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, 2003

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**
Series G Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	**New York Stock Exchange**
Series H 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 $423.2 million, as calculated using the closing price of the common shares of beneficial interest on the New York Stock Exchange on June 30, 2003 and our outstanding shares as of February 27, 2004; 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 February 27, 2004, 30,760,165 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, 2003 are incorporated by reference into Parts I and II of this report and portions of the proxy statement of the Registrant for its 2004 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;
- 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 affect 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, 2003, we owned:

- 119 operating office properties in Maryland, Pennsylvania, New Jersey and Virginia containing 10.0 million rentable square feet that were 91.2% occupied (including one owned through a joint venture);
- four office properties under construction or development that we estimate will total approximately 399,000 square feet upon completion, including two properties owned through joint ventures; and
- land parcels totaling 224 acres that were contiguous to certain of our operating properties and potentially developable into approximately 3.8 million square feet (including 14 acres potentially developable into approximately 143,000 square feet that we owned through joint ventures).

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 owns 100% of three subsidiaries: Corporate Realty Management, LLC ("CRM"), Corporate Development Services, LLC ("CDS") and Corporate Cooling and Controls, LLC ("CC&C"). CRM manages most of our properties and also provides corporate facilities management for select third parties. CDS provides construction and development services predominantly to us. CC&C provides heating and air conditioning installation, maintenance, repair and controls services.

Interests in our Operating Partnership are in the form of preferred and common units. As of December 31, 2003, we owned 100% of the outstanding preferred units and

approximately 75% of the outstanding common units. The remaining common 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 REIT 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 2003 Developments

During 2003, we completed the following:

- Acquired seven office properties totaling 993,479 square feet for $165.1 million and two parcels of land for $31.8 million. Of the office buildings acquired, six were located in Northern Virginia and one in the Baltimore/Washington Corridor. These acquisitions were financed using $83.8 million from borrowings under new mortgage loans; $63.9 million in proceeds from the sale of common shares of beneficial interest ("common shares") in an underwritten public offering; $33.1 million in borrowings from our secured revolving credit facility with Bankers Trust Company (the "Revolving Credit Facility"); $9.9 million in funds escrowed from previous property sales; and cash reserves for the balance;

- Acquired our joint venture partners' interest in two joint ventures for $6.2 million. Through these acquisitions, we acquired three office properties totaling 225,754 square feet and a parcel of land that is contiguous to two of the buildings and assumed $16.5 million in mortgage loans;

- Sold an office property and two land parcels for $21.3 million. We also contributed a 157,394 square foot office property into a joint venture in exchange for $20.0 million in cash and a 20% interest in the joint venture. The net proceeds from these transactions after transaction costs totaled $40.2 million;

- Raised $181.0 million from three underwritten public offerings, of which $63.9 million was used to fund a property acquisition and most of the balance of the proceeds used to pay down our Revolving Credit Facility. These public offerings included the following:

  - 5,290,000 common shares at a price of $15.03 per share;
  - 2,200,000 Series G Preferred Shares at a price of $25.00 per share and annual dividends of 8% of the purchase price; and
  - 2,000,000 Series H Preferred Shares at a price of $25.00 per share and annual dividends of 7.5% of the purchase price;

- Redeemed all of the 1,016,662 Series C Preferred Units in our Operating Partnership for $36.1 million using proceeds from a newly acquired mortgage loan. Prior to this redemption, these units were convertible, subject to certain conditions, into 2,420,672 common units in the Operating Partnership; and

- Obtained $191.2 million in borrowings from new mortgage and other loans, including the following fixed-rate borrowings: (1) a $52.0 million mortgage loan with a seven year term and an interest rate of 5.36%; and (2) two four-year mortgage loans totaling $25.7 million and an interest rate of 3%, although the maturity timeframe of these loans could be accelerated should we commence construction activities on certain land prior to maturity. We used these borrowings for the following: (1) $83.8 million to finance acquisitions; (2) $45.0 million to repay other loans; (3) $36.1 million to repurchase the Series C Preferred Units in our Operating Partnership described above; (4) $18.4 million to pay down our Revolving Credit Facility; (5) $1.2 million to finance construction activities; and (6) the balance to fund cash reserves.

Subsequent Events

From January 1, 2004 to March 5, 2004, the following events took place:

- On February 11, 2004, the holder of our Series D Preferred Shares of beneficial interest converted its preferred shares into 1,196,800 common shares;

- On March 5, 2004, we acquired for $22.4 million a 129,000 square foot office property located in Gaithersburg, Maryland, which is in Montgomery County. This acquisition was financed using $16.8 million in mortgage loans assumed from the seller and the balance with proceeds from our Revolving Credit Facility;

- We entered into a contract for a new revolving credit facility that is expected to close in March 2004; we expect to use this facility as our primary revolving credit facility to replace the facility with Bankers Trust Company. The facility is expected to have a maximum principal of $300.0 million, a three-year term (with an additional one-year extension available) and a variable interest rate based on the 30-day LIBOR rate plus 1.25% to 1.55% (as determined by our leverage levels at different points in time). We also expect the facility to have a fee of 0.125% to 0.25% on the amount of the credit facility that is unused; and

- We entered into a contract to acquire 10 office properties totaling approximately 535,000 square feet for $65.2 million. These buildings are located in St. Mary's County, Maryland. We expect that these acquisitions will be completed by April 2004 using primarily borrowings under our new revolving credit facility.

Corporate Objectives and Strategies

Our primary objectives are to achieve sustainable long-term growth in results of operations 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 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. The attributes we look for in selecting submarkets include, among others, (1) proximity to large markets, (2) strong demographics, (3) attractiveness to high

quality tenants, including our existing tenants, (4) potential for growth and stability in economic down cycles and (5) future acquisition and development opportunities. When we select a submarket, our strategy generally involves establishing an initial presence by acquiring properties in that submarket and then increasing our ownership through future acquisitions and development until we own a significant portion of the rental space of the same class as our properties in that submarket.

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.

High Quality Tenant Focus. We focus on tenants that are large, financially sound entities with significant long-term 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 landlord of choice in our targeted markets. Given the terms of our leases, we monitor the timing of our lease maturities with the goal being that such timing should not be highly concentrated in a given one-year or five-year period.

Defense Industry Focus. A high concentration of our revenues is generated from tenants in the United States defense industry (comprised of the United States Government and defense contractors). This industry is particularly interested in the submarkets where our properties are located and the types of properties and service that we are able to provide. We nurture our relationship with tenants in the defense industry, while monitoring our levels of concentration from a business risk perspective.

Acquisition Strategies. We actively pursue the acquisition of suburban office properties through a three-part acquisition strategy. This strategy includes targeting: (1) entity acquisitions of significant portfolios along with their management to establish prominent ownership positions in new neighboring regions and enhance our management infrastructure; (2) portfolio purchases to enhance our existing submarket positions as well as enter selective new neighboring regions; and (3) 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 most of 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 and, where possible, aggregating vendor contracts to achieve volume pricing discounts; (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. One aspect of how we manage our financing policy involves monitoring the relationship of certain measures of earnings to certain financing cost requirements; these relationships are known as coverage ratios. The coverage ratios on which our financing policy focuses are debt service coverage ratio and fixed charge coverage ratio, both of which are discussed further in the section of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." These coverage ratios are important to us in evaluating whether our operations are sufficient to satisfy the cash flow requirements of our loans and equity holders, including minority interest holders. Another aspect to our financing policy involves monitoring the relationship of our total variable rate debt to our total assets; this is important to us in limiting the amount of our debt that is subject to future increases in interest rates. We also closely monitor the timing of our debt maturities to ensure that the maximum maturities of debt in any year, both including and excluding our primary revolving credit facility, do not exceed a defined percentage of total assets.

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 9 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 primary geographical segments all located in the Mid-Atlantic region of the United States: Baltimore/Washington Corridor (defined as the Maryland counties of Howard and Anne Arundel), Northern Virginia (defined as Fairfax County, Virginia), Greater Philadelphia, Northern/Central New Jersey, Greater Harrisburg, Pennsylvania, and Suburban Maryland (defined as the Maryland counties of Montgomery and Prince George's). For information relating to these geographic segments, you should refer to Note 16 to our Consolidated Financial Statements included in Exhibit 13.1 to this Form 10-K which is incorporated herein by reference.

Employees

We employed 182 persons as of December 31, 2003. 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, 2003.

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, 2003, 20 tenants accounted for 61.8% of our total annualized rental revenue, and five of these tenants accounted for 35.8% of our total annualized rental revenue. We computed the annualized rental revenue by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases as of December 31, 2003. Portfolio annualized rental revenue is annualized rental revenue for our entire portfolio of properties as of a point in time, including both consolidated properties and properties owned through unconsolidated real estate joint ventures as of December 31, 2003. Information regarding our five largest tenants is set forth below:

Tenant	Annualized Rental Revenue at December 31, 2003 (in thousands)	Percentage of Portfolio Annualized Rental Revenue	Number of Buildings In Which Tenant Leased Space
United States Government (1)	$ 26,329	14.8%	21
Computer Sciences Corporation (2)	11,133	6.3%	3
AT&T Corporation (2)	9,228	5.2%	7
VeriSign, Inc. (3)	8,985	5.1%	1
Unisys (4)	7,745	4.4%	3

(1) Generally, the leases with the United States Government provide for one-year terms or provide for early termination rights, as discussed below. The United States Government may terminate its leases if, among other reasons, the United States Congress fails to provide funding. Congress has appropriated funds for these leases through September 2004.
(2) Includes affiliated companies and organizations.
(3) VeriSign, Inc. has the right to terminate the lease with respect to a maximum of 232,268 rentable square feet at designated times from June 2005 through September 2006.
(4) Unisys subleases some of its space to Merck and Co., Inc. Revenue from this subleased space is not included in total annualized rental revenue for Unisys.

If any of our five 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 distributions to our shareholders.

We classify the revenue from our leases into industry groupings based solely on management's knowledge of the tenants' operations in leased space. Occasionally, classifications require subjective and complex judgments. For example, we have a tenant that is considered by many to be in the computer industry; however, since the nature of that tenant's operations in the space leased from us is focused on providing service to the United States Government's defense department, we classify the revenue we earn from the lease as United States Government defense/defense contractor industry revenue. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into industry groupings and if we did, the resulting groupings would be materially different. As of December 31, 2003, the United States defense industry (comprised of the United States Government and defense contractors) accounted for approximately 39.9% of our portfolio annualized rental revenue. Most of the 14.8% of our annualized rental revenue that we derived from leases with agencies of the United States Government as of December 31, 2003 is included in the 39.9% of our portfolio annualized revenue from the United States defense industry.

