	—	—	—	(2,460)
Net income	—	—	—	15,134	—	—	—	15,134
Dividends	—	—	—	(18,651)	—	—	—	(18,651)
Balance at December 31, 2000	12	206	209,388	(11,064)	(3,399)	(1,415)	—	193,728
Conversion of common units to common shares (90,519 shares)	—	1	918	—	—	—	—	919
Series D Cumulative Convertible Redeemable Preferred Shares issued privately (544,000 shares)	5	—	11,887	—	—	—	—	11,892
Series E Cumulative Redeemable Preferred Shares issued to the public (1,150,000 shares)	12	—	26,894	—	—	—	—	26,906
Series F Cumulative Redeemable Preferred Shares issued to the public (1,425,000 shares)	14	—	33,549	—	—	—	—	33,563
Decrease in fair value of derivatives	—	—	—	—	—	—	(2,500)	(2,500)
Restricted common share grants issued (23,000 shares)	—	—	234	—	(234)	—	—	—
Value of earned restricted share grants	—	—	103	—	358	—	—	461
Exercise of share options (125,246 shares)	—	1	997	—	—	—	—	998
Expense associated with share options	—	—	574	—	—	—	—	574
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	818	—	—	—	—	818
Net income	—	—	—	19,922	—	—	—	19,922
Dividends	—	—	—	(23,360)	—	—	—	(23,360)
Balance at December 31, 2001	43	208	285,362	(14,502)	(3,275)	(1,415)	(2,500)	263,921
Conversion of common units to common shares (617,510 shares)	—	6	8,617	—	—	—	—	8,623
Common shares issued to the public (2,084,828 shares)	—	21	23,391	—	—	—	—	23,412
Increase in fair value of derivatives	—	—	—	—	—	—	2,151	2,151
Value of earned restricted share grants	—	—	325	—	536	—	—	861
Exercise of share options (255,692 shares)	—	3	2,125	—	—	—	—	2,128
Net expense reversal associated with share options	—	—	(64)	—	—	—	—	(64)
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(5,970)	—	—	—	—	(5,970)
Net income	—	—	—	23,301	—	—	—	23,301
Dividends	—	—	—	(29,866)	—	—	—	(29,866)
Balance at December 31, 2002	$ 43	$ 238	$ 313,786	$ (21,067)	$ (2,739)	$ (1,415)	$ (349)	$ 288,497

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the Years Ended December 31, 2002	2001	2000
Cash flows from operating activities			
Net income	$ 23,301	$ 19,922	$ 15,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	8,028	8,963	8,588
Depreciation and other amortization	25,557	19,128	15,983
Other amortization	3,439	1,848	994
Amortization of deferred financing costs	2,189	1,818	1,382
Equity in loss of unconsolidated entities	402	84	310
Gain on sales of real estate	(2,564)	(1,618)	(107)
Extraordinary item-loss on early retirement of debt	312	213	153

	2002	2001	2000
Cumulative effect of accounting change	—	263	—
Changes in operating assets and liabilities:			
Increase in deferred rent receivable	(2,327)	(3,125)	(4,113)
Increase in accounts receivable, restricted cash and prepaid and other assets	(1,904)	(1,758)	(4,225)
Increase in accounts payable, accrued expenses, rents received in advance and security deposits	4,721	2,660	927
Other	1,088	2,477	—
Net cash provided by operating activities	62,242	50,875	35,026
Cash flows from investing activities			
Purchases of and additions to commercial real estate properties	(133,553)	(134,015)	(65,130)
Proceeds from sales of properties	7,509	3,818	4,435
Cash from acquisition of real estate joint venture	—	688	—
Cash from acquisition of Service Companies	—	568	—
Investments in and advances to unconsolidated real estate joint ventures	2,089	(18,739)	(3,616)
Proceeds from sales of unconsolidated real estate joint ventures	2,283	—	—
Investments in and advances to other unconsolidated entities	—	(808)	(2,773)
Leasing commissions paid	(5,974)	(3,540)	(6,176)
Decrease (increase) in advances to certain real estate joint ventures	2,583	(2,583)	—
Other	(3,508)	(1,130)	4
Net cash used in investing activities	(128,571)	(155,741)	(73,256)
Cash flows from financing activities			
Proceeds from mortgage and other loans payable	306,317	430,120	140,479
Repayments of mortgage and other loans payable	(210,628)	(364,000)	(69,493)
Deferred financing costs paid	(2,397)	(4,071)	(1,774)
(Decrease) increase in other liabilities	(11,336)	2,623	—
Net proceeds from issuance of preferred shares	—	72,361	—
Net proceeds from issuance of common shares	25,541	998	286
Net proceeds from issuance of share options	—	—	206
Purchase of treasury shares	—	—	(1,415)
Dividends paid	(28,997)	(21,626)	(18,265)
Distributions paid	(10,265)	(9,880)	(9,189)
Other	(2,555)	—	—
Net cash provided by financing activities	65,680	106,525	40,835
Net (decrease) increase in cash and cash equivalents	(649)	1,659	2,605
Cash and cash equivalents			
Beginning of year	6,640	4,981	2,376
End of year	$ 5,991	$ 6,640	$ 4,981

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries

Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

1. Organization

Corporate Office Properties Trust ("COPT") and subsidiaries (collectively, the "Company") is a fully- integrated and self-managed real estate investment trust ("REIT"). We focus principally on the ownership, management, leasing, acquisition and development of suburban office properties located in select submarkets in the Mid-Atlantic region of the United States. COPT is qualified as a REIT as defined in the Internal Revenue Code and is the successor to a corporation organized in 1988. As of December 31, 2002, our portfolio included 110 office properties.

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the "Operating Partnership"), for which we are the managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies ("LLCs"). A summary of our Operating Partnership's forms of ownership and the percentage of those ownership forms owned by COPT follows:

	December 31,	
	2002	2001
Common Units	71%	66%
Series A Preferred Units	100%	100%
Series B Preferred Units	100%	100%
Series C Preferred Units	0%	0%
Series D Preferred Units	100%	100%
Series E Preferred Units	100%	100%
Series F Preferred Units	100%	100%

The Operating Partnership also owns 100% of Corporate Office Management, Inc. ("COMI") (together with its subsidiaries defined as the "Service Companies") (see Note 6). COMI's consolidated subsidiaries are set forth below:

Entity Name	Type of Service Business
Corporate Realty Management, LLC ("CRM")	Real Estate Management
Corporate Development Services, LLC ("CDS")	Construction and Development
Corporate Cooling and Controls, LLC ("CCC")	Heating and Air Conditioning

COMI owns 100% of these entities, although COMI only owned 75% of CRM prior to July 2000 and 80% of CCC prior to May 2002. Most of the services that CRM and CDS provide are for us.

2. Basis of Presentation

We use four different accounting methods to report our investments in entities: the consolidation method, the equity method, the cost method and the financing method.

Consolidation Method

We use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. This means the accounts of the entity are combined with our accounts. We eliminate balances and transactions between companies when we consolidate these accounts. Our Consolidated Financial Statements include the accounts of:

- COPT;
- the Operating Partnership and its subsidiary partnerships and LLCs;
- the Service Companies; and
- Corporate Office Properties Holdings, Inc. (of which we own 100%).

The Service Companies became consolidated subsidiaries effective January 1, 2001 (see Note 6). Prior to that date, we accounted for our investment in the Service Companies using the equity method of accounting (discussed below).

Equity Method

We use the equity method of accounting when we own an interest in an entity and can exert significant influence over the entity's operations but cannot control the entity's operations. Under the equity method, we report:

- our ownership interest in the entity's capital as an investment on our Consolidated Balance Sheets; and
- our percentage share of the earnings or losses from the entity in our Consolidated Statements of Operations.

Cost Method

We use the cost method of accounting when we own an interest in an entity and cannot exert significant influence over the entity's operations. Under the cost method, we report:

- the cost of our investment in the entity as an investment on our Consolidated Balance Sheets; and
- distributions to us of the entity's earnings in our Consolidated Statements of Operations.

Financing Method

See Note 3

3. Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements

We make estimates and assumptions when preparing financial statements under generally accepted accounting principles ("GAAP"). These estimates and assumptions affect various matters, including:

- the reported amounts of assets and liabilities in our Consolidated Balance Sheets at the dates of the financial statements;
- the disclosure of contingent assets and liabilities at the dates of the financial statements; and
- the reported amounts of revenues and expenses in our Consolidated Statements of Operations during the reporting periods.

These estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict and are often beyond management's control. As a result, actual amounts could differ from these estimates.

Commercial Real Estate Properties

We report commercial real estate properties at our depreciated cost. The amounts reported for our commercial real estate properties include our costs of:

- acquisitions;
- development and construction;
- building and land improvements; and
- tenant improvements paid by us.

We capitalize interest expense, real estate taxes, direct internal labor (including allocable overhead costs) and other costs associated with real estate undergoing construction and development activities to the cost of such activities. We continue to capitalize these costs while construction and development activities are underway until a building becomes "operational," which is the earlier of when leases commence on space or one year from the cessation of major construction activities. When leases commence on portions of a newly-constructed building's space in the period prior to one year from the construction completion date, we consider that building "partially operational." When a building is partially operational, we allocate the costs associated with the building between the portion that is operational and the portion under construction. We start depreciating newly-constructed properties when they become operational.

We depreciate our assets evenly over their estimated useful lives as follows:

• Building and building improvements	10-40 years
• Land improvements	10-20 years
• Tenant improvements	Related lease terms
• Equipment and personal property	3-10 years

We recognize an impairment loss on a real estate asset if its undiscounted expected future cash flows are less than its depreciated cost. We have not recognized impairment losses on our real estate assets to date.

We expense property maintenance and repair costs when incurred.

Financing Method of Accounting for Certain Real Estate Joint Ventures

Prior to 2002, we contributed parcels of land into two real estate joint ventures. In exchange for the contributions of land, we received joint venture interests and $9,600 in cash. Each of these joint ventures constructed office buildings on the land parcels. Each of the joint ventures' operating agreements provided us with the option to acquire the joint venture partners' interests for a pre-determined purchase price over a limited period of time. In February 2002, we acquired the joint venture partner's interest in one of these joint ventures for the pre-determined purchase price of $5,448. In June 2002, we acquired the joint venture partner's interest in the other joint venture for the pre-determined purchase price of $6,361. For periods prior to acquiring the joint venture partners' interests, we accounted for our interests in these joint ventures using the financing method of accounting, details of which are described below:

- the costs associated with these land parcels at the time of their respective contributions were reported as commercial real estate properties on our Consolidated Balance Sheets;
- the cash received from these joint ventures in connection with the land contributions was reported as other liabilities on our Consolidated Balance Sheets. These liabilities were accreted towards the pre-determined purchase price over the life of our option to acquire the joint venture partners' interests. We also reported interest expense in connection with the accretion of these liabilities;
- as construction of the buildings on these land parcels was completed and operations commenced, we reported 100% of the revenues and expenses associated with these properties on our Consolidated Statements of Operations; and
- construction costs and debt activity for these projects relating to periods after the respective land contributions were not reported by us.

Upon completion of these acquisitions, we began consolidating the accounts of the entities with our accounts.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments that mature three months or less from when they are purchased. Cash equivalents are reported at cost, which approximates fair value. We maintain our cash in bank accounts in amounts that may exceed federally insured limits at times. We have not experienced any losses in these accounts in the past and believe we are not exposed to significant credit risk.

Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of $767 at December 31, 2002 and $723 at December 31, 2001.

Revenue Recognition

We recognize rental revenue evenly over the term of tenant leases. Many of our leases provide for contractual rent increases; for these leases, we average the noncancelable rental revenues over the lease term to evenly recognize such revenues. We consider rental revenue under a lease to be noncancelable when a tenant (1) may not terminate its lease obligation early or (2) may terminate its lease obligation early in exchange for a fee or penalty that we consider material enough such that termination would be highly unlikely. We report revenues recognized in advance of payments received as deferred rent receivable on our Consolidated Balance Sheets. We report prepaid tenant rents as rents received in advance on our Consolidated Balance Sheets.

Some of our retail tenants' leases provide for additional rental payments if the tenants meet certain sales targets. We do not recognize additional rental revenue under these leases until the tenants meet the sales targets.

We recognize tenant recovery revenue in the same periods we incur the related expenses. Tenant recovery revenue includes payments from tenants as reimbursement for property taxes, insurance and other property operating expenses.