We have become increasingly reliant on defense industry tenants, particularly due to the increased activity in that sector following the events of September 11, 2001. Furthermore, we expect that the percentage of our total annualized rental revenue derived from the defense industry will 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. In the case of the United States Government, a reduction in government spending could 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 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. We believe that our occupancy rates have been affected as a result of adverse conditions in that region, as well as in the United States generally, and we may suffer economic harm if these conditions continue. All of our properties are located in the Mid-Atlantic region of the United States, and as of December 31, 2003, our properties located in the Baltimore/Washington Corridor accounted for 53.6% 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 believe that the recent economic slowdown in the United States has adversely affected occupancy rates in the Mid-Atlantic region and our properties and, in turn, led to downward pressure on rental rates. Average quarter-end occupancy in our portfolio decreased from 93.8% in 2002 to 91.4% in 2003; this decrease reflected a somewhat larger decline in our Baltimore/Washington corridor properties, where average quarter-end occupancy decreased from 92.2% in 2002 to 89.6% in 2003. 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 we believe will affect us further as we attempt to lease vacant space and renew leases scheduled to expire on occupied space. 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, which could adversely affect our financial position, results of operations, cash flows and ability to make distributions to 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, 2003 that were subject to scheduled lease expirations in each of the next five years:

2004	9.0%
2005	10.3%
2006	11.0%
2007	15.0%
2008	14.2%

Most of the leases with our largest tenant, the United States Government, which account for 14.8% of our annualized rental revenue at December 31, 2003, provide for consecutive one-year terms or provide for early termination rights. All of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases pre-maturely or exercising early termination rights. We reported the statistics in this manner since we manage our leasing activities using these same assumptions and believe these assumptions to be probable.

We may not be able to compete successfully with other entities that operate in our industry. The commercial real estate market is highly competitive. 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 we do. 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, numerous commercial properties compete for tenants with our properties. Some of the properties competing with ours may have newer or more desirable locations, or the competing properties' owners may be willing to accept lower rates than are acceptable to us. Competition for property acquisitions, or for tenants in properties that we own, could have an adverse effect on our financial performance and 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 our ability to make 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. As of December 31, 2003, we owned one operating property and four development/construction properties through joint ventures. 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 other reasons. Additionally, 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, under certain circumstances, 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 for a certain period of time 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 the levy of fines 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 2004. These policies include coverage for acts of terrorism. Due largely to the terrorist attacks on September 11, 2001, the insurance industry has changed its risk assessment approach and pricing structure. Continuing 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 slightly higher debt levels than most other REITs. However, these higher 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, 2003, our total outstanding debt was $738.7 million and our debt to total assets (defined as mortgage loans divided by total assets) was 55.5%.

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.

We use interest rate swap agreements to reduce the impact of changes in interest rates. As of December 31, 2003, we had two interest rate swap agreements in place, each of which is for a notional amount of $50.0 million. One agreement expired in

January 2004 and the other will expire in January 2005. Decreases in interest rates would result in increased interest payments due under interest rate swap agreements in place and could result in the Company recognizing a loss and remitting a payment to unwind such agreements. As of December 31, 2003, approximately 25.7% of our total debt had variable interest rates, excluding effects of the outstanding interest rate swap agreements. This percentage decreases to 12.2% when including the effect of the interest rate swap agreements in effect at December 31, 2003. If short-term interest rates were to rise, our debt service payments on adjustable rate debt would increase, which would lower our net income and could decrease our distributions to our shareholders.

We must refinance our mortgage debt in the future. As of December 31, 2003, our scheduled debt payments over the next five years, including maturities, were as follows:

Year	Amount (in thousands)
2004	$ 176,904 (1)
2005	86,608 (2)
2006	75,858
2007	69,590
2008	150,691

(1) Includes maturities of $12.8 million in March, $25.8 million in August and $8.1 million in November, each of which may be extended for a one-year period, subject to certain conditions; also includes a $12.7 million maturity in June that may be extended for a six-month period, subject to certain conditions.
(2) Includes maturities totaling $54.5 million in January that may each 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.

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 4% Series D Cumulative Convertible Redeemable 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 term ending at the third succeeding annual meeting of shareholders. Such staggered 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 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. 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 capital gains), 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. We may become subject to tax liabilities that adversely affect our operating cash flow and available cash for distribution to shareholders.

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;

- prevailing interest rates; and
- market perception of our financial condition, performance, dividends and growth potential.

Generally, REITs are tax-advantaged relative to C corporations because they are not subject to corporate-level federal income tax on income that they distribute to shareholders. However, Congress recently made changes to the tax laws and regulations that could make it less advantageous for investors to invest in REITs. The Jobs and Growth Tax Relief Reconciliation Act of 2003, or the 2003 Act, provides that generally for taxable years beginning after December 31, 2002 and before December 31, 2008, certain dividends received by domestic individual shareholders from certain C corporations are subject to a reduced rate of tax of up to 15%. Prior to this Act, such dividends received by domestic individual shareholders were generally subject to tax at ordinary income rates, which were as high as 38.6%. In general, the provisions of the Act do not benefit individual shareholders of REITs and could make an investment in a C corporation that is not a REIT more attractive than an investment in a REIT. We cannot predict the effects that this Act may have on the market price for our common or preferred shares.

The average daily trading volume of our common shares during 2003 was approximately 96,000 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 interests 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 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 our securities or distributions.

Item 2. Properties

The following table provides certain information about our office properties as of December 31, 2003:

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized 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%	$ 5,291,062	$ 22.02	United States of America (100%)
2500 Riva Road *Annapolis , MD*	BWI Airport	2000/2001	155,000	100.0%	1,935,000	12.48	USinternetworking, Inc. (100%)
2711 Technology Drive *Annapolis Junction, MD*	BWI Airport	2002	152,000	100.0%	3,714,880	24.44	Computer Sciences Corporation (100%)
140 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2003	119,904	100.0%	2,827,336	23.58	United States of America (100%)
132 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2000	118,456	100.0%	2,836,317	23.94	United States of America (48%); Computer Sciences Corp. (26%); Harris Corporation (26%)
2721 Technology Drive *Annapolis Junction, MD*	BWI Airport	2000	118,093	100.0%	2,920,761	24.73	General Dynamics Government Corp. (78%); United States of America (22%)
2701 Technology Drive *Annapolis Junction, MD*	BWI Airport	2001	117,450	100.0%	3,067,552	26.12	Northrop Grumman Systems (62%); Titan Systems Corporation (38%)
1306 Concourse Drive *Linthicum, MD*	BWI Airport	1990	114,046	97.9%	2,453,239	21.97	IBM (33%); Qwest Communications (21%); AT&T Corporation (13%)
1304 Concourse Drive *Linthicum, MD*	BWI Airport	2002	102,964	62.9%	1,598,214	24.69	Northrop Grumman Corporation (53%); Debtscape (10%)
870-880 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1981	101,785	5.5%	135,892	24.14	
900 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	97,261	97.5%	1,961,876	20.69	Booz Allen Hamilton (71%); First Annapolis Consulting (25%)
1199 Winterson Road *Linthicum, MD*	BWI Airport	1988	96,636	100.0%	1,886,914	19.53	United States of America (100%)
920 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	96,566	100.0%	1,496,229	15.49	Ciena Corporation (100%)
134 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1999	93,482	100.0%	2,069,424	22.14	Booz Allen Hamilton (100%)
133 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1997	88,666	100.0%	1,857,941	20.95	United States of America (34%); Applied Signal Technology, Inc. (33%); Lockheed Martin Corporation (33%)
141 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	87,318	100.0%	1,877,449	21.50	ITT Industries (60%); DigitalNet, Inc. (22%)
135 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1998	86,863	100.0%	1,825,322	21.01	First American Credit Management Solutions (82%)
1302 Concourse Drive *Linthicum, MD*	BWI Airport	1996	84,134	67.2%	1,262,107	22.34	Aetna, Inc. (16%); American Express Travel Related Services, Inc. (13%)
7467 Ridge Road *Hanover, MD*	BWI Airport	1990	74,273	94.3%	1,493,925	21.33	Citicorp Trust Bank, FSB (49%); Pro Object (32%); The Mitre Corporation (13%)
7240 Parkway Drive *Hanover, MD*	BWI Airport	1985	74,156	72.7%	1,094,704	20.30	Delmarva Found. for Medical Research (24%); Deloitte & Touche, USA (10%)
881 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1986	73,572	100.0%	1,248,638	16.97	United States of America (100%)
1099 Winterson Road *Linthicum, MD*	BWI Airport	1988	71,076	94.0%	1,332,751	19.95	Preferred Health Network (62%)
1190 Winterson Road *Linthicum, MD*	BWI Airport	1987	69,529	76.9%	1,398,264	26.17	The Titan Corporation (44%); General Dynamics (10%)
131 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	69,039	100.0%	1,643,597	23.81	Conquest Info.Tech. (The Boeing Co (71%); United States of America (17%); Intel Corporation (12%)
849 International Drive *Linthicum, MD*	BWI Airport	1988	68,758	94.7%	1,441,161	22.13	Computer Associates (17%); First Service Networks (13%); United States of America (13%); Dames & Moore (10%)
911 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1985	68,296	100.0%	1,265,981	18.54	United States of America (100%
1201 Winterson Road *Linthicum, MD*	BWI Airport	1985	67,903	100.0%	944,812	13.91	Ciena Corporation (100%
999 Corporate Boulevard *Linthicum, MD*	BWI Airport	2000	67,351	87.6%	1,358,128	23.02	RAG American Coal Holding (79%)
7318 Parkway Drive *Hanover, MD*	BWI Airport	1984	59,204	100.0%	860,181	14.53	United States of America (100%)
7320 Parkway Drive *Hanover, MD*	BWI Airport	1983	58,453	100.0%	761,022	13.02	Science Applications International Corp. (56%); Baltimore Gas & Electric (27%); Northrop Grumman Corporation (18%)
800 International Drive *Linthicum, MD*	BWI Airport	1988	57,612	77.9%	725,216	16.16	Raytheon E-Systems, Inc. (78%)
901 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	57,308	87.3%	840,015	16.79	State of Maryland (61%); Institute for Operations Research and Management Sciences (14%); United States of America (12%)
900 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	755,636	13.22	Ciena Corporation (100%)
930 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	708,536	12.40	Ciena Corporation (100%)
891 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	56,489	27.9%	318,131	20.17	Metropolitan Life Insurance Co. (26%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
921 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	54,175	100.0%	1,002,237	18.50	Northrop Grumman Corporation (100%)
939 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	53,031	100.0%	922,305	17.39	First Service Networks, Inc. (36%); Agency Holding Company (34%); United States of America (23%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
938 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	52,988	100.0%	951,471	17.96	United States of America (100%)
940 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	51,704	100.0%	788,629	15.25	Cadmus Journal Services (100%)
1340 Ashton Road *Hanover, MD*	BWI Airport	1989	46,400	100.0%	850,992	18.34	General Dynamics (100%)
7321 Parkway Drive *Hanover, MD*	BWI Airport	1984	39,822	100.0%	731,408	18.37	United States of America (100%)
1334 Ashton Road *Hanover, MD*	BWI Airport	1989	37,565	96.8%	709,339	19.51	Science Applications International (60%); Parsons Transportation Group (37%)
1331 Ashton Road *Hanover, MD*	BWI Airport	1989	29,936	100.0%	447,073	14.93	Booz Allen Hamilton (71%); Aerosol Monitoring & Analysis (29%)
1350 Dorsey Road *Hanover, MD*	BWI Airport	1989	19,992	96.7%	330,085	17.07	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	17,061	100.0%	384,802	22.55	Engineering Solutions, Inc. (41%); Mid-Atlantic Clearing House Association (16%); Dialysis Corporation of America (14%); Citizens National Bank (12%); Edward Kraemer & Sons, Inc. (11%)
1341 Ashton Road *Hanover, MD*	BWI Airport	1989	15,841	100.0%	276,499	17.45	Supertots Childcare, Inc. (71%); The Devereux Foundation (29%)
1343 Ashton Road *Hanover, MD*	BWI Airport	1989	9,962	100.0%	146,527	14.71	Nauticos Corporation (100%)
114 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2002	9,717	100.0%	64,585	6.65	Huff and Puff, Inc. (44%); Café Joe (39%); Charm City Concierge (17%)
7200 Riverwood *Columbia, MD*	Howard County Perimeter	1986	160,000	100.0%	3,183,018	19.89	United States of America (100%)
9140 Rt. 108 *Columbia, MD*	Howard County Perimeter	1974/1985	150,000	100.0%	4,222,500	28.15	United States of America (100%)
7000 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	145,806	100.0%	1,353,541	9.28	Honeywell International (100%)
6731 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2002	123,743	66.5%	2,158,055	26.22	CareFirst Inc. & Subsidiaries (40%); Washington Mutual Bank (17%)
6940 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	108,847	100.0%	2,403,344	22.08	Magellan Behavioral Health, Inc. (39%); Ameritrade Holding Corporation (39%); Peregrine Remedy, Inc. (14%)
6950 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1998	107,778	100.0%	2,163,703	20.08	Magellan Behavioral Health, Inc. (100%)
7067 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2001	82,953	100.0%	1,807,424	21.79	Community First Financial (50%); Allstate Insurance Company (50%)
6750 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	78,460	93.1%	1,973,783	27.02	Sun Microsystems, Inc. (45%); The Coca-Cola Company (35%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
6700 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	75,655	48.4%	804,663	21.99	Arbitron, Inc. (26%)
6740 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1992	61,957	100.0%	1,584,850	25.58	Johns Hopkins University (80%); Advanced Career Technologies, Inc. (20%)
8671 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2001	56,350	50.9%	477,165	16.63	Nucletron Corporation (51%)
6716 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1990	52,002	100.0%	1,161,310	22.33	Sun Microsystems, Inc. (49%); Rational Software Corp. (15%); Johns Hopkins University (11%); Pre-Activ (10%)
8661 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2001	49,500	46.5%	370,554	16.08	Rohde & Schwarz (47%)
9140 Guilford Road *Columbia, MD*	Howard County Perimeter	1983	41,704	100.0%	608,520	14.59	Microcosm (21%); Applied Data Systems (21%); COACT, Inc. (21%); NEC Business Network Solutions, Inc. (14%); Chesapeake Surgical, Ltd. (12%); Creative Marketing (11%)
7065 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	38,560	% 0.0	¾	¾	
7063 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	36,936	50.9%	399,479	21.25	The Boeing Company (51%)
9160 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	36,528	100.0%	578,179	15.83	AT&T Corporation (100%)
6760 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1991	36,309	61.9%	443,053	19.71	MWH Americas, Inc. (14%); Facilities Dynamics Engineering Corporation (11%)
6708 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	35,040	100.0%	708,192	20.21	State Farm Mutual Auto Insurance Co. (100%)
7061 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	29,604	100.0%	674,519	22.78	Manekin, LLC (83%); Dell Franklin Financial (17%)
6724 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2002	28,420	100.0%	620,997	21.85	Lurgi Lentjes North America (95%)
9150 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	17,655	100.0%	285,493	16.17	Essex Corporation (100%)
9130 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	13,700	100.0%	250,930	18.32	Chesapeake Research (100%)
Subtotal/Average			**5,183,960**	**90.4%**	**$ 95,047,437**	**$ 20.28**	
Suburban Maryland:							
11800 Tech Road *Silver Spring, MD*	North Silver Spring	1969/1989	235,954	86.4%	$ 3,213,016	$ 15.75	Comcast Cablevision (42%); Kaiser Foundation Health Plan (17%); Holy Cross Hospital of Silver Spring (12%); United States of America (11%)
14502 Greenview Drive *Laurel, MD*	Laurel	1988	71,926	70.6%	986,061	19.43	iSky (20%); KCI Technologies, Inc. (13%)
14504 Greenview Drive	Laurel	1985	69,194	63.6%	865,565	19.66	Moore North America Inc. (11%);