We recognize fees for services provided by us once services are rendered, fees are determinable and collectibility assured.

Major Tenants

The following table summarizes the respective percentages of our rental revenue earned from our largest tenants (individually) and our five largest tenants (in aggregate):

	For the Years Ended December 31,		
	2002	2001	2000
United States Government	10%	11%	13%
AT&T Local Services[1]	6%	7%	4%
Unisys	6%	7%	8%
Five largest tenants	29%	31%	31%

(1) Includes affiliated organizations and agencies.

Geographical Concentration

All of our operations are geographically concentrated in the Mid-Atlantic region of the United States. Our properties in the Baltimore/Washington Corridor accounted for 64% of our total revenue from real estate operations in 2002, 66% in 2001 and 61% in 2000.

Deferred Charges

We capitalize costs that we incur to obtain new tenant leases or extend existing tenant leases. We amortize these costs evenly over the lease terms. When tenant leases are terminated early, we expense any unamortized deferred leasing costs associated with those leases.

We also capitalize costs for long-term financing arrangements and amortize these costs over the related loan terms. We expense any unamortized loan costs as an extraordinary item when loans are retired early.

We capitalize goodwill in connection with the acquisition of interests in entities. We test goodwill annually for impairment and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. We recognize an impairment loss when the discounted expected future cash flows associated with the related reporting unit are less than its unamortized cost. Prior to 2002, we amortized goodwill over useful lives ranging from 5 to 20 years.

Derivatives

We are exposed to the effect of interest rate changes in the normal course of business. We use interest rate swap and interest rate cap agreements to reduce the impact of such interest rate changes. Interest rate differentials that arise under these contracts are recognized in interest expense over the life of the respective contracts. We do not use such derivatives for trading or speculative purposes. We manage counter-party risk by only entering into contracts with major financial institutions based upon their credit ratings and other risk factors.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." We adopted this standard beginning January 1, 2001. SFAS 133 establishes accounting and reporting standards for derivative financial instruments and for hedging activities. It requires that an entity recognize all derivatives as assets or liabilities in the balance sheet at fair value with the offset to:

- the accumulated other comprehensive loss component of shareholders' equity ("AOCL"), net of the share attributable to minority interests, for any derivatives designated as cash flow hedges to the extent such derivatives are deemed effective in hedging risks (risk in the case of our existing derivatives being defined as changes in interest rates);
- other revenue on our Statements of Operations for any derivatives designated as cash flow hedges to the extent such derivatives are deemed ineffective in hedging risks; or
- other revenue on our Statements of Operations for any derivatives designated as fair value hedges.

We use standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost in computing the fair value of derivatives at each balance sheet date.

Prior to January 1, 2001, we amortized gains and losses on terminated interest rate swaps accounted for as hedges over the remaining lives of the related swaps and recognized any unamortized gain or loss when the underlying debt was terminated.

Minority Interests

As discussed previously, we consolidate the accounts of our Operating Partnership and its subsidiaries into our financial statements. However, we do not own 100% of the Operating Partnership. Our Operating Partnership also did not own 11% of one of its subsidiary partnerships until September 11, 2002, when it acquired that remaining interest for $124 from Clay W. Hamlin, III, our Chief Executive Officer. In addition, COMI did not own 20% of one of its subsidiaries, CCC, until May 31, 2002, when it acquired that remaining interest. The amounts reported for minority interests on our Consolidated Balance Sheets represent the portion of these consolidated entities' equity that we do not own. The amounts reported for minority interests on our Consolidated Statements of Operations represent the portion of these consolidated entities' net income not allocated to us.

Common units of the Operating Partnership ("common units") are substantially similar economically to our common shares of beneficial interest ("common shares"). Common units are also exchangeable into our common shares, subject to certain conditions.

The only preferred units in the Operating Partnership not owned by us during the reporting periods were 1,016,662 Series C Preferred Units. The Series C Preferred Units carry a liquidation preference of $25.00 per unit, plus any accrued and unpaid return, and may be redeemed for cash by the Operating Partnership at any time after December 20, 2009. The owner of these units is entitled to a priority annual return equal to 9% of their liquidation preference through December 20, 2009, 10.5% for the five following years and 12% thereafter. These units are convertible, subject to certain restrictions, into common units on the basis of 2.381 common units for each Series C Preferred Unit, plus any accrued and unpaid return. The common units would then be exchangeable for common shares, subject to certain conditions.

Stock-Based Compensation

We and the Service Companies recognize expense from share options issued to employees using the intrinsic value method. As a result, we do not record compensation expense for share option grants except as set forth below:

- When the exercise price of a share option grant is less than the market price of our common shares on the option grant date, we recognize compensation expense equal to the difference between the exercise price and the grant-date market price; this compensation expense is recognized over the service period to which the options relate.
- In 1999, we reduced the exercise price of 360,500 share options from $9.25 to $8.00. We recognize compensation expense on the share price appreciation and future vesting associated with the re-priced share options. As of December 31, 2002, 7,700 of these shares options were outstanding. In July 2002, we paid $694 to employees to redeem 105,300 of the re-priced share options. The expense we recognized in 2002 relating to the cash redemption was substantially offset by the reversal of previously recorded compensation expense on the share options resulting from share price appreciation.
- We recognize compensation expense on share options granted to employees of CRM and CCC prior to January 1, 2001 equal to the difference between the exercise price of such share options and the market price of our common shares on January 1, 2001, to the extent such amount relates to service periods remaining after January 1, 2001.
- In 2000, we recognized compensation expense equal to the fair value of options granted to employees of CRM and CCC from July 1, 2000 through December 31, 2000, to the extent such amount related to service periods within those dates.

We grant common shares subject to forfeiture restrictions to certain employees (see Note 10). We recognize compensation expense for such grants over the service periods to which the grants relate. We compute compensation expense for common share grants based on the value of such grants, as determined by the value of our common shares on the applicable measurement date, as defined below:

- When forfeiture restrictions on grants only require the recipient to remain employed by us over defined periods of time for such restrictions to lapse, the measurement date is the date the shares are granted.
- When forfeiture restrictions on grants require (1) that the recipient remain employed by us over defined periods of time and (2) that the Company meet certain performance criteria for such restrictions to lapse, the measurement date is the date that the performance criteria are deemed to be met.

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

- an increase in general and administrative expenses of $411 in 2002, $977 in 2001 and $502 in 2000; and
- a decrease in our earnings from service operations of $136 in 2002, $435 in 2001 and $148 in 2000.

The following table summarizes our operating results as if we elected to account for our stock-based compensation under the fair value provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation:"

	For the Years Ended December 31,		
	2002	2001	2000
Net income available to common shareholders, as reported	$ 13,167	$ 13,065	$ 11,332
Add: Stock-based compensation expense, net of related tax effects and minority interests, included in the determination of net income available to common shareholders	341	820	412
Less: Stock-based compensation expense determined under the fair value based method, net of related tax effects and minority interests	(847)	(818)	(796)
Net income available to common shareholders, pro forma	$ 12,661	$ 13,067	$ 10,948
Basic earnings per share on net income available to common shareholders, as reported	$ 0.59	$ 0.65	$ 0.60
Basic earnings per share on net income available to common shareholders, pro forma	$ 0.56	$ 0.65	$ 0.58
Diluted earnings per share on net income available to common shareholders, as reported	$ 0.56	$ 0.63	$ 0.59
Diluted earnings per share on net income available to common shareholders, pro forma	$ 0.54	$ 0.63	$ 0.57

The stock-based compensation expense under the fair value method, as reported in the above table, was computed using the Black-Scholes option-pricing model; the assumptions we used in that model are set forth below:

	For the Years Ended December 31,		
	2002	2001	2000
Risk-free interest rate	4.09%	4.81%	6.60%
Expected life-years	3.68	3.60	4.58
Expected volatility	24.46%	25.85%	26.04%
Expected dividend yield	7.90%	8.06%	8.17%

Earnings Per Share ("EPS")

We present both basic and diluted EPS. We compute basic EPS by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. Our computation of diluted EPS is similar except that:

- the denominator is increased to include the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into our common shares were converted; and
- the numerator is adjusted to add back any convertible preferred dividends and any other changes in income or loss that would result from the assumed conversion into common shares.

Our computation of diluted EPS does not assume conversion of securities into our common shares if conversion of those securities would increase our diluted EPS in a given year. A summary of the numerator and denominator for purposes of basic and diluted EPS calculations is set forth below (dollars and shares in thousands, except per share data):

	For the Years Ended December 31,		
	2002	2001	2000
Numerator:			
Net income available to common shareholders	$ 13,167	$ 13,065	$ 11,332
Add: Cumulative effect of accounting change, net	—	174	—
Add: Extraordinary item, net	217	141	113
Less: Income from discontinued operations, net	(1,273)	(970)	(1,034)
Numerator for basic EPS before discontinued operations, extraordinary item and cumulative effect of accounting change	12,111	12,410	10,411
Add: Series D Preferred Share dividends	544	508	—
Numerator for diluted EPS before discontinued operations, extraordinary item and cumulative effect of accounting change	12,655	12,918	10,411
Add: Income from discontinued operations, net	1,273	970	1,034
Numerator for diluted EPS before extraordinary item and cumulative effect of accounting change	13,928	13,888	11,445
Less: Extraordinary item, net	(217)	(141)	(113)
Numerator for diluted EPS before cumulative effect of accounting change	13,711	13,747	11,332
Less: Cumulative effect of accounting change, net	—	(174)	—
Numerator for diluted EPS on net income available to common shareholders	$ 13,711	$ 13,573	$ 11,332
Denominator (all weighted averages):			
Common shares – basic	22,472	20,099	18,818
Assumed conversion of share options	878	406	164
Assumed conversion of Series D Preferred Shares	1,197	1,118	—
Assumed conversion of common unit warrants	—	—	231
Denominator for diluted EPS	24,547	21,623	19,213
Basic EPS:			
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.54	$ 0.62	$ 0.55
Income from discontinued operations	0.06	0.05	0.06
Extraordinary item	(0.01)	(0.01)	(0.01)
Cumulative effect of accounting change	—	(0.01)	—
Net income available to common shareholders	$ 0.59	$ 0.65	$ 0.60
Diluted EPS:			

Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.52	$ 0.60	$ 0.54
Income from discontinued operations	0.05	0.04	0.06
Extraordinary item	(0.01)	—	(0.01)
Cumulative effect of accounting change	—	(0.01)	—
Net income available to common shareholders	$ 0.56	$ 0.63	$ 0.59

Our diluted EPS computation for 2002 and 2001 only assumes conversion of share options and Series D Cumulative Convertible Redeemable Preferred Shares of beneficial interest (the "Series D Preferred Shares") because conversions of preferred units, Series A Convertible Preferred Shares of beneficial interest (the "Series A Preferred Shares") and common units and vesting of restricted common shares would increase diluted EPS in those years. Our diluted EPS computation for 2000 assumes no conversions of preferred units or common units since such conversions would increase diluted EPS in that year.

Fair Value of Financial Instruments

Our financial instruments include primarily notes receivable, mortgage and other loans payable and interest rate derivatives. The fair values of notes receivable were not materially different from their carrying or contract values at December 31, 2002 and 2001. You should refer to Notes 8 and 9 for fair value of mortgage and other loans payable and derivative information.

Reclassification

We reclassified certain amounts from prior periods to conform to the current year presentation of our Consolidated Financial Statements. These reclassifications did not affect consolidated net income or shareholders' equity.

Recent Accounting Pronouncements

On July 1, 2001, we adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also requires upon the acquisition of operating real estate that value be assigned to in-place operating leases carrying rents above or below market; such value is then amortized over the lives of the related leases. Since SFAS 141 required prospective application, we were not affected upon adoption, although we were required to change our methodology for recording property acquisitions subsequent to our adoption.

On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The provisions of SFAS 142 require that (1) amortization of goodwill, including goodwill recorded in past business combinations, be discontinued upon adoption of this standard and (2) goodwill be tested annually for impairment and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. After completing an evaluation of our unamortized goodwill under the provisions of SFAS 142, we concluded that our carrying value of goodwill was not impaired as of January 1, 2002 and December 31, 2002. The following table summarizes our goodwill amortization in total and net of minority interests in 2001 and 2000:

	For the Years Ended December 31,	
	2001	2000(1)
Amortization of goodwill	$ 165	$ 132
Amortization of goodwill, net of minority interests and income taxes	66	46

(1) Amortization of goodwill in 2000 took place in the Service Companies, which at that time were unconsolidated entities.

Basic and diluted EPS on net income available to common shareholders reported on our Consolidated Statements of Operations would not have changed if goodwill amortization did not occur in 2001 and 2000.

On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 provides new guidance on recognition of impairment losses on long-lived assets to be held and used and broadens the definition of what constitutes a discontinued operation and how the results of discontinued operations are to be measured. The primary impact of our adoption of this standard is that revenues and expenses associated with our property held for sale at December 31, 2002 are classified as discontinued operations on our Consolidated Statements of Operations for all periods reported.

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS 145 generally eliminates the requirement that gains and losses from the retirement of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS 145 also eliminates previously existing inconsistencies between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects similar to that of sale-leaseback transactions. SFAS 145 is effective for us on January 1, 2003, although certain aspects of the standard are effective for transactions occurring after May 15, 2002. Upon adoption, SFAS 145 requires that gains or losses from retirement of debt reported as an extraordinary item in

prior periods presented be reclassified. We expect the only impact of our adoption on January 1, 2003 will be the reclassification of all prior period losses on early retirement of debt from the line on the Consolidated Statements of Operations entitled "extraordinary item" to the line entitled "amortization of deferred financing costs." These reclassifications will not result in changes to net income available to common shareholders or basic and diluted EPS on net income available to common shareholders.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 clarifies the requirements of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. It requires that a guarantor recognize a liability for the fair value of the obligation it assumes under that guarantee. We adopted FIN 45 on a prospective basis for guarantees issued or modified after December 31, 2002, although we were required to adopt certain disclosure requirements for purposes of these Consolidated Financial Statements. Since our adoption of the provisions is prospective, we will not be affected for our guarantees previously in place. However, since we expect to enter into guarantee arrangements covered within the scope of FIN 45 as we have in the past, we expect that we will be affected in the future primarily by having to record liabilities associated with such arrangements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 provides guidance in identifying

situations in which an entity is controlled by its owners without such owners owning most of the outstanding voting rights in the entity; it defines the entity in such situations as a variable interest entity ("VIE"). Situations identified by FIN 46 include when the equity owners do not have the characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 then provides guidance in determining when an owner of a VIE should use the consolidation method in accounting for its investment in the VIE. It also provides for additional disclosure requirements for certain owners of VIEs. We will adopt FIN 44 on July 1, 2003 for VIEs created before February 1, 2003 and immediately for all subsequently created VIEs, although we were required to adopt certain disclosure requirements for purposes of these Consolidated Financial Statements. While we are currently reviewing the provisions of FIN 46 and assessing the impact upon adoption, it is reasonably possible that we will need to begin using the consolidation method of accounting for certain of our unconsolidated real estate joint venture investments. See Note 5 for disclosures pertaining to our unconsolidated real estate joint ventures.

4. Commercial Real Estate Properties

Operating properties consisted of the following:

	December 31, 2002	December 31, 2001
Land	$ 191,587	$ 164,994
Buildings and improvements	882,388	738,320
	1,073,975	903,314
Less: accumulated depreciation	(74,204)	(51,552)
	$ 999,771	$ 851,762

As of December 31, 2002, we were negotiating the sale of our office property and adjacent undeveloped land parcel located in Oxon Hill, Maryland. As a result, these properties were classified as held for sale. The components associated with these properties at December 31, 2002 included the following:

	December 31, 2002
Land - operational	$ 3,434
Land - development	357
Buildings and improvements	14,892
	18,683
Less: accumulated depreciation	(1,891)
	$ 16,792

We entered into a contract in January 2003 to sell these properties for $21,288. We expect that this sale will be completed in March 2003.

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

	December 31, 2002	December 31, 2001
Land	$ 24,641	$ 26,751
Construction in progress	9,926	37,493
	$ 34,567	$ 64,244

2002 Acquisitions

We acquired the following properties during 2002:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
7320 Parkway Drive	Hanover, MD	4/4/2002	1	57,176	$ 4,957
Rivers 95	Columbia, MD	4/4/2002	4	109,696	11,564
7000 Columbia Gateway Drive	Columbia, MD	5/31/2002	1	145,806	16,196
11800 Tech Road	Silver Spring, MD	8/1/2002	1	236,441	27,184
Greens I and II	Chantilly, VA	8/14/2002	2	290,245	47,416

We also acquired the following during 2002:

- a parcel of land located in Annapolis Junction, Maryland that is contiguous to certain of our existing operating properties for $3,757 on January 31, 2002 from an affiliate of Constellation Real Estate, Inc. ("Constellation"), who at the time owned 43% of our common shares and had the right to designate nominees for two of the eight positions on our Board of Trustees (see Note 10);
- a parcel of land located in Chantilly, Virginia for $3,620 on July 18, 2002;
- a leasehold interest carrying a right to purchase a parcel of land located in Chantilly, Virginia that is contiguous to two of our existing operating properties for $466 on August 14, 2002; and
- a parcel of land located in Annapolis Junction, Maryland that is adjacent to one of our existing operating properties for $834 from an affiliate of Constellation on October 3, 2002.

2002 Construction/Development

During 2002, we completed the construction of five buildings totaling 410,551 square feet. The buildings are located in the Baltimore/Washington Corridor.

As of December 31, 2002, we also were nearing completion on the construction of one new building totaling 123,743 square feet.

2002 Dispositions

We sold the following properties during 2002:

- a parcel of land located in Hanover, Maryland for $1,300 on March 29, 2002 to a first cousin of Clay W. Hamlin, III, our Chief Executive Officer; we realized a gain of $596 on this sale;
- a 53,782 square foot office building located in Columbia, Maryland for $7,175 on July 17, 2002, realizing a gain of $374. We occupy a portion of this building under leases carrying four-year terms. Because we continue to lease the property, the gain on the sale was deferred for recognition over the lease terms. Additionally, because we continue to manage the property, the results of operations and the portion of the gain on sale recognized are reflected in continuing operations on our Consolidated Statements of Operations;
- a parcel of land located in Cranbury, New Jersey for $1,500 on August 9, 2002 to a first cousin of Clay W. Hamlin, III; we realized a gain of $291 on this sale; and
- a parcel of land located in Oxon Hill, Maryland for $600 on September 30, 2002, realizing a gain of $481.

The terms of the land parcel sales to Mr. Hamlin's cousins described above were determined as a result of arms-length negotiations. In management's opinion, the resulting sales prices reflected fair value for the properties based on management's knowledge of and experience in the respective real estate markets.

2001 Acquisitions

We acquired the following properties during 2001:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
State Farm Properties(1)	Columbia, MD	5/14/2001	3	141,530	$15,502
Airport Square Partners Properties(2)	Linthicum, MD	7/2/2001	5	314,594	33,858
Airport Square I	Linthicum, MD	8/3/2001	1	97,161	11,479
Gateway 63 Properties	Columbia, MD	8/30/2001	4	187,132	23,866
Washington Technology Park(3)	Chantilly, VA	11/30/2001	1	470,406	58,968

(1) Includes a 30,855 square foot office building requiring redevelopment that was completed in 2002.
(2) On March 7, 2001, we acquired a 40% interest in Airport Square Partners, LLC. On March 21, 2001, this joint venture acquired five office buildings for $33,617. We accounted for this investment using the equity method of accounting until July 2, 2001, when we acquired the remaining 60% interest in Airport Square Partners, LLC. The amount reported on the table above is the recorded cost of the five office buildings upon completion of these transactions.
(3) Includes a contiguous 17-acre land parcel for future development.

We also acquired the following properties during 2001:

- two parcels of land located in Oxon Hill, Maryland that are contiguous to one of our existing operating properties for $469 on July 30, 2001 from an affiliate of Constellation (see Note 10); and
- a parcel of land located in Linthicum, Maryland for $638 on December 19, 2001.

2001 Construction/Development

During 2001, we completed the construction of one office building totaling 78,460 square feet located in Columbia, Maryland.

2001 Disposition

We sold a 65,277 square foot office building located in Cranbury, New Jersey for $11,525 on June 18, 2001. We realized a gain of $1,618 on the sale of this property.

5. Investments in and Advances to Unconsolidated Real Estate Joint Ventures

Our investments in and advances to unconsolidated real estate joint ventures accounted for using the equity method of accounting included the following:

	Balance at December 31,		Date Acquired	Ownership % at 12/31/02	Nature of Activity	Total Assets at 12/31/02	Maximum Exposure to Loss(1)
	2002	2001					
Gateway 67, LLC	$ 4,130	$ 3,904	9/28/00	80%	Owns newly-constructed buildings	$ 10,653	$ 15,330
Gateway 70 LLC	2,472	2,326	4/5/01	80%	Developing land parcel	3,484	2,472
MOR Forbes 2 LLC	712	—	12/24/02	80%	Constructing building	2,231	5,224
MOR Montpelier 3 LLC	455	—	2/21/02	50%	Developing land parcel	888	455
NBP 140, LLC	230	2,885(2)	12/27/01	10%	Constructing building	8,700	18,330
MOR Montpelier LLC	—	1,008	2/1/01	N/A	Constructed and sold building	—	—
MOR Forbes LLC	—	924	5/18/01	N/A	Constructed and sold building	—	—
	$ 7,999	$ 11,047				$ 25,956	$ 41,811

(1) Derived from the sum of our investment balance, loan guarantees (based on maximum loan balance) and maximum additional unilateral capital contributions required from us. Not reported above are additional amounts that we and our partners are required to fund when needed by these joint ventures; these funding requirements are proportional to our ownership percentage, except in the case of NBP 140, LLC, in which we are required to fund 50% of additional fundings.
(2) Investment at December 31, 2001 included a $2,640 loan receivable.

The properties owned by each of the joint ventures set forth above are located in the Baltimore/Washington Corridor. A two-member management committee is responsible for making major decisions (as defined in the joint venture agreement) for each of these joint ventures and we control one of the management committee positions in each case. We have additional commitments pertaining to our real estate joint ventures that are disclosed in Note 18.

During 2002, the buildings owned by MOR Montpelier LLC and MOR Forbes LLC were sold and the joint ventures dissolved. We recognized $1,155 in gains on the

disposition of these investments. These gains are reflected in gain on sales of real estate on our Consolidated Statements of Operations.

The following table sets forth condensed combined balance sheets for these unconsolidated real estate joint ventures:

	December 31, 2002	December 31, 2001
Commercial real estate property	$ 25,463	$ 28,306
Other assets	493	1,321
Total assets	$ 25,956	$ 29,627
Liabilities	$ 12,636	$ 18,935
Owners' equity	13,320	10,692
Total liabilities and owners' equity	$ 25,956	$ 29,627

As discussed in Note 3, we are currently reviewing the provisions of FIN 46 and assessing the impact upon our adoption, but it is reasonably possible that we will need to begin using the consolidation method of accounting for certain of our unconsolidated real estate joint venture investments.

6. Investments in and Advances to Other Unconsolidated Entities

Our investments in and advances to other unconsolidated entities included the following:

	Balance at December 31, 2002	Balance at December 31, 2001	Date Acquired	Ownership % at 12/31/02	Investment Accounting Method
MediTract, LLC[1]	$ 1,621	$ 1,621	Various 2000	5%	Cost
Paragon Smart Technologies, LLC[2]	—	491 [3]	2/28/01	22%	Equity
	$ 1,621	$ 2,112			

(1) MediTract, LLC ("MediTract") has developed an Internet-based contract imaging and management system for sale to real estate owners and healthcare providers.
(2) Paragon Smart Technologies, LLC ("Paragon") provides computer consulting services to businesses and broadband Internet access and companion services to real estate owners in the Baltimore/Washington Corridor.
(3) The investment balance at December 31, 2001 included $245 in notes receivable.

In December 2002, Paragon's board of directors approved a plan to dissolve that entity. Since we do not expect to recover our investment, we expensed $534, representing the balance of our investment in Paragon, in 2002; this expense is reflected in the line entitled "equity in loss of unconsolidated service companies" on our Consolidated Statements of Operations.