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
Laurel, MD							Light Wave Communications (10%)
Subtotal/Average			**377,074**	**79.2%**	**$ 5,064,642**	**$ 16.95**	
Blue Bell/Philadelphia							
753 Jolly Road *Blue Bell, PA*	Blue Bell	1960/92-94	419,472	100.0%	$ 3,869,113	$ 9.22	Unisys (100%)
785 Jolly Road *Blue Bell, PA*	Blue Bell	1970/1996	219,065	100.0%	2,325,845	10.62	Unisys with 100% sublease to Merck
760 Jolly Road *Blue Bell, PA*	Blue Bell	1974/1994	208,854	100.0%	2,834,467	13.57	Unisys (100%)
751 Jolly Road *Blue Bell, PA*	Blue Bell	1966/1991	112,958	100.0%	1,041,898	9.22	Unisys (100%)
Subtotal/Average			**960,349**	**100.0%**	**$ 10,071,323**	**$ 10.49**	
Greater Harrisburg:							
2605 Interstate Drive *Harrisburg, PA*	East Shore	1990	79,456	94.8%	$ 1,332,561	$ 17.70	Commonwealth of Pennsylvania (90%)
6345 Flank Drive *Harrisburg, PA*	East Shore	1989	69,443	61.9%	543,779	12.66	Allstate Insurance (26%); Data Recognition Corporation (18%)
6340 Flank Drive *Harrisburg, PA*	East Shore	1988	68,200	77.6%	600,113	11.34	Lancaster Lebanon (78%)
2601 Market Place *Harrisburg, PA*	East Shore	1989	66,224	100.0%	1,187,373	17.93	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. (10%)
6400 Flank Drive *Harrisburg, PA*	East Shore	1992	52,439	84.0%	708,410	16.09	Pennsylvania Coalition Against Domestic Violence (51%); The REM Organization (27%)
6360 Flank Drive *Harrisburg, PA*	East Shore	1988	46,500	83.7%	584,642	15.03	Ikon Office Solutions, Inc. (22%); Computer Applications (15%); Sentage Corp. d/b/a Dental Services Group (15%)
6385 Flank Drive *Harrisburg, PA*	East Shore	1995	32,921	63.0%	334,629	16.14	Cowles Enthusiast Media (34%); Imagistics International (11%); CGI Information Systems & Management (11%)
6380 Flank Drive *Harrisburg, PA*	East Shore	1991	32,668	100.0%	407,271	12.47	Critical Care Systems, Inc. (19%); Cancer Recovery Foundation of America (18%); Myers & Stauffer (16%); Lorom America, Inc. (14%); Verizon Network Integration Corporation (14%); Day Specialties (12%)
6405 Flank Drive *Harrisburg, PA*	East Shore	1991	32,000	100.0%	509,360	15.92	Cowles Enthusiast Media (100%)
95 Shannon Road *Harrisburg, PA*	East Shore	1999	21,976	100.0%	376,083	17.11	New World Pasta (100%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
75 Shannon Road *Harrisburg, PA*	East Shore	1999	20,887	100.0%	365,823	17.51	McCormick, Taylor & Assoc. (100%)
6375 Flank Drive *Harrisburg, PA*	East Shore	2000	19,783	100.0%	354,348	17.91	Orion Capital Companies (71%); McCormick, Taylor & Assoc. (29%)
85 Shannon Road *Harrisburg, PA*	East Shore	1999	12,863	100.0%	220,129	17.11	New World Pasta (100%)
5035 Ritter Road *Mechanicsburg, PA*	West Shore	1988	56,556	91.8%	726,499	14.00	Commonwealth of Pennsylvania (91%)
5070 Ritter Road - Building A *Mechanicsburg, PA*	West Shore	1989	32,309	77.5%	365,401	14.59	Maryland Casualty Co. (62%); Commonwealth of Pennsylvania (15%)
5070 Ritter Road - Building B *Mechanicsburg, PA*	West Shore	1989	28,039	100.0%	364,159	12.99	Vale National Training Center (63%); Pennsylvania Trauma Systems Foundation (18%); Paytime, Inc. (15%)
Subtotal/Average			**672,264**	**87.2%**	**$ 8,980,580**	**$ 15.32**	
Northern/Central New Jersey:							
431 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1958/1998	170,000	100.0%	$ 3,380,318	19.88	AT&T Corporation (100%)
429 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1966/1996	142,385	100.0%	2,979,961	20.93	AT&T Corporation (100%)
68 Culver Road *Dayton, NJ*	Exit 8A - Cranbury	2000	57,280	100.0%	1,328,518	23.19	AT&T Corporation (100%)
104 Interchange Plaza *Cranbury, NJ*	Exit 8A - Cranbury	1990	47,677	87.9%	962,625	22.98	Turner Construction Co. (35%); Laborer's International Union (34%)
101 Interchange Plaza *Cranbury, NJ*	Exit 8A - Cranbury	1985	43,621	82.8%	844,301	23.38	CSX Transportation, Inc. (18%); Arquest, Inc. (16%); Ford Motor Credit Company (13%); Middlesex County Improve. Auth. (13%)
47 Commerce *Cranbury, NJ*	Exit 8A - Cranbury	1992/1998	41,398	100.0%	512,469	12.38	Somfy Systems, Inc. (100%)
437 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1962/1996	30,000	100.0%	602,448	20.08	AT&T Corporation (100%)
7 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1986	19,468	100.0%	466,655	23.97	Compugen, Inc. (23%); Systems Freight (22%)
8 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1989	16,199	45.4%	176,549	24.00	Medical World Communications (45%)
2 Centre Drive *Jamesburg, NJ*	Exit 8A - Cranbury	1989	16,132	100.0%	422,799	26.21	Fleet National Bank (100%)
4301 Route 1 *Monmouth Junction, NJ*	Monmouth Junction	1986	61,342	87.3%	1,102,258	20.58	Guest Supply, Inc. (47%); Tricore Technologies (10%); Foster & Adoptive Family Services (10%)
695 Rt. 46 (5) *Fairfield, NJ*	Wayne	1990	157,394	80.2%	2,736,603	21.69	ADT Security Services, Inc. (26%); JPMorgan Chase Bank (15%); Dean Witter Reynolds (13%)
710 Rt. 46 *Fairfield, NJ*	Wayne	1985	101,263	57.9%	1,297,293	22.14	Ericsson, Inc. (13%); Green Point Mortgage (10%)

Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue per Occupied Square Foot (2) (3)	Major Tenants (10% or more of Rentable Square Feet)
Subtotal/Average			**904,159**	**88.5%**	**$ 16,812,797**	**$ 21.01**	
Northern Virginia:							
15000 Conference Center Drive	Chantilly	1989	470,413	89.9%	$ 8,813,476	20.84	Dyncorp Info. Systems (CSC (52%);

Chantilly, VA							General Dynamics Government Corp. (19%)
15059 Conference Center Drive *Chantilly, VA*	Chantilly	2000	145,192	100.0%	3,822,791	26.33	The Boeing Company (55%); Booz Allen Hamilton (18%)
15049 Conference Center Drive *Chantilly, VA*	Chantilly	1997	145,053	100.0%	3,671,739	25.31	The Aerospace Corporation (92%)
14900 Conference Center Drive *Chantilly, VA*	Chantilly	1999	127,572	92.6%	3,182,973	26.93	MBA Management (11%); Federal Express Corporation (11%); eMeritus Communications (10%)
14850 Conference Center Drive *Chantilly, VA*	Chantilly	2000	69,711	100.0%	1,828,495	26.23	Comstor (51%); Rolls-Royce North America (49%)
14840 Conference Center Drive *Chantilly, VA*	Chantilly	2000	69,710	100.0%	1,633,188	23.43	Omniplex World Services (100%)
13200 Woodland Park Drive *Herndon, VA*	Herndon	2002	404,665	100.0%	8,985,450	22.20	VeriSign, Inc. (100%) (6)
13454 Sunrise Valley Road *Herndon, VA*	Herndon	1998	113,093	76.6%	1,672,940	19.31	Treev, LLC (16%); National Student Clearinghouse (13%); Infodata Systems, Inc. (12%)
13450 Sunrise Valley Road *Herndon, VA*	Herndon	1998	53,728	100.0%	1,483,430	27.61	Vista Information (100%)
Subtotal/Average			**1,599,137**	**94.8%**	**35,094,482**	**$ 23.15**	
Other:							
9690 Deereco Road *Timonium, MD*	North Baltimore Co.	1988	133,737	94.2%	$ 2,969,538	$ 23.56	Fireman's Fund Insurance (24%); I4Commerce, Inc. (10%)
375 W. Padonia Road *Timonium, MD*	North Baltimore Co.	1986	101,133	99.6%	1,669,457	16.57	Deutsche Bank Securities (83%)
1615 - 1629 Thames Street Baltimore, MD	Baltimore City	1989	101,115	78.0%	1,640,638	20.79	Johns Hopkins University (47%); Community of Science (12%)
Subtotal/Average			**335,985**	**91.0%**	**$ 6,279,633**	**$ 20.54**	
Total/Average			**10,032,928**	**91.2%**	**$ 177,350,894**	**$ 19.37**	

(1) This percentage is based upon all signed leases and tenants occupancy as of December 31, 2003.
(2) Total annualized rental revenue is the monthly contractual base rents as of December 31, 2003 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 annualized rental revenue divided by that property's occupied square feet as of December 31, 2003.
(4) The Baltimore/Washington Corridor encompasses mostly Anne Arundel and Howard Counties.
(5) This property was contributed into a joint venture in March 2003 in exchange for $20.0 million and a 20% joint venture interest.
(6) VeriSign, Inc. has the right to terminate the lease with respect to a maximum of 232,268 rentable square feet at designated times from June 2005 through September 2006.

Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place as of December 31, 2003, 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 Annualized Rental Revenue of Expiring Office Leases (2) (in thousands)	Percentage of Total Annualized Rental Revenue Expiring (2)	Total Annualized Rental Revenue of Expiring Leases Per Occupied Square Foot (2)
2004	87	858,022	9.4%	$ 15,925	9.0%	$ 18.56
2005	82	913,107	10.0%	18,273	10.3%	20.01
2006	78	1,017,402	11.1%	19,532	11.0%	19.20
2007	87	1,321,781	14.4%	26,515	15.0%	20.06
2008	66	1,178,521	12.9%	25,202	14.2%	21.38
2009	32	1,462,512	16.0%	19,384	10.9%	13.25
2010	21	865,349	9.4%	19,602	11.0%	22.65
2011	3	71,501	0.8%	1,788	1.0%	25.01
2012	8	392,978	4.3%	8,412	4.7%	21.41
2013	4	311,928	3.4%	8,098	4.6%	25.96
2014	3	538,356	5.9%	12,346	7.0%	22.93
2015	—	—	0.0%	—	0.0%	0.00
2016	—	—	0.0%	—	0.0%	0.00
2017	—	—	0.0%	—	0.0%	0.00
2018	1	155,000	1.7%	1,935	1.1%	12.48
Other (3)	19	67,834	0.7%	339	0.2%	5.00
Total/Weighted Average.	491	9,154,291	100.0%	$ 177,351	100.0%	$ 20.06

(1) Most of our leases with the United States Government provide for consecutive one-year terms or provide for early termination rights; all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases prematurely or exercising early termination rights. We reported the statistics in this manner since we manage our leasing activities using these same assumptions and believe these assumptions to be probable.
(2) Total annualized rental revenue is the monthly contractual base rent as of December 31, 2003 multiplied by 12, plus the estimated annualized expense reimbursements under existing office leases.
(3) Other consists primarily of amenities, including cafeterias, concierge offices and property management space. In addition, month-to-month leases and leases which have expired but the tenant remains in holdover 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.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report 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 SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls 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.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Items 10, 11, 12, 13 & 14. Directors and Executive Officers of the Registrant, Executive Compensation, Security Ownership of Certain Beneficial Owners and Management and Certain Relationships and Related Transactions, Principal Accounting Fees and Services

For the information required by Item 10, Item 11, Item 12, Item 13 and Item 14, you should refer to our definitive proxy statement relating to the 2004 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.

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, 2003 and 2002, 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, 2003 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, 2003:

Report, filed with the SEC on December 12, 2003 (the date of the report was December 11, 2003), containing Item 5 and Item 7 disclosures that were filed in connection with our entry into an underwriting agreement with a firm for the public offering of cumulative redeemable preferred shares of beneficial interest.

Not included in this section are Current Reports on Form 8-K that contained only furnished information.

(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).
3.1.8	Articles Supplementary of Corporate Office Properties Trust Series G Cumulative Redeemable Preferred Shares, dated August 6, 2003 (filed with the Registrant's Registration Statement on Form 8-A on August 7, 2003 and incorporated herein by reference).
3.1.9	Articles Supplementary of Corporate Office Properties Trust Series H Cumulative Redeemable Preferred Shares, dated August 6, 2003 (filed with the Registrant's Registration Statement on Form 8-A on August 7, 2003 and incorporated herein by reference).
3.2	Bylaws of the 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).

EXHIBIT NO.	DESCRIPTION
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 with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.1.6	Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated January 25, 2001 (filed with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
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 with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
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 with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.1.11	Tenth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 29, 2001 (filed with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.1.12	Eleventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 15, 2002 (filed with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.1.13	Twelfth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 2, 2003 (filed with the Registrant’s Quarterly Report on Form 10-Q on August 12, 2003 and incorporated herein by reference).
10.1.14	Thirteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated August 11, 2003 (filed with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.1.15	Fourteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated December 18, 2003 (filed herewith).
10.1.16	Fifteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 31, 2004 (filed herewith).

EXHIBIT NO.	DESCRIPTION
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 with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
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 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 with the Company’s Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.8.1*	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).
10.8.2*	Employment Agreement, dated May 15, 2003, between Corporate Development Services, LLC, Corporate Office Properties Trust and Dwight Taylor (filed with the Registrant’s Quarterly Report on Form 10-Q on August 12, 2003 and incorporated herein by reference).
10.9.1*	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).

EXHIBIT NO.	DESCRIPTION
10.9.2*	Employment Agreement, dated May 15, 2003, between Corporate Realty Management, LLC, Corporate Office Properties Trust and Michael D. Kaiser (filed with the Registrant’s Quarterly Report on Form 10-Q on August 12, 2003 and incorporated herein by reference).
10.10.1	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).

10.10.2	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 with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.11	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).
10.12	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).
10.13	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).
10.14	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).
10.15	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).
10.16	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).
10.17	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).

EXHIBIT NO.	DESCRIPTION
10.18	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).
10.19	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 and incorporated herein by reference).
10.20	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).
10.21.1	Agreement of Sale, dated December 19, 2002, between Jolly Knolls, LLC and the Operating Partnership (filed with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.21.2	Amendment to Agreement of Sale, dated November 7, 2003, between Jolly Knolls, LLC and the Operating Partnership (filed herewith).
10.22	Indemnity Deed of Trust Note, dated January 24, 2003, by Corporate Office Properties, LP for the benefit of Jolly Knolls, LLC (filed with the Company's Annual Report on Form 10-K on March 27, 2003 and incorporated herein by reference).
10.23	Indemnity Deed of Trust Note (Reserve Parcel Note), dated November 14, 2003, by Corporate Office Properties, LP for the benefit of Jolly Knolls, LLC (filed herewith).
10.24.1	Contract of Sale, dated February 27, 2003 between Jolly Acres Limited Partnership and the Operating Partnership (filed herewith).
10.24.2	Amendment to Contract of Sale, dated November 7, 2003, between Jolly Acres Limited Partnership and the Operating Partnership (filed herewith).
13.1	Portions of the Annual Report of Corporate Office Properties Trust as of and for the year ended December 31, 2003 (filed herewith).
13.2	Schedule III — Real Estate and Accumulated Depreciation as of December 31, 2003 (filed herewith).
21.1	Subsidiaries of Registrant (filed herewith).
23.1	Consent of Independent Accountants (filed herewith).
31.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Operating Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.3	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed

EXHIBIT NO.	DESCRIPTION
	herewith).