Prior to 2001, the Operating Partnership owned 95% of the capital stock in COMI, including 1% of the voting stock. During that period, in addition to owning investments in service entities, COMI also provided us with asset management, managerial, financial and legal support. On January 1, 2001, we acquired all of the stock in COMI that we did not previously own for $26 and all of COMI's employees became our employees. We accounted for the acquisition of COMI using the purchase method of accounting. We also elected to have COMI treated as a taxable REIT subsidiary ("TRS") under the REIT Modernization Act effective January 1, 2001.

7. Deferred Charges

Deferred charges consisted of the following:

	December 31, 2002	December 31, 2001
Deferred leasing costs	$19,267	$13,298
Deferred financing costs	11,458	9,599
Goodwill	1,880	1,320
Deferred other	155	154
	32,760	24,371
Accumulated amortization[1]	(12,912)	(7,487)
Deferred charges, net	$19,848	$16,884

(1) Included accumulated amortization associated with other intangibles of $151 at December 31, 2002 and $132 at December 31, 2001.

8. Mortgage and Other Loans Payable

Mortgage and other loans payable consisted of the following:

	December 31, 2002	December 31, 2001
Bankers Trust Company, Revolving Credit Facility, LIBOR + 1.75%, maturing March 2004[1]	$ 128,000	$ 110,000
Teachers Insurance and Annuity Association of America, 6.89%, maturing November 2008	78,999	80,634
Teachers Insurance and Annuity Association of America, 7.72%, maturing October 2006	57,168	58,138
KeyBank National Association, LIBOR + 1.75%, maturing November 2003[1]	36,000	36,000
Metropolitan Life Insurance Company, 6.91%, maturing June 2007	33,741	—
Teachers Insurance and Annuity Association of America, 7.0%, maturing March 2009	33,727	—
Allstate Life Insurance Company, 5.6%, maturing January 2013	29,400	—

State Farm Life Insurance Company, 6.51%, maturing August 2012	27,601	—
Mutual of New York Life Insurance Company, 7.79%, maturing August 2004(1)	26,530	26,969
Transamerica Life Insurance and Annuity Company, 7.18%, maturing August 2009	25,995	26,406
State Farm Life Insurance Company, 7.9%, maturing April 2008	25,408	25,743
Transamerica Occidental Life Insurance Company, 7.3%, maturing May 2008	20,671	20,996
Allstate Life Insurance Company, 6.93%, maturing July 2008	20,533	20,840
Allstate Life Insurance Company, 5.6%, maturing January 2013	19,600	—
Transamerica Life Insurance and Annuity Company, 8.3%, maturing October 2005	17,127	17,372
KeyBank National Association, LIBOR + 2.0%, maturing August 2003(1)	16,000	—
Northwestern Mutual Life Insurance Company, 7.0%, maturing February 2010	15,907	—
Allstate Life Insurance Company, 7.14%, maturing September 2007	15,677	15,922
IDS Life Insurance Company, 7.9%, maturing March 2008	13,274	13,466
SunTrust Bank, LIBOR + 1.5%, maturing July 2003(2)	12,000	—
Bank of America, LIBOR + 1.75%, maturing December 2003(4)	11,571	10,396
Allfirst Bank, LIBOR +1.75%, maturing April 2003(1)(3)	10,940	11,000
Teachers Insurance and Annuity Association of America, 8.35%, maturing October 2006	7,741	7,862
Allfirst Bank, LIBOR + 1.75%, maturing July 2003	6,425	6,500
Aegon USA Realty Advisors, Inc., 8.29%, maturing May 2007	5,666	5,864
Citibank Federal Savings Bank, 6.93%, maturing July 2008	4,889	4,962
Constellation Real Estate, Inc., Prime rate, maturing January 2003	3,000	—
Seller loan, 8.0%, maturing May 2007	1,466	1,527
KeyBank National Association, LIBOR + 1.75%, repaid June 2002	—	25,000
KeyBank National Association, LIBOR + 2.0%, repaid December 2002	—	25,000
Mercantile-Safe Deposit and Trust Company, Prime rate, repaid July 2002	—	15,750
Provident Bank of Maryland , LIBOR + 1.75%, repaid December 2002	—	6,980
Chevy Chase Bank, F.S.B., LIBOR + 1.6%, borrowed $22,000 in August 2002, repaid December 2002	—	—
	$ 705,056	$ 573,327

(1) May be extended for a one-year period, subject to certain conditions.
(2) May be extended for two six-month periods, subject to certain conditions.
(3) Loan with a total commitment of $12,000.
(4) Construction loan with a total commitment of $14,000.

The LIBOR interest rate in effect at December 31, 2002 on our LIBOR-based variable rate loans ranged from 1.38% to 1.42%. The Prime interest rate in effect at December 31, 2002 on our Prime-based variable rate loans was 4.25%.

We have guaranteed the repayment of $224.8 million of the mortgage and other loans set forth above.

In the case of each of our mortgage and construction loans, we have pledged certain of our real estate assets as collateral. As of December 31, 2002, substantially all of our real estate properties were collateralized on loan obligations. Certain of our mortgage loans require that we comply with a number of restrictive financial covenants, including adjusted consolidated net worth, minimum property interest coverage, minimum property hedged interest coverage, minimum consolidated interest coverage, maximum consolidated unhedged floating rate debt and maximum consolidated total indebtedness. As of December 31, 2002, we were in compliance with these financial covenants.

Our mortgage loans mature on the following schedule (excluding extension options):

2003	$ 104,718
2004	163,052
2005	25,913
2006	69,610
2007	59,736
Thereafter	282,027
Total	$ 705,056

We estimate the fair value of our mortgage and other loans was $741,587 at December 31, 2002 and $584,733 at December 31, 2001.

Weighted average borrowings under our secured revolving credit facility with Bankers Trust Company totaled $120,348 in 2002 and $69,143 in 2001. The weighted average interest rate on this credit facility totaled 3.61% in 2002 and 5.93% in 2001.

Weighted average borrowings under our revolving credit facility with Prudential Securities, which expired in June 2001, totaled $14,118 in 2001. The weighted average interest rate on this credit facility totaled 6.84% in 2001.

The amount available under our secured revolving credit facility with Bankers Trust Company is generally computed based on 65% of the appraised value of properties pledged as collateral for this loan. As of December 31, 2002, the maximum amount available under this line of credit totaled $150,000, of which $17,000 was unused.

We capitalized interest costs of $3,091 in 2002, $5,295 in 2001 and $3,889 in 2000.

We had mortgage loans payable that were retired early during 2002, 2001 and 2000 using proceeds from sales of properties and refinancings. We recognized a loss on these early debt retirements, net of minority interests, of $217 in 2002, $141 in 2001 and $113 in 2000.

9. Derivatives

The following table sets forth our derivative contracts and their respective fair values:

Nature of Derivative	Notional Amount in (millions)	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at December 31, 2002	Fair Value at December 31, 2001
Interest rate swap	$ 100.0	5.760%	1/2/2001	1/2/2003	$ (12)	$ (3,781)

Interest rate swap	50.0	2.308%	1/2/2003	1/3/2005	(482)	—
Interest rate cap	50.0	7.700%	5/25/2000	5/31/2002	—	—
Total					$ (494)	$ (3,781)

We have designated each of these derivatives as cash flow hedges. All of these derivatives are hedging the risk of changes in interest rates on certain of our one-month LIBOR-based variable rate borrowings. At December 31, 2002, our outstanding interest rate swaps were considered highly effective cash flow hedges under SFAS 133.

The table below sets forth our accounting application of changes in derivative fair values:

	For the Years Ended December 31,	
	2002	2001
Increase (decrease) in fair value applied to AOCL and minority interests	$ 3,285	$ (3,533)
Increase (decrease) in fair value recognized as gain (loss)(1)	$ 2	$ (8)

(1) Represents hedge ineffectiveness and is included in tenant recoveries and other revenue on our Consolidated Statements of Operations.

Over time, the unrealized loss held in AOCL and minority interests associated with our interest rate swaps will be reclassified to earnings as interest payments occur on our LIBOR-based borrowings. Within the next twelve months, we expect to reclassify to earnings $477 of the balances held in AOCL and minority interests.

Upon adoption of FAS 133 on January 1, 2001, we reduced AOCL and minority interests in total by $246 as a cumulative effect adjustment to recognize the net fair value of our interest rate swap contracts on that date. We also recognized an unrealized loss of $263 ($174 net of minority interests' portion) on the book value associated with these derivatives at January 1, 2001; this loss was reported as a cumulative effect of an accounting change on our Consolidated Statements of Operations.

On January 3, 2003, we entered into an interest rate swap agreement with Deutsche Bank AG that fixes the one-month LIBOR base rate at 1.52% on a notional amount of $50.0 million. This swap agreement became effective on January 7, 2003 and carries a one-year term.

10. Shareholders' Equity

Preferred Shares

Constellation owned our one Series A Preferred Share outstanding at December 31, 2001. On March 5, 2002, Constellation converted this share into 1.8748 common shares. Constellation sold one of these common shares and we redeemed the fractional share. As holder of the Series A Preferred Share, Constellation had the right to nominate two members for election to our Board of Trustees; with the conversion of its Series A Preferred Share into common shares, Constellation no longer has that right. Constellation's nominated members still served on our Board of Trustees as of December 31, 2002.

Set forth below is a summary of our other series of preferred shares of beneficial interest:

Series of Preferred Share of Beneficial Interest	# of Shares Issued	Month of Issuance	Annual Dividend Yield(1)	Annual Dividend Per Share	Earliest Redemption Date
Series B	1,250,000	July 1999	10.000%	$ 2.50000	7/15/04
Series D	544,000	January 2001	4.000%	1.00000	1/25/06
Series E	1,150,000	April 2001	10.250%	2.56250	7/15/06
Series F	1,425,000	September 2001	9.875%	2.46875	10/15/06

(1) Yield computed based on $25 per share redemption price.

All of the classes of preferred shares set forth in the table above are nonvoting and redeemable for cash at $25.00 per share at our option on or after the earliest redemption date. Holders of these shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). The Series D Preferred Shares also are convertible by the holder on or after January 1, 2004 into common shares on the basis of 2.2 common shares for each Series D Preferred Share. In the case of each series of preferred shares, there is a series of preferred units in the Operating Partnership owned by us that carries substantially the same terms.

Common Shares

On March 5, 2002, we participated in an offering of 10,961,000 common shares to the public at a price of $12.04 per share; Constellation sold 8,876,172 of these shares and we sold 2,084,828 of these shares. With the completion of this transaction, Constellation, which had been our largest common shareholder, no longer owned

any of our shares. We contributed the net proceeds from the sale of the newly issued shares to our Operating Partnership in exchange for 2,084,828 common units.

Over the three years ended December 31, 2002, common units in our Operating Partnership were converted into common shares on the basis of one common share for each common unit in the amount of 617,510 in 2002, 90,519 in 2001 and 1,047,545 in 2000.

On December 16, 1999, we issued 471,875 common shares subject to forfeiture restrictions to certain officers; we issued an additional 12,500 common shares to an officer in 2000 that were subject to the same restrictions. The forfeiture restrictions of specified percentages of these shares lapse annually throughout their respective terms provided that the officers remain employed by us. The lapsing of these forfeiture restrictions was also dependent on the Company's attainment of defined earnings or shareholder return targets, although all such targets were met. These shares may not be sold, transferred or encumbered while the forfeiture restrictions are in place. Forfeiture restrictions lapsed on these shares in the amount of 72,659 shares in 2002, 48,428 shares in 2001 and 15,625 shares in 2000.

In July 2001, we issued 23,000 common shares subject to forfeiture restrictions to an officer. The forfeiture restrictions lapse annually from 2003 to 2005 as the officer remains employed by us. These shares may not be sold, transferred or encumbered while the forfeiture restrictions are in place.

Over the three years ended December 31, 2002, we issued common shares in connection with the exercise of share options of 255,692 in 2002 and 125,246 in 2001 and 24,467 in 2000.

The table below sets forth the activity in the accumulated other comprehensive loss component of shareholders' equity:

	For the Years Ended December 31,	
	2002	2001
Beginning balance	$ (2,500)	$ —
Unrealized gain (loss) on interest rate swaps, net of minority interests	2,151	(2,337)
Cumulative effect adjustment on January 1, 2001 for unrealized loss on interest rate swap, net of minority interests	—	(163)
Ending balance	$ (349)	$ (2,500)

11. Share Options

In 1993, we adopted a share option plan for Trustees under which we have 75,000 common shares reserved for issuance. These options expire ten years after the date of grant and are all exercisable.

In March 1998, we adopted a long-term incentive plan for our Trustees, our employees and employees of the Service Companies. This plan provides for the award of share options, common shares subject to forfeiture restrictions and dividend equivalents. We are authorized to issue awards under the plan amounting to no more than 13% of the total of (1) our common shares outstanding plus (2) the number of shares that would be outstanding upon redemption of all units of the Operating Partnership or other securities that are convertible into our common shares. Trustee options under this plan become exercisable beginning on the first anniversary of their grant. The vesting periods for employees' options under this plan range from immediately to 5 years. Options expire ten years after the date of grant.

The following table summarizes share option transactions under the plans described above:

	Shares	Range of Exercise Price per Share	Weighted Average Exercise Price per Share
Outstanding at December 31, 1999	1,427,975	$5.25 — $12.25	$ 8.46
Granted — 2000	977,425	$7.63 — $9.75	$ 8.23
Forfeited — 2000	(50,915)	$7.63 — $8.00	$ 7.95
Exercised — 2000	(24,467)	$5.25 — $8.00	$ 6.89
Outstanding at December 31, 2000	2,330,018	$5.25 — $12.25	$ 8.34
Granted — 2001	799,685	$9.54 — $10.58	$ 9.87
Forfeited — 2001	(104,874)	$7.63 — $10.00	$ 8.94
Exercised — 2001	(125,246)	$5.38 — $9.94	$ 8.00
Outstanding at December 31, 2001	2,899,583	$5.25 — $12.25	$ 8.79
Granted — 2002	856,303	$10.58 — $14.30	$ 12.18
Forfeited — 2002	(194,651)	$7.63 — $11.87	$ 8.99
Exercised — 2002	(255,692)	$5.25 — $10.58	$ 8.32
Outstanding at December 31, 2002	3,305,543	$5.25 — $14.30	$ 9.69
Available for future grant at December 31, 2002	464,763		
Exercisable at December 31, 2000	1,039,502	$5.25 — $12.25	$ 8.46
Exercisable at December 31, 2001	1,465,030	$5.25 — $12.26	$ 8.64
Exercisable at December 31, 2002	1,768,919	(1)	$ 9.37

(1) 412,582 of these options had an exercise price ranging from $5.25 to $7.99, 1,052,019 had an exercise price ranging from $8.00 to $10.99 and 304,318 had an exercise price ranging from $11.00 to $14.30.

The weighted average remaining contractual life of the options at December 31, 2002 was approximately 8 years.

A summary of the weighted average grant-date fair value per option granted is as follows:

	For the Years Ended December 31,		
	2002	2001	2000
Weighted average grant-date fair value	$ 1.13	$ 1.00	$ 1.03
Weighted average grant-date fair value-exercise price equals market price on grant-date	$ 1.11	$ 1.02	$ 1.02
Weighted average grant-date fair value-exercise price exceeds market price on grant-date	$ 1.01	$ 0.94	$ 0.99
Weighted average grant-date fair value-exercise price less than market price on grant-date	$ 1.41	$ 1.09	$ 1.31

12. Related Party Transactions

This section includes references to our transactions with the Service Companies in 2000. The Service Companies became consolidated subsidiaries effective January 1, 2001. As a result, our transactions with the Service Companies in 2001 and 2002 were eliminated when we consolidated their accounts with our accounts.

The table below sets forth revenues earned and costs incurred in our transactions with related parties:

	For the Years Ended December 31,		
	2002	2001	2000
Rental revenue earned from:			
Constellation	$ 56	$ 103	$ 712
COMI and CRM	N/A	N/A	538
Additional entity related to a Trustee	—	—	52

	2002	2001	2000
	$ 56	$ 103	$ 1,302
Interest income earned from:			
Unconsolidated real estate joint venture	$ 126	$ —	$ —
Service Companies	N/A	N/A	325
	$ 126	$ —	$ 325
Other fee revenue earned from:			
Unconsolidated real estate joint ventures	$ 158	$ 712	$ 502
MediTract	—	75	225
	$ 158	$ 787	$ 727
Costs incurred for services provided by:			
COMI under management agreement	N/A	N/A	$ 4,420
CRM under property management agreement	N/A	N/A	$ 5,208
CDS for construction and development services	N/A	N/A	$ 1,544

During the reporting periods, we acquired properties from Constellation; these acquisitions are described in Note 4.

During 2002, we sold properties to first cousins of Clay W. Hamlin, III, our Chief Executive Officer; these sales are described in Note 4.

Baltimore Gas and Electric Company ("BGE"), an affiliate of Constellation, provided utility services to most of our properties in the Baltimore/Washington Corridor during each of the last three years.

In addition to our related party transactions described above, the Service Companies earned fee revenue in 2000 from transactions with the following parties related to us:

Constellation	$ 150
BGE	101
Unconsolidated real estate joint venture	19
	$ 270

13. Operating Leases

We lease our properties to tenants under operating leases with various expiration dates extending to the year 2013. Gross minimum future rentals on noncancelable leases at December 31, 2002 were as follows:

For the Years Ended December 31,	
2003	$ 131,805
2004	123,564
2005	110,169
2006	93,098
2007	73,242
Thereafter	134,097
Total	$ 665,975

We consider a lease to be noncancelable when a tenant (1) may not terminate its lease obligation early or (2) may terminate its lease obligation early in exchange for a fee or penalty that we consider material enough such that termination would be highly unlikely.

14. Supplemental Information to Statements of Cash Flows

	For the Years Ended December 31,		
	2002	2001	2000
Interest paid, net of capitalized interest	$ 38,963	$ 34,198	$ 28,029
Supplemental schedule of non-cash investing and financing activities:			
Purchase of commercial real estate properties by acquiring joint venture partner interests:			
Operating properties	$ —	$ 34,607	$ —
Investments in and advances to unconsolidated real estate joint ventures	—	(11,516)	—
Restricted cash	—	86	—
Deferred costs	—	197	—
Prepaid and other assets	—	182	—
Mortgage and other loans payable	—	(24,068)	—
Rents received in advance and security deposits	—	(176)	—
Cash from purchase	$ —	$ (688)	$ —
Acquisition of Service Companies:			
Investments in and advances to other unconsolidated entities	$ —	$ (4,529)	$ —
Restricted cash	—	5	—
Accounts receivable, net	—	2,005	—
Deferred costs, net	—	1,537	—
Prepaid and other assets	—	1,033	—
Furniture, fixtures and equipment, net	—	1,603	—
Mortgage and other loans payable	—	(40)	—
Accounts payable and accrued expenses	—	(2,106)	—
Rents received in advance and security deposits	—	(20)	—
Other liabilities	—	(10)	—
Minority interest	—	(46)	—
Cash from acquisition of Service Companies	$ —	$ (568)	$ —
Debt repaid in connection with sales of properties	$ —	$ 7,000	$ 6,943
Debt assumed in connection with acquisitions	$ 36,040	$ 15,750	$ 10,679

Increase in minority interests resulting from issuance of preferred and common units in connection with property acquisitions	$ —	$ 3,249	$ —
Notes receivable assumed upon sales of real estate	$ 2,326	$ —	$ —
(Decrease) increase in accrued capital improvements	$ (1,408)	$ (2,632)	$ 2,810
Reclassification of other liabilities from projects under construction or development	$ —	$ 9,600	$ —
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive loss and minority interests	$ 3,285	$ (3,778)	$ —
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	$ 5,970	$ 818	$ 2,460
Dividends/distribution payable	$ 9,794	$ 8,965	$ 7,090
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	$ 8,623	$ 919	$ 8,527
Changes in shareholders' equity in connection with issuance of restricted common shares	$ —	$ 234	$ 97

15. Information by Business Segment

We have six office property segments: Baltimore/Washington Corridor, Greater Philadelphia, Northern/Central New Jersey, Greater Harrisburg, Northern Virginia and Suburban Washington, D.C.

The table below reports segment financial information. Our segment entitled "Other" includes assets and operations not specifically associated with the other defined segments. We measure the performance of our segments based on total revenues less property operating expenses. Accordingly, we do not report other expenses by segment in the table below.

	Baltimore/ Washington Corridor	Greater Philadelphia	Northern Central New Jersey	Greater Harrisburg	Northern Virginia	Suburban Washington, D.C.	Other	Total
Year Ended December 31, 2002:								
Revenues	$ 97,585	$ 10,025	$ 18,991	$ 9,553	$ 13,713	$ 1,706	$ 391	$ 151,964
Property operating expenses	29,760	151	6,925	2,562	5,463	426	—	45,287
Earnings from operations	$ 67,825	$ 9,874	$ 12,066	$ 6,991	$ 8,250	$ 1,280	$ 391	$ 106,677
Commercial real estate property expenditures	$ 85,607	$ 563	$ 1,095	$ 956	$ 52,778	$ 27,187	$ —	$ 168,186
Segment assets at December 31, 2002	$ 664,739	$ 103,686	$ 106,928	$ 70,431	$ 109,987	$ 27,413	$ 43,287	$ 1,126,471
Year Ended December 31, 2001:								
Revenues	$ 82,696	$ 10,025	$ 19,464	$ 9,677	$ 947	$ —	$ 2,737	$ 125,546
Property operating expenses	26,094	117	7,552	2,600	419	—	—	36,782
Earnings from operations	$ 56,602	$ 9,908	$ 11,912	$ 7,077	$ 528	$ —	$ 2,737	$ 88,764
Commercial real estate property expenditures	$ 130,106	$ 517	$ 3,825	$ 1,173	$ 58,968	$ —	$ —	$ 194,589
Segment assets at December 31, 2001	$ 596,618	$ 105,091	$ 110,681	$ 71,106	$ 59,045	$ —	$ 41,669	$ 984,210
Year Ended December 31, 2000:								
Revenues	$ 66,548	$ 10,025	$ 20,311	$ 9,169	$ —	$ —	$ 2,940	$ 108,993
Property operating expenses	21,104	103	7,501	2,310	—	—	217	31,235
Earnings from operations	$ 45,444	$ 9,922	$ 12,810	$ 6,859	$ —	$ —	$ 2,723	$ 77,758
Commercial real estate property expenditures	$ 66,455	$ 421	$ 10,069	$ 1,577	$ —	$ —	$ 97	$ 78,619
Segment assets at December 31, 2000	$ 475,330	$ 106,349	$ 118,656	$ 71,210	$ —	$ —	$ 23,292	$ 794,837

The following table reconciles our earnings from operations for reportable segments to income before income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change as reported in our Consolidated Statements of Operations:

	For the Years Ended December 31,		
	2002	2001	2000
Income from operations for reportable segments	$ 106,677	$ 88,764	$ 77,758
Equity in income of unconsolidated real estate joint ventures	169	208	—
Losses from service operations	(875)	(782)	(310)
Add: Gain on sales of real estate	2,564	1,618	107
Less:			
Interest	(39,067)	(32,289)	(29,786)
Depreciation and other amortization	(28,517)	(20,405)	(16,513)
General and administrative	(6,697)	(5,289)	(4,867)
Amortization of deferred financing costs	(2,189)	(1,818)	(1,382)
Minority interests	(7,451)	(8,487)	(8,016)
Discontinued operations	(2,611)	(2,522)	(2,778)
Income before income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	$ 22,003	$ 18,998	$ 14,213

We did not allocate gain on sales of real estate, interest expense, amortization of deferred financing costs and depreciation and other amortization to segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate equity in income of unconsolidated real estate joint ventures, losses from service operations, general and administrative expense and minority interests since these items represent general corporate expenses not attributable to segments.

16. Income Taxes

Corporate Office Properties Trust elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our adjusted taxable income to our shareholders. As a REIT, we generally will not be subject to Federal income tax if we distribute at least 100% of our REIT taxable income to our shareholders and satisfy certain other requirements (see discussion below). If we fail to qualify as a REIT in any tax year, we will be subject to Federal income tax on our taxable income at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years.