32.1	Certification of the Chief Executive Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith.)
32.2	Certification of the Chief Operating Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith.)
32.3	Certification of the Chief Financial Officer of Corporate Office Properties Trust required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished 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 10, 2004

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

Date: March 10, 2004

By: /s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Executive 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 10, 2004
/s/ Clay W. Hamlin, III (Clay W. Hamlin, III)	Chief Executive Officer and Trustee	March 10, 2004
/s/ Randall M. Griffin (Randall M. Griffin)	President and Chief Operating Officer	March 10, 2004
/s/ Roger A. Waesche, Jr. (Roger A. Waesche, Jr.)	Executive Vice President and Chief Financial Officer	March 10, 2004
/s/ Thomas F. Brady (Thomas F. Brady)	Trustee	March 10, 2004
/s/ Betsy Z. Cohen (Betsy Z. Cohen)	Trustee	March 10, 2004
/s/ Robert L. Denton (Robert L. Denton)	Trustee	March 10, 2004
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	March 10, 2004
/s/ Kenneth S. Sweet, Jr. (Kenneth S. Sweet, Jr.)	Trustee	March 10, 2004

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

THIS FOURTEENTH 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 18, 2003, 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, that certain Fourth Amendment to Second Amended and Restated Limited Partnership Agreement dated as of November 27, 2000, that certain Fifth Amendment to Second Amended and Restated Limited Partnership Agreement dated as of January 25, 2001, that certain Sixth Amendment to Second Amended and Restated Limited Partnership Agreement dated as of April 6, 2001, that certain Seventh Amendment to the Second Amended and Restated Partnership Agreement dated as of August 30, 2001, that certain Eighth Amendment to the Second Amended and Restated Partnership Agreement dated September 14, 2001, that certain Ninth Amendment to the Second Amended and Restated Partnership Agreement dated October 16, 2001, that certain Tenth Amendment to the Second Amended and Restated Partnership Agreement dated December 29, 2001, that certain Eleventh Amendment to the Second Amended and Restated Partnership Agreement dated December 15, 2002, that certain Twelfth Amendment to the Second Amended and Restated Partnership Agreement dated June 2, 2003, and that certain Thirteenth Amendment to the Second Amended and Restated Partnership Agreement dated August 11, 2003 (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 2,000,000 of its 7.5% Series H Cumulative Redeemable Preferred Shares (the "Series H Preferred REIT Shares") in a public offering (the "Offering").

D. As required under Sections 4.2(B) and (C) of the Agreement, the General Partner intends to transfer the net proceeds of the Offering (or cause them to be transferred) to or for the benefit of the Partnership in exchange for additional Partnership Interests in the Partnership having designations, rights and preferences substantially similar to the economic rights of the holders of the Series H Preferred REIT Shares (the "Series H Preferred Units").

E. The General Partner desires to amend the Agreement to acknowledge the contribution of the net proceeds of the Offering by the General Partner to the Partnership in exchange for the Series H Preferred Units. Unless otherwise defined herein, all 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 consummation of the Offering, the General Partner shall contribute the net proceeds of the Offering to the Partnership.

(b) Upon the contribution of the net proceeds of the Offering to the Partnership by the General Partner, and in accordance with Section 4.2(B) of the Agreement, the Partnership shall issue to the General Partner 2,000,000 Series H Preferred Units, equal to the number of Series H Preferred REIT Shares issued by the General Partner in connection with the Offering.

(c) For purposes of the Agreement, including the maintenance of Capital Accounts, the General Partner shall be treated as making a Capital Contribution of $48,425,000, equal to the product of $24.2125 times the number of Series H Preferred Units issued to the General Partner.

(d) 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 H 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.

3. This Amendment shall take effect upon the contribution of the net proceeds of the Offering to the Partnership by the General Partner, and in the event such contribution is not made, this Amendment shall be of no force or effect.

(SIGNATURE PAGE FOLLOWS)

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

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
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	10.25%	Senior	None	N/A
G	General Partner	2,200,000	$ 25	8%	Senior	None	N/A
H	General Partner	2,000,000	$ 25	7.5%	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."

** 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 10.1.16

Fifteenth Amendment
To
Second Amended and Restated
Limited Partnership Agreement

Of
Corporate Office Properties, L.P.

This Fifteenth 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 31, 2004, 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.
Executive Vice President

SCHEDULE OF PARTNERS

General Partner	**Partnership Units**
Corporate Office Properties Trust	27,291,612
Limited Partners and Preferred Limited Partners	
Jay H. Shidler	452,878
Shidler Equities, L.P.	2,995,439
Clay W. Hamlin, III	566,492
LBCW Limited Partnership	3,161,427
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
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
Laswrence 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 Sandar Juanita Blockey	50,476
Anthony Muscatello	90,905
Lynn Hamlin	121,411
National Prostrate Cancer Coalition	500
Wildlands Conservancy	250
National Aquarium in Baltimore	300
University of Pennsylvania - Frineds of Penn Tennis	150
John Hopkins University	300
Nichols School	500
	36,161,928

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
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	10.25%	Senior	None	N/A
G	General Partner	2,200,000	$ 25	8%	Senior	None	N/A
H	General Partner	2,000,000	$ 25	7.5%	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."

** 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 10.21.2

AMENDMENT TO AGREEMENT OF SALE

THIS AMENDMENT TO AGREEMENT OF SALE (this **"Amendment")** is made and entered into as of the 7 day of November, 2003 (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**").

RECITALS:

A. Seller and Buyer entered into an Agreement of Sale (the "**Agreement of Sale**") dated as of December 19, 2002 (collectively, the Agreement of Sale and this Amendment are referred to as the "**Agreement**") in connection with the sale by Seller to Buyer of certain membership interests in a Maryland limited liability company, as more particularly described in the Agreement of Sale.

B. The Seller and Buyer wish to amend certain provisions of the Agreement of Sale as follows, which amendment shall survive the Closings.

NOW, THEREFORE, for and in consideration of the mutual promises and covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **RESERVE PARCEL**. At the Second Closing, Seller and Buyer will be utilizing the Alternative Sale Structure with respect to the purchase of the Reserve Parcel.

2. **SECOND CLOSING DATE**. The definition of "Second Closing Date" as set out in Section 1 of the Agreement of Sale is hereby deleted and the following inserted in lieu thereof:

"**Second Closing Date**" means November 14, 2003."

3. **SUBDIVISION OF RESERVE PARCEL**. The parties have agreed that, from and after the Effective Date of this Amendment, Seller shall not proceed with the processing of the subdivision of the Reserve Parcel into one or more lots and shall have no further obligations or responsibilities with respect to such subdivision. Buyer shall proceed to the Second Closing in accordance with the terms of the Agreement.

4. **COMPLETION OF THE PONDS**. One of the three ponds referenced in the Mass Grading Permit is located on a portion of the Reserve Parcel. The parties anticipate that Seller's Completion of the Ponds shall occur after the Second Closing. Buyer acknowledges that from and after the Second Closing, Seller, its agents, employees, contractors and engineers, shall be entitled at all reasonable times to enter the Reserve Parcel to pursue the Completion of the Ponds. Seller agrees to indemnify and hold harmless Buyer from any and all losses, liabilities, claims, damages and expenses (including reasonable attorneys' fees) arising as a result of Seller's entry and activities on the Reserve Parcel under the provisions of this Section 4. The provisions of this Section 4 shall survive the Second Closing.

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5. **FULL FORCE**. Except as herein modified and amended, the Agreement of Sale is and shall remain in full force and effect and has not been otherwise modified or amended, either orally or in writing. Seller and Buyer, by their execution hereof, hereby ratify, affirm and approve the Agreement.

6. **CONFLICT**. All of the provisions of the Agreement of Sale affected by this Amendment shall be deemed amended, whether or not actually specified herein, if any such amendment is clearly necessary to effectuate the intent of the parties hereto. In the event of conflict between the Agreement of Sale and this Amendment, this Amendment shall take precedence.

7. **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.

8. **RECITALS**. The parties agree that the Background section of this Amendment shall be an integral part of this Amendment and not merely prefatory thereto.

9. **DEFINITIONS**. All capitalized terms not otherwise defined in this Amendment shall have the meanings given to them in the Agreement of Sale.

10. **EXHIBITS**. Each document and the terms and provisions thereof that is referred to in the Agreement of Sale as being annexed as an exhibit or otherwise designated as an exhibit hereto is hereby made a part of the Agreement of Sale.

11. **COPT**. COPT hereby reaffirms its obligations under the Agreement.

12. **COUNTERPARTS**. This Amendment 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. This Amendment may be delivered by facsimile transmission of an originally executed copy to be followed by immediate delivery of the original of such executed copy.

Signatures Begin on Following Page

IN WITNESS WHEREOF, the parties hereto have executed this Amendment or caused it to be executed on its behalf by their respective 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/ Robert N. Cantor	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/ Stephanie L. Shack

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

JOINDER BY CORPORATE OFFICE PROPERTIES TRUST

Corporate Office Properties Trust joins in the execution of this Amendment for purposes of affirming its obligations under Subsections 3.1.2, 3.2.2, 5.1.2, 5.4.1, 5.4.2 and 5.4.8 of the Agreement of Sale.

CORPORATE OFFICE PROPERTIES TRUST

/s/ Stephanie L. Shack

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

INDEMNITY DEED OF TRUST NOTE
(Reserve Parcel Note)

$7,235,315.07

Columbia, Maryland
November 14, 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 Seven Million Two Hundred Thirty Five Thousand Three Hundred Fifteen and 07/100 Dollars ($7,235,315.07) (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 II, 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 II**" means Jolly COPT II, 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 II, 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 dated as of January 21, 2003 and recorded among the Land Records of the County at Liber 12452, folio 533, the Master FAR Declaration dated as of January 21, 2003 and recorded among the Land Records of the County at Liber 12452, folio 546 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 four (4) yearly installments in the following manner:

(i) On or before November 14, 2004, a principal payment in the amount of One Million Four Hundred Forty Seven Thousand Sixty Three and 00/100 Dollars ($1,447,063.00), together with accrued and unpaid interest on the Principal Sum;

(ii) On or before November 14, 2005, a principal payment in the amount of One Million Four Hundred Forty Seven Thousand Sixty Three and 00/100 Dollars ($1,447,063.00), together with accrued and unpaid interest on the unpaid Principal Sum;

(iii) On or before November 14, 2006, a principal payment in the amount of One Million Four Hundred Forty Seven Thousand Sixty Three and 00/100 Dollars ($1,447,063.00), together with accrued and unpaid interest on the unpaid Principal Sum;

(iv) On or before November 14, 2007, a principal payment in the amount of One Million Four Hundred Forty Seven Thousand Sixty Three and 00/100 Dollars ($1,447,063.00), 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

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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:	**BORROWER:**
	CORPORATE OFFICE PROPERTIES, L.P.
	By: **Corporate Office Properties Trust**, general partner
/s/ Stephanie L. Shack	By: /s/ Roger A. Waesche, Jr. (SEAL)
	Name: Roger A. Waesche, Jr.
	Title: Senior Vice President

STATE OF MARYLAND)
) **TO WIT:**
CITY/COUNTY OF)

I HEREBY CERTIFY that on November 14, 2003, before me, a Notary Public of the State of Maryland, personally appeared Roger A. Waesche, Jr., who acknowledged himself/herself to be the Sr. VP of Corporate Office Properties Trust, a Maryland corporation, general partner of **Corporate Office Properties, L.P**., a Delaware limited partnership, and that he/she 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/ Robert N. Cantor

Notary Public
My Commission Expires: 11/1/04

[SEAL]

CONTRACT OF SALE

THIS CONTRACT OF SALE (this "Contract") is made and executed this 27 day of February, 2003, by and between **JOLLY ACRES LIMITED PARTNERSHIP**, a Maryland limited partnership ("Seller"), and **CORPORATE OFFICE PROPERTIES, L.P.**, a Delaware limited partnership ("Buyer").