The differences between taxable income reported on our income tax return (estimated 2002 and actual 2001 and 2000) and net income as reported on our Consolidated Statements of Operations are set forth below (unaudited):

	For the Years Ended December 31,		
	2002 (Estimated)	2001	2000
Net income	$ 23,301	$ 19,922	$ 15,134
Adjustments:			
Rental revenue recognition	51	(784)	(3,565)
Compensation expense recognition	(171)	208	32
Operating expense recognition	52	637	29
Gain on sales of properties	(726)	(1,618)	(624)
Interest income	(25)	308	(167)
Losses from service operations	875	782	310
Income tax benefit, net	(347)	(269)	—
Loss from cost method investments	(701)	(667)	(237)
Depreciation and amortization	(404)	770	1,735
Earnings from unconsolidated real estate joint ventures	(816)	(355)	272
Minority interests	251	102	425
Other	26	193	266
Taxable income	$ 21,366	$ 19,229	$ 13,610

For Federal income tax purposes, dividends to shareholders may be characterized as ordinary income, capital gains or return of capital. The characterization of dividends declared on our common shares during each of the last three years was as follows (unaudited):

	For the Years Ended December 31,		
	2002	2001	2000
Ordinary income	59.5%	83.9%	71.0%
Return of capital	31.2%	16.1%	29.0%
Long term capital gain	9.3%	—	—

The dividends declared on our preferred shares during each of the last three years were all characterized as ordinary income. We distributed all of our REIT taxable income in 2000, 2001 and 2002 and, as a result, did not incur Federal income tax in those years on such income.

In December 1999, legislation containing the REIT Modernization Act was signed into law. This law was effective January 1, 2001 and included the following changes:

- REITs are now allowed to own up to 100% investments in the stock of a TRS, subject to certain restrictions relating to the size of such investments. TRSs can provide services to REIT tenants and others without adversely impacting the income requirements to which REITs are subject;
- REITs are no longer able to enter into new arrangements to own more than 10% of the vote or value of the securities in a non-REIT C corporation unless such C corporation elects to be treated as a TRS; and
- the percentage of REIT taxable income that REITs are required to distribute to shareholders was reduced from 95% to 90%.

On January 1, 2001, we acquired all of the stock in COMI which we did not previously own. We also elected to have COMI treated as a TRS effective January 1, 2001. COMI is subject to Federal and state income taxes. COMI had losses before income taxes under generally accepted accounting principles of $910 in 2002 and $1,106 in 2001; COMI earned an income tax benefit on these losses of $347 in 2002 and $409 in 2001. COMI’s income tax benefit for 2002 and 2001 consisted of the following:

	For the Years Ended December 31,	
	2002	2001
Current		
Federal	$ 182	$ 202
State	39	37
	221	239
Deferred		
Federal	104	140
State	22	30
	126	170
Total	$ 347	$ 409

A reconciliation of COMI’s Federal statutory rate of 35% to the effective tax rate for income tax reported on our Statements of Operations is set forth below:

	For the Years Ended December 31,	
	2002	2001
Income taxes at U.S. statutory rate	35.0%	35.0%
State and local, net of U.S. Federal tax benefit	4.4%	4.4%
Other	(1.5)%	(2.4)%
Effective tax rate	37.9%	37.0%

Items contributing to temporary differences that lead to deferred taxes include depreciation and amortization, certain accrued compensation, compensation made in the form of contributions to a deferred nonqualified compensation plan and expenses associated with stock-based compensation.

We are subject to certain state and local income and franchise taxes. The expense associated with these state and local taxes is included in general and administrative expense on our Consolidated Statements of Operations. We did not separately state these amounts on our Consolidated Statements of Operations because they are insignificant.

17. Discontinued Operations

Income from discontinued operations includes revenues and expenses associated with our operating properties located in Oxon Hill, Maryland, which are classified as held for sale at December 31, 2002. The table below sets forth the components of income from discontinued operations:

	For the Years Ended December 31,		
	2002	2001	2000
Revenue	$ 3,969	$ 3,891	$ 3,851
Property operating expenses	(1,358)	(1,369)	(1,073)
Depreciation and amortization	(481)	(571)	(464)
Interest expense	(291)	(484)	(668)
Earnings from discontinued operations	1,839	1,467	1,646
Minority interests in discontinued operations	(566)	(497)	(612)
Income from discontinued operations	$ 1,273	$ 970	$ 1,034

18. Commitments and Contingencies

In the normal course of business, we are involved in legal actions arising from our ownership and administration of properties. Management does not anticipate that any liabilities that may result will have a materially adverse effect on our financial position, operations or liquidity. We are subject to various Federal, state and local environmental regulations related to our property ownership and operation. We have performed environmental assessments of our properties, the results of which have not revealed any environmental liability that we believe would have a materially adverse effect on our financial position, operations or liquidity.

At December 31, 2002, we were under contract to acquire from Constellation a 108-acre land parcel for $29,809. We acquired the first phase of this project on January 24, 2003 for $20,993, of which $18,433 was financed by a seller-provided mortgage loan. We expect to acquire the second phase by the middle of 2003.

At December 31, 2002, we had $6,700 in secured letters of credit with Bankers Trust Company for the purpose of further securing one of our mortgage loans with Teacher’s Insurance and Annuity Association of America.

Joint Ventures

In the event that the costs to complete construction of a building owned by one of our joint ventures exceed amounts funded by existing credit facilities and member investments previously made, we will be responsible for making additional investments in this joint venture of up to $4,000.

We may need to make our share of additional investments in our real estate joint ventures (generally based on our percentage ownership) in the event that additional funds are needed. In the event that the other members of these joint ventures do not pay their share of investments when additional funds are needed, we may then need to make even larger investments in these joint ventures.

As of December 31, 2002, we served as guarantor for the repayment of mortgage loans totaling $8,757 for certain of our unconsolidated real estate joint ventures.

In four of our five unconsolidated real estate joint ventures owned as of December 31, 2002, we would be obligated to acquire the other members’ interest in each of the joint ventures (20% in the case of three and 50% in the case of one) in the event that all of the following were to occur:

(1) an 18-month period passes from the date of completion of the shell of the final building to be constructed by the joint venture;
(2) at the end of the 18-month period, the aggregate leasable square footage of the joint venture’s buildings is 90% leased and occupied by tenants who are not in default under their leases; and
(3) six months pass from the end of the 18-month period and either the buildings have not been sold or we have not acquired the other members’ interest.

The amount we would need to pay for those membership interests is computed based on the amount that the owners of those interests would receive under the joint venture agreements in the event that the buildings were

sold for a capitalized fair value (as defined in the agreements) on a defined date. As of December 31, 2002, none of the four real estate joint ventures had completed the shell construction on their final building. We estimate the aggregate amount we would need to pay for our partners’ membership interests in these joint ventures to be $2.1 million; however, since the determination of this amount is dependent on the operations of the properties and none of these properties are both completed and occupied, this estimate is preliminary and could be materially different from the actual obligation.

Operating Leases

We are obligated under five operating leases for office space. Future minimum rental payments due under the terms of these leases as of December 31, 2002 were as follows:

2003	$ 701
2004	564
2005	548
2006	286
	$ 2,099

Land Leases

We are obligated under leases for two parcels of land; we have a building located on one of these parcels and the other parcel is being developed. These leases provide for monthly rent on one parcel through March 2098 and the other through September 2099. Future minimum annual rental payments due under the terms of these leases as of December 31, 2002 were as follows:

2003	$ 353
2004	353
2005	353
2006	353

2007		353
Thereafter		32,064
	$	33,829

Vehicle Leases

We are obligated under various leases for vehicles. Future minimum annual rental payments due under the terms of these leases as of December 31, 2002 were as follows:

2003	$	308
2004		236
2005		151
2006		69
	$	764

19. Quarterly data (Unaudited)

	For the Year Ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 34,498	$ 36,934	$ 38,806	$ 41,645
Income before minority interests, income taxes, discontinued operations, and extraordinary item	$ 6,765	$ 7,665	$ 7,803	$ 7,221
Minority interests	(1,785)	(1,982)	(1,898)	(1,786)
Income tax benefit (expense), net	27	25	(9)	199
Income before discontinued operations and extraordinary item	5,007	5,708	5,896	5,634
Discontinued operations, net	316	285	268	404
Extraordinary item, net	(28)	(109)	(2)	(78)
Net income	5,295	5,884	6,162	5,960
Preferred share dividends	(2,533)	(2,534)	(2,533)	(2,534)
Net income available to common shareholders	$ 2,762	$ 3,350	$ 3,629	$ 3,426
Basic earnings per share:				
Income before discontinued operations and extraordinary item	$ 0.12	$ 0.14	$ 0.15	$ 0.13
Net income available to common shareholders	$ 0.13	$ 0.15	$ 0.16	$ 0.15
Diluted earnings per share:				
Income before discontinued operations and extraordinary item	$ 0.11	$ 0.13	$ 0.14	$ 0.13
Net income available to common shareholders	$ 0.13	$ 0.14	$ 0.15	$ 0.14
Weighted average common shares:				
Basic	20,889	22,704	23,029	23,234
Diluted	22,851	24,872	25,149	25,329

	For the Year Ended December 31, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 29,855	$ 29,016	$ 32,643	$ 34,005
Income before minority interests, income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change	$ 5,690	$ 7,232	$ 7,068	$ 7,495
Minority interests	(2,014)	(2,315)	(2,160)	(1,998)
Income tax benefit (expense), net	81	(29)	81	136
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	3,757	4,888	4,989	5,633
Discontinued operations, net	213	259	233	265
Extraordinary item, net	(70)	(66)	—	(5)
Cumulative effect of accounting change, net	(174)	—	—	—
Net income	3,726	5,081	5,222	5,893
Preferred share dividends	(881)	(1,613)	(1,830)	(2,533)
Net income available to common shareholders	$ 2,845	$ 3,468	$ 3,392	$ 3,360
Basic earnings per share:				
Income before discontinued operations, extraordinary item, and cumulative effect of accounting change	$ 0.14	$ 0.16	$ 0.16	$ 0.15
Net income available to common shareholders	$ 0.14	$ 0.17	$ 0.17	$ 0.17
Diluted earnings per share:				
Income before discontinued operations, extraordinary item, and cumulative effect of accounting change	$ 0.14	$ 0.16	$ 0.15	$ 0.15
Net income available to common shareholders	$ 0.14	$ 0.17	$ 0.16	$ 0.16
Weighted average common shares:				
Basic	19,982	20,077	20,141	20,186
Diluted	21,133	21,608	21,819	21,973

20. Pro Forma Financial Information (Unaudited)

We accounted for our 2001 and 2002 acquisitions using the purchase method of accounting. We included the results of operations for the acquisitions in our

Consolidated Statements of Operations from their respective purchase dates through December 31, 2002.

We prepared our pro forma condensed consolidated financial information presented below as if all of our 2001 and 2002 acquisitions and dispositions of operating properties had occurred on January 1, 2001. The pro forma financial information is unaudited and is not necessarily indicative of the results that actually would have occurred if these acquisitions and dispositions had occurred on January 1, 2001, nor does it intend to indicate our results of operations for future periods.

	For the Years Ended December 31,	
	2002 (Unaudited)	2001 (Unaudited)
Pro forma total revenues	$ 159,004	$ 152,342
Pro forma net income available to common shareholders	$ 14,513	$ 13,325
Pro forma earnings per common share on net income available to common shareholders		
Basic	$ 0.65	$ 0.66
Diluted	$ 0.61	$ 0.64

21. Subsequent Events

On January 23, 2003, we entered into a secured revolving credit agreement with Wachovia Bank, National Association, for a maximum principal amount of $25,000. This credit facility carries an interest rate of LIBOR plus 1.65% to 2.15%, depending on the amount of debt we carry relative to our total assets; we expect, based on our financing strategy, that the interest rate on this loan will be LIBOR plus 1.9%. The credit facility matures in two years, although individual borrowings under the loan mature one year from the borrowing date. We expect to use borrowings under this facility to finance acquisitions or pay down our secured revolving credit facility with Bankers Trust Company.

On January 31, 2003, we contributed a developed land parcel into a real estate joint venture called NBP 220, LLC (“NBP 220”) and subsequently received a $4,000 distribution. Upon completion of this transaction, we owned a 20% interest in NBP 220.

On March 4, 2003, we acquired an office building in Annapolis, Maryland totaling approximately 155,000 square feet for $18,000.

You should refer to Note 18 for information pertaining to a land parcel acquired from Constellation in January 2003.

Report of Independent Accountants

To the Board of Trustees and Shareholders of
Corporate Office Properties Trust

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders’ equity and of cash flows present fairly, in all material respects, the financial position of Corporate Office Properties Trust and its subsidiaries (the “Company”) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” in 2002.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, Maryland
February 21, 2003 (except with respect to the acquisition
of the property in Annapolis, Maryland described in Note 21,
as to which the date is March 4, 2003)

Market for Registrant’s Common Equity and Related Shareholder Matters

Our common shares trade on the New York Stock Exchange (“NYSE”) under the symbol “OFC.” The table below shows the range of the high and low sale prices for our common shares as reported on the NYSE, as well as the quarterly common share dividends per share declared.