RECITALS

Seller is the owner of "Lot 17-R" (the "Lot") in National Business Park, Annapolis Junction, Anne Arundel County, Maryland (the "Project"), as more particularly described on the record plat set forth on Exhibit A attached hereto and made a part hereof. Seller intends to transfer fee simple title to the Lot to a single-member, Maryland limited liability company to be formed by Seller and to be owned by Constellation Real Estate, Inc. ("CREI") or affiliates of CREI (collectively, the "Selling Parties" and each individually, a "Selling Party"). Seller will cause the Selling Parties to sell, and Buyer will purchase, the membership interests in the limited liability company on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the Recitals and other good and valuable consideration, the adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. **Sale of Membership Interests**. Seller hereby agrees to cause the Selling Parties to sell to Buyer the membership interests in the limited liability company to be formed which will hold fee simple title to the Lot, upon the terms and subject to the conditions hereinafter set forth.

2. **Transfer of Fee Simple Title by Seller**. Prior to the Closing (as defined below), Seller shall transfer fee simple title to the Lot into a single-member Maryland limited liability company, Smooth Water Pond, LLC (the "LLC") or such other name to be designated by Buyer. Buyer, at Buyer's expense, shall prepare the deed transferring the Lot from Seller to the LLC, the form of which shall be approved by Seller. Seller, at Seller's expense, shall form the LLC. At the time of transfer, Buyer and Seller shall split equally and pay all of the recordation taxes, transfer taxes and related recording costs and expenses to record the deed transferring the Lot into the LLC. Seller and Buyer agree to use a mutually acceptable title insurance company for the purposes of recording the deed. In the event Anne Arundel 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 the LLC, 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 Closing.

3. **Closing**. Closing on the acquisition of the membership interests in the LLC, the fee simple owner of the Lot, shall occur within ten (10) days after the later of (i) written notice from Seller ("Seller's Completion Notice") that the construction of the Pond (as defined herein)

is complete, as more particularly set forth in Section 7 herein; or (ii) the completion of Buyer's title review and any necessary cure period for Seller, as more particularly set forth in Section 8 herein. If there is any dispute between Seller and Buyer concerning whether the construction of the Pond is complete, the parties shall attempt to resolve their dispute, in good faith and with all due diligence. If the parties are unable to resolve their dispute within ten (10) days after delivery of Seller's Completion Notice, then the parties shall refer the matter to John E. Harms Jr. & Associates (the "Engineer") and the Engineer shall resolve the dispute concerning completion of the Pond, which decision shall be binding on the parties.

4. **Purchase Price**. The purchase price for the membership interests acquired in the Closing shall be One Million Six Hundred Fifty Thousand Dollars ($1,650,000.00) (the "Purchase Price"). At the Closing, Buyer shall pay Seller the Purchase Price by wire transfer of immediately available funds to an account designated by Seller.

5. **Special Taxing District**. Buyer and Seller shall sign the disclosure regarding the National Business Park Special Taxing District attached hereto as Exhibit B and made a part hereof by this reference.

6. **Restrictive Covenants**. Buyer acknowledges and agrees that the Lot is subject to the Declaration of Covenants, Conditions and Restrictions The National Business Park 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 (the "Declaration").

7. **Condition of Lot**. Seller, at Seller's expense, shall complete the construction of a sediment control pond (the "Pond") on the Lot. The Pond shall be constructed in accordance with the Anne Arundel County permit for same, as obtained by Seller at Seller's sole cost and expense. Buyer acknowledges that other than for construction of the Pond, the Lot will be "as-is, where is" at Closing when Buyer acquires the membership interests in the LLC. Other than as set forth herein, Seller makes no representations or warranties regarding the subsurface condition of the Lot. Buyer will be required to comply with the stormwater requirements of Anne Arundel County, Maryland for the future maintenance of the Pond and for its conversion to a storm water pond.

8. **Title to the Lot**.

(a) At the Closing, title to the Lot shall be good and marketable, free of all liens, encumbrances, encroachments and easements other than the Permitted Encumbrances (as hereinafter defined) and the liens and encumbrances set forth below which (x) are acceptable to Buyer and (y) shall not constitute an impediment to good and marketable fee simple title. Possession of the Lot shall be given to Buyer free of all tenancies or other rights of use or occupancy. As used herein, the term "Permitted Encumbrances" shall mean the following:

(i) easements and rights of way to Anne Arundel County or public utility companies existing as of Closing;

(ii) easements and rights of way shown on the plat of the Lot;

(iii) easements and rights of way which as of the date of this Contract may be observed by an inspection of the Lot;

(iv) the Declaration;

(v) use or benefit charges assessed for public or private water and sewer facilities and taxes not delinquent;

(vi) zoning and building restrictions and other laws, ordinances and regulations of governmental bodies having jurisdiction over the Lot;

(vii) obligations undertaken by Seller in connection with the approval of the plat of the Lot, including public works agreements, utility agreements, inspection agreements and other agreements and commitments related to such resubdivision;

(viii) a covenant to be included in the deed transferring the Lot from Seller to the LLC which provides that prior to December 29, 2005, the Lot shall not be developed or used for hotel uses;

(ix) all real estate taxes and assessments, both general and special, not yet due and payable as of the Closing; and

(x) all matters of public record, except for title matters that Seller agrees to cure pursuant to Subsection 8(c) below.

(b) Within thirty (30) days following execution of this Contract, Buyer, at Buyer's expense, shall have title to the Lot examined by a reputable title insurance company and have such title insurance company issue a title insurance commitment (the "Title Commitment") to assure Buyer that, as of the examination date, title to the Lot is good and marketable and insurable at ordinary prevailing title insurance rates and that any exceptions to title contained in the Title Commitment are acceptable to Buyer.

(c) On or before that date which is thirty (30) days following execution of this Contract, Buyer shall provide to Seller a copy of the Title Commitment and either advise Seller in writing that all exceptions to title contained in the Title Commitment are acceptable to Buyer or advise Seller in writing of those exceptions to title contained in the Title Commitment that are unacceptable to Buyer; provided, however, that Buyer shall be required to accept all Permitted Encumbrances. Failure of Buyer to examine title or to advise Seller of the acceptability of title within the time periods required hereunder shall be deemed an acceptance of all title matters. Within ten (10) days after receipt of a notice from Buyer advising Seller that certain title exceptions are unacceptable to Buyer, Seller shall notify Buyer whether Seller will cure any of the unacceptable title exceptions. Failure of Seller to provide notice within such time period shall be deemed an election by Seller not to cure the unacceptable title exceptions. If Buyer has timely notified Seller of unacceptable title matters then, unless Seller has timely elected to cure

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such title exceptions as provided hereunder, Buyer, by written notice to Seller, may, within ten (10) days after expiration of the time period for Seller to elect to cure, either waive such unacceptable title exceptions (in which case such exceptions shall be deemed acceptable to Buyer) or terminate this Contract. If Buyer elects to terminate this Contract pursuant to the immediately preceding sentence, neither party shall have any further obligations or liabilities to the other relating hereto.

(d) Failure of Buyer to notify Seller in the ten (10) day period described above shall be deemed an election by Buyer to waive the unacceptable title exceptions. If Seller notifies Buyer that Seller will cure any unacceptable title exception, then Seller shall be obligated to promptly and, in all events, prior to the Closing, proceed to cure such title exception in such manner that the defect or objection to title will not appear in Buyer's title insurance policy. All exceptions to title accepted by Buyer or deemed to be accepted by Buyer under the provisions of this Section 8 shall also constitute "Permitted Encumbrances." Notwithstanding the foregoing, from and after the date hereof, except as otherwise permitted hereunder, Seller shall not change or permit to be changed title to the Lot or any portion thereof in a manner which would materially prevent or interfere with the development of the Lot for the Pond and a stormwater management pond. Nothing herein shall preclude Seller from placing liens on the Lot in connection with financings or refinancings, it being understood that it is the obligation of Seller to remove such liens prior to Closing.

9. **Closing Adjustments**. All costs, including taxes, insurance and any and all costs relating to the ownership of the Lot shall be borne by Seller until Closing. All taxes, general or special, and all other public, governmental or other assessments against the Lot payable on an annual basis are to be adjusted and apportioned as of the date of Closing and are to be assumed and paid after Closing by Buyer. The costs of all recordation taxes and transfer taxes, if any, shall be split equally by Buyer and Seller. All other closing costs incurred by Buyer, including, without limitation, recording charges, document preparation charges, notary fees and title insurance premiums shall be paid by Buyer. Seller and Buyer shall each pay their respective legal costs.

10. **Closing Documents**. At the Closing hereunder, Seller shall cause the Selling Parties to execute and deliver to Buyer the following:

(a) an Assignment of Limited Liability Company Interests in a form acceptable to Seller and Buyer, which Assignment shall also be executed by Buyer;

(b) a Certificate of Good Standing for the LLC;

(c) Certified Copies of the Articles of Organization and Operating Agreement for the LLC;

(d) an affidavit, in form sufficient to satisfy all Internal Revenue Service requirements, stating that Seller is not a "foreign person" (as defined by the Foreign Investment in Real Property Tax Act and the regulations promulgated thereunder) so that Buyer is not

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legally required to withhold any portion of the Purchase Price then being paid at any Closing hereunder;

(e) an owner's affidavit for the benefit of Buyer's title insurance company dealing solely with bankruptcy and leases and Seller shall not be required to execute any other affidavits, including, but not limited to, any non-imputation affidavit; and

(f) any other documents as reasonably requested by Buyer, which are necessary to effect the transactions set forth herein in accordance with the terms set forth herein.

11. **Risk of Loss**. The Lot is to be held at the risk of the Seller until the Closing. In the event of a condemnation, Buyer shall have the option to terminate the Contract or to proceed to Closing with any condemnation award (not to exceed the Purchase Price) paid or credited to Buyer at Closing.