	Price Range		
	Low	High	Dividends Per Share
2002			
First Quarter	$ 11.62	$ 13.20	$ 0.21
Second Quarter	12.95	14.69	0.21
Third Quarter	11.97	14.50	0.22
Fourth Quarter	11.60	14.16	0.22

	Price Range		
	Low	High	Dividends Per Share
2001			
First Quarter	$ 9.03	$ 9.98	$ 0.20
Second Quarter	9.36	10.60	0.20
Third Quarter	9.86	11.50	0.21
Fourth Quarter	10.75	12.71	0.21

The number of holders of record of our shares was 247as of December 31, 2002. This number does not include shareholders whose shares are held of record by a brokerage house or clearing agency, but does include any such brokerage house or clearing agency as one record holder.

We will pay future dividends at the discretion of our Board of Trustees. Our ability to pay cash dividends in the future will be dependent upon (i) the income and cash flow generated from our operations, (ii) cash generated or used by our financing and investing activities and (iii) the annual distribution requirements under the REIT provisions of the Code described above and such other factors as the Board of Trustees deems relevant. Our ability to make cash dividends will also be limited by the terms of our Operating Partnership Agreement and our financing arrangements as well as limitations imposed by state law and the agreements governing any future indebtedness.

EXHIBIT 13.2

Corporate Office Properties Trust
Schedule III — Real Estate Depreciation and Amortization
December 31, 2002
(Dollars in thousands)

Property	Location	Building Type	Encumbrances	Initial Cost: Land	Initial Cost: Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
751, 753 760, 785 Jolly Road	Blue Bell, PA	Office	$ 65,218	$ 23,371	$ 88,451	$ 99	$ 111,921	$ (11,538)	1966/1996	10/14/1997	40 Years
15000 Conference Center Drive	Chantilly, VA	Office	33,741	9,458	49,808	711	59,977	(1,971)	1989	11/30/2001	40 Years
2730 Hercules Road	Annapolis Junction, MD	Office	23,616	8,737	31,612	1	40,350	(3,367)	1990	9/28/1998	40 Years
15049 Conference Center Drive	Chantilly, VA	Office	15,907	5,519	22,079	—	27,598	(313)	1997	8/14/2002	40 Years
11800 Tech Road	Silver Spring, MD	Office	19,600	5,437	21,747	3	27,187	(337)	1969/1989	8/1/2002	40 Years
2711 Technology Drive	Annapolis Junction, MD	Office	19,146	3,055	21,631	—	24,686	(450)	2002	11/13/2000	40 Years
695 Route 46	Fairfield, NJ	Office	10,554	3,734	14,936	3,325	21,995	(2,660)	1990	5/28/1998	40 Years
6731 Columbia Gateway Drive	Columbia, MD	Office	11,570	3,948	17,174	10	21,132	(214)	2002	3/29/2000	40 Years
431 Ridge Road	Dayton, NJ	Office	11,977	2,782	11,128	6,936	20,846	(2,480)	1958/1998	10/14/1997	40 Years
7200 Riverwood Drive	Columbia, MD	Office	10,013	4,089	16,356	70	20,515	(1,724)	1986	10/13/1998	40 Years
15059 Conference Center Drive	Chantilly, VA	Office	16,000	3,965	15,862	228	20,055	(238)	2000	8/14/2002	40 Years
9690 Deereco Road	Timonium, MD	Office	9,525	3,431	13,723	1,329	18,483	(1,392)	1988	12/21/1999	40 Years
6009 — 6011 Oxon Hill Road	Oxon Hill, MD	Office	10,824	3,435	13,738	1,154	18,327	(1,892)	1990	9/28/1998	40 Years
2701 Technology Drive	Annapolis Junction, MD	Office	14,581	3,031	15,119	5	18,155	(560)	2001	5/26/2000	40 Years
6950 Columbia Gateway Drive	Columbia, MD	Office	10,175	3,596	14,269	47	17,912	(1,496)	1998	10/21/1998	40 Years
2721 Technology Drive	Annapolis Junction, MD	Office	13,574	2,947	14,652	6	17,605	(804)	2000	10/21/1999	40 Years
7000 Columbia Gateway Drive	Columbia, MD	Office	12,000	3,239	12,957	—	16,196	(260)	1999	5/31/2002	40 Years
132 National Business Parkway	Annapolis Junction, MD	Office	11,834	2,917	12,427	21	15,365	(869)	2000	5/28/1999	40 Years
429 Ridge Road	Dayton, NJ	Office	12,624	2,932	11,729	356	15,017	(1,593)	1966/1996	10/14/1997	40 Years
1306 Concourse Drive	Linthicum, MD	Office	10,025	2,796	11,186	429	14,411	(998)	1990	11/18/1999	40 Years
1304 Concourse Drive	Linthicum, MD	Office	11,775	1,999	12,136	5	14,140	(182)	2002	11/18/1999	40 Years
6750 Alexander Bell Drive	Columbia, MD	Office	9,004	1,263	12,459	21	13,743	(808)	2000	12/31/1998	40 Years
6940 Columbia Gateway Drive	Columbia, MD	Office	9,343	3,545	9,914	164	13,623	(841)	1999	11/13/1998	40 Years
7067 Columbia Gateway Drive	Columbia, MD	Office	9,269	1,829	11,677	2	13,508	(302)	2001	8/30/2001	40 Years
375 W. Padonia Road	Timonium, MD	Office	6,549	2,604	10,415	148	13,167	(792)	1986	12/21/1999	40 Years
133 National Business Parkway	Annapolis Junction, MD	Office	9,937	2,517	10,068	492	13,077	(1,248)	1997	9/28/1998	40 Years
710 Route 46	Fairfield, NJ	Office	5,666	2,154	8,615	1,545	12,314	(1,363)	1985	5/28/1998	40 Years
135 National Business Parkway	Annapolis Junction, MD	Office	7,742	2,484	9,750	67	12,301	(1,017)	1998	12/30/1998	40 Years
141 National Business Parkway	Annapolis Junction, MD	Office	7,418	2,398	9,590	279	12,267	(1,112)	1990	9/28/1998	40 Years
870 — 880 Elkridge Landing Road	Linthicum, MD	Office	—	2,298	9,168	729	12,195	(360)	1981	8/3/2001	40 Years
1615 and 1629 Thames Street	Baltimore, MD	Office	6,711	2,080	8,322	1,142	11,544	(1,195)	1989	9/28/1998	40 Years
2605 Interstate Drive	Harrisburg, PA	Office	—	2,089	8,355	862	11,306	(1,237)	1990	10/14/1997	40 Years
134 National Business Parkway	Annapolis Junction, MD	Office	7,783	3,684	7,530	23	11,237	(703)	1999	11/13/1998	40 Years
920 Elkridge Landing Road	Linthicum, MD	Office	8,917	2,200	8,778	75	11,053	(328)	1982	7/2/2001	40 Years
1302 Concourse Drive	Linthicum, MD	Office	7,451	2,078	8,313	492	10,883	(849)	1996	11/18/1999	40 Years
900 Elkridge Landing Road	Linthicum, MD	Office	7,168	1,993	7,972	402	10,367	(1,066)	1982	4/30/1998	40 Years
131 National Business Parkway	Annapolis Junction, MD	Office	5,989	1,906	7,623	802	10,331	(1,067)	1990	9/28/1998	40 Years
2601 Market Place	Harrisburg, PA	Office	5,951	1,928	7,713	381	10,022	(1,072)	1989	10/14/1997	40 Years
68 Culver Road	Dayton, NJ	Office	8,314	861	8,794	4	9,659	(509)	2000	7/9/1999	40 Years
999 Corporate Boulevard	Linthicum, MD	Office	7,741	1,187	8,334	6	9,527	(535)	2000	8/1/1999	40 Years
6700 Alexander Bell Drive	Columbia, MD	Office	5,176	1,755	7,019	531	9,305	(303)	1988	5/14/2001	40 Years
7467 Ridge Road	Hanover, MD	Office	5,894	1,629	6,517	553	8,699	(847)	1990	4/28/1999	40 Years
1199 Winterson Road	Linthicum, MD	Office	5,750	1,599	6,395	411	8,405	(775)	1988	4/30/1998	40 Years
7240 Parkway Drive	Hanover, MD	Office	4,330	1,496	5,985	686	8,167	(483)	1985	4/18/2000	40 Years
6740 Alexander Bell Drive	Columbia, MD	Office	4,672	1,424	5,696	984	8,104	(939)	1992	12/31/1998	40 Years
14502 Greenview Drive	Laurel, MD	Office	4,900	1,482	5,899	516	7,897	(844)	1988	9/28/1998	40 Years
849 International Drive	Linthicum, MD	Office	4,877	1,356	5,426	916	7,698	(735)	1988	2/23/1999	40 Years
14504 Greenview Drive	Laurel, MD	Office	4,628	1,429	5,716	288	7,433	(737)	1985	9/28/1998	40 Years
1099 Winterson Road	Linthicum, MD	Office	4,759	1,323	5,293	781	7,397	(816)	1988	4/30/1998	40 Years
1190 Winterson Road	Linthicum, MD	Office	4,802	1,335	5,340	697	7,372	(739)	1987	4/30/1998	40 Years
9140 Route 108	Columbia, MD	Office	6,425	1,637	5,500	109	7,246	(309)	1974/1985	12/14/2000	40 Years
6716 Alexander Bell Drive	Columbia, MD	Office	4,075	1,242	4,969	992	7,203	(880)	1990	12/31/1998	40 Years
911 Elkridge Landing Road	Linthicum, MD	Office	4,371	1,215	4,861	820	6,896	(836)	1985	4/30/1998	40 Years
104 Interchange Plaza	Cranbury, NJ	Office	4,539	1,329	5,315	132	6,776	(570)	1990	10/30/1998	40 Years
6345 Flank Drive	Harrisburg, PA	Office	4,359	1,324	5,268	134	6,726	(479)	1989	12/3/1999	40 Years
101 Interchange Plaza	Cranbury, NJ	Office	3,980	1,160	4,666	673	6,499	(694)	1985	10/30/1998	40 Years
4301 Route 1	Monmouth Junction, NJ	Office	4,276	1,208	4,832	424	6,464	(715)	1986	6/24/1999	40 Years
1201 Winterson Road	Linthicum, MD	Office	4,634	1,288	5,154	21	6,463	(605)	1985	4/30/1998	40 Years
6340 Flank Drive	Harrisburg, PA	Office	4,196	1,274	5,071	50	6,395	(396)	1988	12/3/1999	40 Years
6711 Columbia Gateway Drive	Columbia, MD	Office	—	3,970	2,405	—	6,375	—	(1)	1/31/2002	40 Years
891 Elkridge Landing Road	Linthicum, MD	Office	4,416	1,233	4,926	142	6,301	(191)	1984	7/2/2001	40 Years