12. **Warranties and Representations**.

(a) Seller warrants, represents and covenants to Buyer the following items which are true in all material respects and shall be deemed to have been restated at the time of the Closing hereunder, to the extent applicable:

(i) As of the date hereof, Seller is the sole owner of fee simple title to the Lot, and will not have entered into any contract of sale, option agreement, right of first refusal or other agreement for the sale of the Lot other than this Contract. As of the date of the Closing, the LLC will be the sole owner of fee simple title to the Lot and such limited liability company will not have entered into any contract of sale, option agreement, right of first refusal or other agreement for the sale of any part of the Lot.

(ii) Seller has full power and authority to execute, deliver and perform this Contract and to execute, deliver and perform any and all documents, instruments and agreements to be executed and delivered by Seller in connection herewith.

(iii) To the best of Seller's knowledge, there are no underground storage tanks on the Lot.

(iv) To the best of Seller's actual knowledge, Seller has not used, generated, stored or disposed, and from and after the date of this Contract, except to the extent consistent with current real estate industry practices for such type of property, consistent with use of the Lot for retail purposes, and permitted under governmental regulations, will not use, generate, store or dispose, on, under or about the Lot any hazardous waste toxic substance or related materials or any friable asbestos or substance containing asbestos.

(v) 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 execution of this Contract.

The foregoing warranties shall terminate twelve (12) months after the Closing. Buyer hereby agrees and acknowledges that, except as set forth in this Subsection 12(a), 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 Lot or the capabilities thereof, and that Buyer, in executing, delivering and/or performing this Contract, 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 Lot shall be (indirectly) sold to Buyer "as is, where is" as of the date hereof, subject to Seller's obligations to complete construction of the Pond on the Lot in accordance with the provisions of Section 7 above. EXCEPT AS SPECIFICALLY PROVIDED HEREIN TO THE CONTRARY, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE PHYSICAL CONDITION OF THE LOT 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 LOT. BUYER, BY EXECUTION OF THIS CONTRACT AGREES THAT IT HAS INSPECTED THE LOT AND THAT BUYER SHALL ACCEPT SAME "AS IS" AND "*WITH ALL FAULTS*", SUBJECT TO THE OBLIGATIONS OF SELLER TO COMPLETE CONSTRUCTION OF THE POND ON THE LOT.

(b) Buyer warrants, represents and covenants to Seller the following items which are true in all material respects and shall be deemed to have been restated at the time of the Closing hereunder, to the extent applicable:

(i) Buyer is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware.

(ii) Buyer has full power and authority to execute, deliver and perform this Contract and to execute, deliver and perform any and all documents, instruments and agreements to be executed and delivered by Buyer in connection herewith.

(iii) 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 execution of this Contract.

The foregoing warranties shall terminate twelve (12) months after the Closing.

13. **Cooperation With Seller in Continuing Development of National Business Park Project**. Buyer acknowledges that the Lot is part of the Project being developed by Seller concurrently with the Lot and that in order for Seller to obtain the necessary zoning for the Project, Seller made certain agreements and commitments with Anne Arundel County relating to the ongoing development and overall control of the Project. Buyer, accordingly, covenants and agrees with Seller that (a) it shall not violate the terms of the variances granted to Seller for the

Project, (b) it shall cooperate with Seller as to its agreements and commitments with Anne Arundel County as the same shall pertain to the Lot only, and (c) it shall cooperate with Seller's development efforts on land within the Project but outside the Lot, including the execution of any documents, plats agreements, easements, rights of way and other actions reasonably necessary or required by Seller or Anne Arundel County in connection with the subsequent development of the Project, provided that Buyer shall not be obligated to expend its own funds in implementing this provision. Seller shall bear all expenses of such documentation or other actions required incidental to such development and shall hold Buyer harmless from all expenses, claims and liability associated with Buyer's cooperation efforts described herein.

Buyer also covenants to allow Seller a right of entry onto the Lot at all reasonable times for activities associated with the above described development efforts, provided that Seller provides Buyer with prior notice of Seller's intent to enter upon the Lot and Seller shall not unreasonably interfere with Buyer's development activities on the Lot. In connection with such entry, Seller agrees that it shall be responsible for any damages to the Lot resulting from such operations and shall indemnify and hold Buyer harmless from all claims of any type arising out of Seller's entry onto the Lot for the purposes set forth herein.

Buyer acknowledges that Lots Nos. 22, 23, 24, 25, 30, 31 and 32 as 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 of Anne Arundel County at Plat Book 246, pp. 23 through 29, plats 12850 through 12856, along with the roadways and other areas as shown on such Plat (collectively, the "Other Property") may use, in common with others, the Lot for sediment control and stormwater purposes, which shall include the right to construct storm water pipe, manholes, inlets, storm drains and other associated structures in order to connect to any sediment control and stormwater pond (s) located on the Lot. As of the date of this Contract, an affiliate of Seller ("Affiliate") is the mortgagee under an Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement dated as of January 24, 2003 ("Deed of Trust") which encumbers the Other Property. If requested by the owner and/or mortgagee of all or any part of the Other Property, after Closing Buyer shall promptly enter into an easement agreement in recordable form ("Easement Agreement"), to establish the above easement, which easement shall be accompanied by an executed joinder from any mortgagee or trustee of any financing on the Lot. The form of the Easement Agreement and joinder shall be reasonably acceptable to the owner and mortgagee of the Other Property. Alternatively, Seller may require that Buyer cause the Lot to be dedicated as "Common Area" under the Declaration (as such term is defined under the Declaration) so that the Lot shall be utilized as for stormwater management facilities and a Pond for the benefit of the Other Property and as allowed under the Declaration. Buyer's obligations under this paragraph shall expire on the date that the Deed of Trust is released by the beneficiary thereunder by the recordation among the Land Records of Anne Arundel County of a release or certificate of satisfaction. Notwithstanding anything contained herein to the contrary, in the event of a foreclosure under the Deed of Trust ("Foreclosure") or the conveyance of all or any portion of the Other Property by a deed in lieu of foreclosure ("Conveyance") as a result of a default under the Deed of Trust, then the Buyer's obligations under this paragraph shall expire on the first anniversary of such Foreclosure or Conveyance.

The provisions of this Section 13 shall survive the Closing.

14. **Miscellaneous**.

(a) Seller and Buyer warrant that, in connection with this Contract, they have dealt with no broker, agent or other party who may be entitled to a commission or finder's fee, and each party agrees to indemnify the other from any claims or damages, including reasonable attorneys' fees, that the other may incur as a result of the violation of this warranty, which warranty and indemnification shall survive settlement and any termination of this Contract.

(b) Any written notices required under the terms of this Contract shall be sent by hand or other actual delivery to such party or by Federal Express Delivery or other national overnight delivery service and addressed as follows:

To Buyer:	Corporate Office Properties, L.P. 8815 Centre Park Drive, Suite 400 Columbia, Maryland 21045 Attn: General Counsel
To Seller:	Jolly Acres Limited Partnership c/o Constellation Real Estate, Inc. 8815 Centre Park Drive – Suite 104 Columbia, Maryland 21045 Attn: Managing Director
With copies to:	Constellation Real Estate Group Legal Department Donna M. Levy, Esq. 750 E. Pratt Street, 23rd Floor Baltimore, Maryland 21202
With copies to:	Richard Rubin, Esq. Neuberger, Quinn, Gielen, Rubin & Gibber, P.A. One South Street, 27th Floor Baltimore, MD 21202

Any party hereto may change its notice address by giving notice of such change in accordance with this paragraph. Notice shall be deemed to have occurred upon actual delivery.

(c) Time shall be of the essence of this Contract.

(d) This Contract contains the final and entire agreement between the parties thereto, and neither party shall be bound by any terms, condition, statement or representation not herein contained. This Contract may not be modified or changed orally, but only by agreement in writing, signed by the party against whom enforcement of any such change is sought.

(e) This Contract shall be governed by the laws of the State of Maryland. The titles of the paragraphs are inserted as a matter of convenience and for reference and in no way define, limit or describe the scope of this Contract or the intent of any provision hereof.

(f) If Buyer fails to purchase the membership interests in the LLC as contemplated herein (other than as a result of a default by Seller under this Contract) or materially breaches any of the representations, warranties or covenants to be performed by Buyer under this Contract, Seller may avail itself of any and all rights and remedies at law or in equity, including, but not limited to, the right to (i) cancel this Contract, (ii) obtain a reimbursement from Buyer for any costs and expenses incurred by Seller (including reasonable attorney's fees) relating hereto, and (iii) enforce specific performance of this Contract. Buyer specifically acknowledges and agrees that Seller's right to enforce specific performance of Buyer's obligations under this Contract constitutes a fundamental condition and material inducement to Seller's entering into this Contract. The exercise of any one of Seller's rights or remedies under this Contract shall not be deemed to be in lieu of, or a waiver of, any other right or remedy available to Seller.

(g) If Seller fails to sell the membership interests in the LLC as contemplated herein (other than as a result of a default by Buyer under this Contract) or materially breaches any of the representations, warranties or covenants to be performed by Seller under this Contract, Buyer's only remedies are to (i) cancel this Contract or (ii) enforce specific performance of this Contract.

(h) No requirement, obligation, remedy or provision of this Contract shall be deemed to have been waived, unless so waived expressly in writing or waived pursuant to other provisions of this Contract and any waiver of any breach of nonperformance of a continuing obligation on one occasion shall not be considered a waiver of any right to enforce such provision thereafter.

(i) The obligations of Buyer set forth in this Contract that survive the Closing hereunder are intended to run with the land and Buyer agrees to execute in recordable form at the Closing, any and all agreements prepared by Seller, which Seller, acting in a reasonable manner, may wish to record in the Land Records of Anne Arundel County in connection therewith.

(j) If the rule against perpetuities or any other rule of law would invalidate this Contract or any portion hereof or would limit the time during which this entire Contract 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.

(k) 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. **Successors and Assigns.** This Contract shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Buyer shall have the right to assign this Contract in whole or in part without the consent of Seller to (a) any entity controlled by, controlling, or under common control with Buyer or Corporate Office Properties Trust ("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 (b) 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 not have any other right to assign this Contract in whole or in part without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed.

16. **COPT Guarantee.** As a material inducement to Seller to enter into this Contract and without which Seller would not enter into this Contract or close

hereunder, COPT does hereby unconditionally and continually guarantee the full and timely payment and performance of all obligations of Buyer under this Contract. In the event of a default or failure on the part of Buyer to pay or perform an obligation hereunder, Seller may look to COPT for payment and performance of all obligations of Buyer, including, without limitation, Buyer's obligation to specifically perform its obligations under the Contract, and for the recovery of any loss or damage resulting from such default or failure without the necessity of prior exhaustion of remedies against Buyer. COPT acknowledges that it is a partner of Buyer and will thereby receive a direct and material benefit as a result of Buyer's entering into this Contract. Accordingly, COPT acknowledges and agrees that Buyer's entering into this Contract with Seller is adequate consideration to COPT to give this payment and performance guaranty.