Property	Location	Building Type	Encumbrances	Initial Cost: Land	Initial Cost: Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
901 Elkridge Landing Road	Linthicum, MD	Office	4,103	1,148	4,574	381	6,103	(211)	1984	7/2/2001	40 Years
938 Elkridge Landing Road	Linthicum, MD	Office	4,950	1,195	4,775	48	6,018	(182)	1984	7/2/2001	40 Years
5035 Ritter Road	Harrisburg, PA	Office	3,676	1,116	4,442	16	5,574	(345)	1988	12/3/1999	40 Years
6400 Flank Drive	Harrisburg, PA	Office	3,600	1,093	4,350	25	5,468	(339)	1992	12/3/1999	40 Years
881 Elkridge Landing Road	Linthicum, MD	Office	3,720	1,034	4,137	290	5,461	(510)	1986	4/30/1998	40 Years
7065 Columbia Gateway Drive	Columbia, MD	Office	3,711	1,081	4,326	1	5,408	(144)	2000	8/30/2001	40 Years
939 Elkridge Landing Road	Linthicum, MD	Office	3,377	939	3,756	688	5,383	(584)	1983	4/30/1998	40 Years
6724 Alexander Bell Drive	Columbia, MD	Office	3,118	449	4,836	2	5,287	(74)	2002	5/14/2001	40 Years
900 International Drive	Linthicum, MD	Office	3,643	1,013	4,053	219	5,285	(491)	1986	4/30/1998	40 Years
921 Elkridge Landing Road	Linthicum, MD	Office	3,755	1,044	4,176	50	5,270	(491)	1983	4/30/1998	40 Years
7063 Columbia Gateway Drive	Columbia, MD	Office	3,483	1,036	4,144	1	5,181	(138)	2000	8/30/2001	40 Years
930 International Drive	Linthicum, MD	Office	3,526	981	3,922	264	5,167	(475)	1986	4/30/1998	40 Years
7321 Parkway Drive	Hanover, MD	Office	3,401	940	3,760	365	5,065	(463)	1984	4/16/1999	40 Years
940 Elkridge Landing Road	Linthicum, MD	Office	3,758	986	3,924	66	4,976	(150)	1984	7/2/2001	40 Years
7320 Parkway Drive	Hanover, MD	Office	—	991	3,966	—	4,957	(110)	1983	4/4/2002	40 Years
7318 Parkway Drive	Hanover, MD	Office	3,517	972	3,888	91	4,951	(376)	1984	4/16/1999	40 Years
6760 Alexander Bell Drive	Columbia, MD	Office	2,920	890	3,561	335	4,786	(390)	1991	12/31/1998	40 Years
6360 Flank Drive	Harrisburg, PA	Office	2,999	911	3,625	238	4,774	(356)	1988	12/3/1999	40 Years
1340 Ashton Road	Hanover, MD	Office	3,274	905	3,620	1	4,526	(332)	1989	4/28/1999	40 Years
9140 Guilford Road	Columbia, MD	Office	3,173	878	3,513	116	4,507	(92)	1983	4/4/2002	40 Years
6708 Alexander Bell Drive	Columbia, MD	Office	2,646	897	3,588	3	4,488	(142)	1988	5/14/2001	40 Years
7061 Columbia Gateway Drive	Columbia, MD	Office	2,783	827	3,310	1	4,138	(110)	2000	8/30/2001	40 Years
6385 Flank Drive	Harrisburg, PA	Office	2,502	811	3,242	46	4,099	(436)	1995	10/14/1997	40 Years
2720 Technology Drive	Annapolis Junction, MD	Office	3,000	3,757	306	—	4,063	—	(1)	(3)	40 Years
800 International Drive	Linthicum, MD	Office	2,786	775	3,099	117	3,991	(373)	1988	4/30/1998	40 Years

9160 Guilford Road	Columbia, MD	Office	2,788	772	3,088	27	3,887	(80)	1984	4/4/2002	40 Years
1334 Ashton Road	Hanover, MD	Office	2,664	736	2,946	101	3,783	(331)	1989	4/28/1999	40 Years
47 Commerce Drive	Cranbury, NJ	Office	2,584	756	3,025	1	3,782	(315)	1992/1998	10/30/1998	40 Years
Stonecroft Land	Chantilly, VA	Office	—	3,620	23	—	3,643	—	(2)	7/18/2002	N/A
437 Ridge Road	Dayton, NJ	Office	3,085	717	2,866	28	3,611	(381)	1962/1996	10/14/1997	40 Years
114 National Business Parkway	Annapolis Junction, MD	Retail	—	364	3,052	3	3,419	(61)	2002	6/30/2000	40 Years
6405 Flank Drive	Harrisburg, PA	Office	2,159	656	2,610	6	3,272	(202)	1991	12/3/1999	40 Years
5070 Ritter Road— Bldg A	Harrisburg, PA	Office	1,920	583	2,320	211	3,114	(258)	1989	12/3/1999	40 Years
6380 Flank Drive	Harrisburg, PA	Office	1,941	589	2,346	74	3,009	(201)	1991	12/3/1999	40 Years
1331 Ashton Road	Hanover, MD	Office	2,122	587	2,347	—	2,934	(215)	1989	4/28/1999	40 Years
5070 Ritter Road— Bldg B	Harrisburg, PA	Office	1,680	510	2,030	44	2,584	(176)	1989	12/3/1999	40 Years
7 Centre Drive	Cranbury, NJ	Office	1,606	470	1,881	122	2,473	(277)	1989	10/30/1998	40 Years
2 Centre Drive	Cranbury, NJ	Office	1,641	480	1,922	—	2,402	(200)	1989	10/30/1998	40 Years
95 Shannon Road	Harrisburg, PA	Office	1,459	472	1,891	3	2,366	(162)	1995	8/12/1999	40 Years
75 Shannon Road	Harrisburg, PA	Office	1,388	450	1,799	107	2,356	(181)	1995	8/12/1999	40 Years
8 Centre Drive	Cranbury, NJ	Office	1,327	388	1,554	256	2,198	(294)	1986	10/30/1998	40 Years
1350 Dorsey Road	Hanover, MD	Office	1,423	393	1,573	218	2,184	(194)	1989	4/28/1999	40 Years
1344 Ashton Road	Hanover, MD	Office	1,285	355	1,421	124	1,900	(146)	1989	4/28/1999	40 Years
9150 Guilford Road	Columbia, MD	Office	1,348	373	1,492	29	1,894	(39)	1984	4/4/2002	40 Years
6375 Flank Drive	Harrisburg, PA	Office	1,119	191	1,622	—	1,813	(81)	2000	11/4/1999	40 Years
1341 Ashton Road	Hanover, MD	Office	1,106	306	1,223	79	1,608	(154)	1989	4/28/1999	40 Years
9130 Guilford Road	Columbia, MD	Office	1,046	289	1,158	29	1,476	(31)	1984	4/4/2002	40 Years
85 Shannon Road	Harrisburg, PA	Office	855	277	1,109	3	1,389	(95)	1995	8/12/1999	40 Years
1343 Ashton Road	Hanover, MD	Office	700	193	774	1	968	(71)	1989	4/28/1999	40 Years
Commerce 2 Building	Harrisburg, PA	Office	—	—	768	—	768	—	(1)	(3)	N/A
Airport Square XXII	Linthicum, MD	Office	—	630	13	—	643	—	(2)	12/19/2001	N/A
4851 Stonecroft Boulevard	Chantilly, VA	Office	—	466	9	—	475	—	(2)	8/14/2002	N/A
6013&6007 Oxon Hill Road	Oxon Hill, MD	Office	—	357	—	—	357	—	(2)	7/30/2001	40 Years
Other Developments	Various	Office	—	—	111	—	111	—	(1)	(3)	
1338 Ashton Road	Hanover, MD	Office	36	50	—	12	62	(1)	(2)	4/28/1999	40 Years
			$ 698,994	$ 219,923	$ 870,229	$ 37,073	$ 1,127,225	$ (76,095)			

(1) Under construction or development at December 31, 2002.

(2) Held for future development at December 31, 2002.

(3) Development in progress in anticipation of acquisition

The following table summarizes our changes in cost of properties (in thousands):

Balance at December 31, 2001	$ 967,558
Property acquisitions	145,154
Building and land improvements	23,032
Sales	(8,519)
Balance at December 31, 2002	$ 1,127,225

The following table summarizes our changes in accumulated depreciation (in thousands):

Balance at December 31, 2001	$ 51,552
Depreciation expense	25,049
Sales	(506)
Balance at December 31, 2002	$ 76,095

Exhibit 21.1

CORPORATE OFFICE PROPERTIES TRUST
SUBSIDIARIES OF REGISTRANT

Delaware
Airport Square Holdings I, LLC
Airport Square Holdings VI and VII, LLC
Blue Bell Investment Company, LP
Comcourt Investors, LP
COPT Acquisitions, Inc.
COPT Concourse, LLC
Corporate Office Properties, LP
Corporate Office Properties Holdings, Inc.
Delaware Airport III, LLC
Delaware Airport VIII, LLC
Delaware Airport IX, LLC
South Brunswick Investors, LP
11800 Tech Road, LLC

Maryland
Airport Square, LLC
Airport Square II, LLC
Airport Square IV, LLC
Airport Square V, LLC
Airport Square X, LLC
Airport Square XI, LLC
Airport Square XIII, LLC
Airport Square XIV, LLC
Airport Square XV, LLC
Airport Square XIX, LLC
Airport Square XX, LLC
Airport Square XXI, LLC
Airport Square XXII, LLC
Airport Square Storms, LLC
Atrium Building, LLC
Brown's Wharf, LLC
Commons Office Research, LLC
Concourse 1304, LLC
COPT Columbia, LLC
COPT Gate 63, LLC
COPT Gate 6700-6708-6724, LLC
COPT Gateway, LLC
COPT Montpelier, LLC
COR, LLC
Corporate Cooling & Controls, LLC
Corporate Development Services, LLC
Corporate Gatespring, LLC
Corporate Gatespring II, LLC
Corporate Management Services, LLC
Corporate Office Management, Inc.
Corporate Office Services, LLC
Corporate Paragon, LLC
Corporate Property, LLC
Corporate Realty Management, LLC
Corporate Realty Advisors, LLC

Cornucopia Holdings, LLC
Cornucopia Holdings II, LLC
Gateway 44, LLC
Gateway 63, LLC
Honeyland 108, LLC
Lakeview at the Greens, LLC
MOR Forbes, LLC
NBP One, LLC
NBP Huff & Puff, LLC
NBP Lot 3-A, LLC
NBP Retail, LLC
NBP 131-133-141, LLC
NBP 132, LLC
NBP 134, LLC
NBP 135, LLC
NBP 201, LLC
NBP 201 Holdings, LLC
NBP 211, LLC
NBP 211 Holdings, LLC
NBP 220, LLC
NBP 221, LLC
St. Barnabas, LLC
Tech Park I, LLC

Tech Park II, LLC
Tech Park IV, LLC
Three Centre Park, LLC
6711 Gateway, LLC
6731 Gateway, LLC
7000 Honeys, LLC
7200 Riverwood, LLC
7240 Parkway Drive Enterprises, LLC
7318 Parkway Drive Enterprises, LLC
7320 Parkway Drive Enterprises, LLC
7321 Parkway Drive Enterprises, LLC
9690 Deereco Road, LLC

New Jersey
Cuaba Associates, LLC
Princeton Executive, LLC
68 Culver, LLC

Pennsylvania
Bolivar Associates, LLC
Corporate Gateway General Partnership
COPT Gateway, LP
Gateway Central Limited Partnership
6385 Flank Drive, LP

Virginia
COPT Chantilly, LLC
COPT Greens I, LLC
COPT Greens II, LLC
COPT Greens III, LLC
COPT Stonecroft, LLC

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3A (No. 333-85210), Forms S-3 (No. 333-59766, No. 333-71807, No. 333-60379), and Forms S-8 (No. 333-88711, No. 333-85210) of Corporate Office Properties Trust of our report dated February 21, 2003 (except with respect to the acquisition of the property in Annapolis, Maryland described in Note 21, for which the date is March 4, 2003) relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
March 27, 2003

Exhibit 99.1

Corporate Office Properties Trust

Certification by the Chief Executive Officer
Relating to a Periodic Report Containing Financial Statements

I, Clay W. Hamlin, III, Chief Executive Officer of Corporate Office Properties Trust, a Maryland real estate investment trust (the “Company”), hereby certify, based on my knowledge, that:

(1) The Company’s annual report on Form 10-K for the period ended December 31, 2002 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Clay W. Hamlin, III
Clay W. Hamlin, III
Chief Executive Officer
Date: March 27, 2003

Exhibit 99.2

Corporate Office Properties Trust

Certification by the Chief Operating Officer
Relating to a Periodic Report Containing Financial Statements

I, Randall M. Griffin, Chief Operating Officer of Corporate Office Properties Trust, a Maryland real estate investment trust (the "Company"), hereby certify, based on my knowledge, that:

(1) The Company's annual report on Form 10-K for the period ended December 31, 2002 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Randall M. Griffin
Randall M. Griffin
Chief Operating Officer
Date: March 27, 2003

Exhibit 99.3

Corporate Office Properties Trust

Certification by the Chief Financial Officer
Relating to a Periodic Report Containing Financial Statements

I, Roger A. Waesche, Jr., Chief Financial Officer of Corporate Office Properties Trust, a Maryland real estate investment trust (the “Company”), hereby certify, based on my knowledge, that:

(1) The Company’s annual report on Form 10-K for the period ended December 31, 2002 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Chief Financial Officer
Date: March 27, 2003