[*Signatures appear on next page*]

IN WITNESS WHEREOF, each of the parties hereto has caused this Contract to be executed by its duly authorized representative on the day and year first above written.

WITNESS:

JOLLY ACRES LIMITED PARTNERSHIP

By: Constellation Real Estate, Inc., General Partner

/s/ Robert N. Cantor

By: /s/ Steven S. Koren
Name: Steven S. Koren
Title: Agent

CORPORATE OFFICE PROPERTIES, L.P.

By: Corporate Office Properties Trust, General Partner

/s/ Stephanie L. Shack

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

JOINDER BY CORPORATE OFFICE PROPERTIES TRUST

Corporate Office Properties Trust is executing this Contract to evidence its obligations under Section 16 of this Contract.

CORPORATE OFFICE PROPERTIES TRUST

/s/ Stephanie L. Shack

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

STATE OF Maryland **COUNTY OF** Howard **TO WIT:**

I HEREBY CERTIFY, that on this 27th day of February, 2003, before me, undersigned Notary Public of said State, personally appeared Steven S. Koren, who acknowledged himself to be the Agent of Constellation Real Estate, Inc., a Maryland corporation and General Partner of Jolly Acres Limited Partnership, known to me or satisfactorily proven to be the person whose name is subscribed to the within instrument, and acknowledged that he executed the same for the purposes therein contained as the duly authorized Agent of said corporation by signing the name of the corporation himself as Agent.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, the day and year first above written.

/s/ Illegible
Notary Public

My commission expires: 9/01/04

STATE OF Maryland **COUNTY OF** Howard **TO WIT:**

I HEREBY CERTIFY, that on this 25th day of February, 2003, before me, undersigned Notary Public of said State, personally appeared ROGER A. WAESCHE, JR., known to me or satisfactorily proven to be the person whose name is subscribed to the within instrument, who acknowledged himself to be the Senior Vice President of Corporate Office Properties Trust, the general partner of Corporate Office Properties L.P., a Delaware limited partnership and acknowledged that he executed the same for the purposes therein contained as the duly authorized Senior Vice President of said trust by signing the name of the trust by himself as Senior Vice President.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, the day and year first above written.

/s/ Zarae C. Pitts
Notary Public

ZARAR PITTS
NOTARY PUBLIC STATE OF MARYLAND

My commission expires: November 1, 2006

Exhibit 10.24.2

AMENDMENT TO CONTRACT OF SALE

THIS AMENDMENT TO CONTRACT OF SALE (this **"Amendment")** is made and entered into as of the 7 day of November, 2003 (the "**Effective Date**"), by and between **JOLLY ACRES LIMITED PARTNERSHIP**, a Maryland limited partnership ("**Seller**") and **CORPORATE OFFICE PROPERTIES, L.P.**, a Delaware limited partnership ("**Buyer**").

RECITALS:

A. Seller and Buyer entered into a Contract of Sale dated February 27, 2003 (herein, such Contract of Sale and the exhibits thereto are referred to as the "**Agreement**") in connection with the sale by Seller to Buyer of certain membership interests in a Maryland limited liability company, as more particularly described in the Agreement.

B. The Seller and Buyer wish to amend certain provisions of the Agreement.

NOW, THEREFORE, for and in consideration of the mutual promises and covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **SALE OF LOT**. Buyer and Seller have agreed that notwithstanding anything contained in the Agreement to the contrary, the sale and acquisition under the Agreement shall be a sale by Seller and a purchase by Buyer of the Lot, for the same Purchase Price as set forth in the Agreement.

2. **TRANSFER**. Notwithstanding anything contained in the Agreement to the contrary, at Closing, Seller shall convey to Buyer the title to the Lot and improvements thereon in fee simple, subject to the provisions of Section 8 of the Agreement, by a special warranty deed containing covenants of further assurances and against encumbrances, subject to all matters of record. Recordation and transfer taxes associated with the transfer of the Lot from Seller to Buyer (collectively, the "**Deed Recordation and Transfer Taxes**") shall be handled in the following manner: (i) Buyer and Seller shall split equally and pay that amount of recordation and transfer taxes that would have been due and payable at the time of the transfer of the Lot to the LLC (collectively, the "**LLC Recordation and Transfer Taxes**"), had the parties proceeded with the sale of the membership interests in the LLC as originally set out in Sections 1 and 2 of the Agreement; and (ii) Buyer shall pay one hundred percent (100%) of the excess, if any, of the Deed Recordation and Transfer Taxes over the LLC Recordation and Transfer Taxes. For example, if the LLC Recordation and Transfer Taxes equal $11,000 and the Deed Recordation and Transfer Taxes equal $36,300, then the Buyer would be responsible for paying $30,800 and the Seller would be responsible for paying $5,500.

3. **CLOSING**. Notwithstanding the provisions of Section 3 of the Agreement, Closing on the acquisition of the Lot shall occur on November 14, 2003.

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4. **CONDITION OF LOT**. Section 7 of the Agreement is hereby deleted and the following inserted in lieu thereof:

"**Condition of Lot**.

(a) Seller, at Seller's expense, shall (i) complete the construction of a sediment control pond (the "**Pond**") on the Lot; and (ii) remove the topsoil pile currently located on the Lot (the "**Topsoil Pile**"). The Pond shall be constructed in accordance with the Anne Arundel County permit for same, as obtained by Seller at Seller's sole cost and expense. Buyer acknowledges that the Lot will be sold to Buyer "as is, where is", other than for construction of the Pond and the removal of the Topsoil Pile. Other than as set forth herein, Seller makes no representations or warranties regarding the subsurface condition of the Lot. Buyer will be required to comply with the stormwater requirements of Anne Arundel County, Maryland for the future maintenance of the Pond and for its conversion of the Pond to a storm water pond. Seller agrees to proceed with all due diligence and to use commercially reasonable efforts in performing its obligations under this Section 7(a), 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.

(b) The parties anticipate that Seller's completion of the Pond and the removal of the Topsoil Pile (collectively, "**Seller's Work**") shall occur after the Closing. Buyer acknowledges that from and after Closing, Seller, its agents, employees, contractors and engineers, shall be entitled at all reasonable times to enter the Lot to pursue and complete Seller's Work. Seller agrees to indemnify and hold harmless Buyer from any and all losses, liabilities, claims, damages and expenses (including reasonable attorneys' fees) arising as a result of Seller's entry and activities on the Lot under the provisions of Subsections 7(a) and 7(b).

(c) In connection with the development of the Lot, Seller has provided to Anne Arundel County a Landscaping Bond No. 929240319 dated March 28, 2002 from CAN as amended, in the amount of $16,500 for the benefit of Anne Arundel County (the "**Landscaping Bond**"). The parties have agreed that Seller shall not be responsible for performing any landscaping work on the Lot, the performance of which is secured by the Landscaping Bond. Prior to Closing, Buyer will cause the Landscaping Bond to be released and shall substitute its own bond as may be required by Anne Arundel County (the "**Replacement Landscaping Bond**"), to the end and effect that the Landscaping Bond shall be

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released and returned to Seller and Seller shall have no obligations with respect to any landscaping on the Lot. At Closing, Buyer shall be entitled to a credit in the amount $26,715.00, which amount consists of (i) $250.00, which amount represents the parties' agreed upon credit for the cost of the Replacement Landscaping Bond; (ii) $25,640, which amount represents the parties' agreed upon credit for the costs of performing the landscaping work on the Lot, the obligation for which is to be secured by the Replacement Landscaping Bond; and (iii) $825.00, which amount represents the parties' agreed upon credit for the inspection fee which may be charged by Anne Arundel County following the completion by Buyer of the above landscaping work.

(d) The provisions of this Section 7 shall survive the Closing."

5. **CLOSING ADJUSTMENTS**. The third sentence of Section 9 of the Agreement, beginning with the words "The costs of all recordation and transfer", is hereby deleted. The following is added at the end of Section 9: "In addition, the Buyer shall be entitled to the credits set out in Section 7(c) above."

6. **CLOSING DOCUMENTS**. Section 10 of the Agreement is hereby amended by deleting the first sentence and clauses (a), (b) and (c) and by inserting the following in lieu thereof:

"At the Closing, Seller shall execute and deliver to Buyer the following:

(a) a special warranty deed containing covenants of further assurances and against encumbrances, subject to all matters of record, conveying the Lot and improvements thereon to Buyer;

(b) intentionally deleted;

(c) intentionally deleted;"

7. **WARRANTIES AND REPRESENTATIONS**. Subsection 12(a)(i) is hereby amended by deleting the second sentence thereof.

8. **DEFAULT**. Subsections 14(f) and 14(g) of the Agreement are hereby amended by deleting the phrase "the membership interests in the LLC" and insert in lieu thereof, "the Lot".

9. **ASSIGNMENT AND COPT GUARANTEE**. Buyer hereby assigns its rights, duties and obligations under the Agreement to NBP 221, LLC, a Maryland limited liability company ("**Assignee**"). Assignee hereby agrees to accept such assignment and agrees with Assignor and Seller to assume the performance and observance of all obligations contained in the Agreement. Buyer represents that Assignee is or will be at the time of the assignment wholly owned by Buyer or by an affiliate of Buyer. COPT reaffirms its guarantee obligations under the Agreement and hereby agrees to

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unconditionally and continually guaranty the full and timely payment and performance of all obligations of Assignee under the Agreement.

10. **FULL FORCE**. Except as herein modified and amended, the Agreement is and shall remain in full force and effect and has not been otherwise modified or amended, either orally or in writing. Seller and Buyer, by their execution hereof, hereby ratify, affirm and approve the Agreement, as amended by this Amendment.

11. **CONFLICT**. All of the provisions of the Agreement affected by this Amendment shall be deemed amended, whether or not actually specified herein, if any such amendment is clearly necessary to effectuate the intent of the parties hereto. In the event of conflict between the Agreement and this Amendment, this Amendment shall take precedence.

12. **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.

13. **RECITALS**. The parties agree that the Background section of this Amendment shall be an integral part of this Amendment and not merely prefatory thereto.

14. **DEFINITIONS**. All capitalized terms not otherwise defined in this Amendment shall have the meanings given to them in the Agreement.

15. **EXHIBITS**. Each document referred to herein as being annexed hereto as an exhibit or otherwise designated herein as an exhibit hereto is hereby made a part hereof.

16. **COUNTERPARTS**. This Amendment 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. This Amendment may be delivered by facsimile transmission of an originally executed copy to be followed by immediate delivery of the original of such executed copy.

Signatures Begin on Following Page

IN WITNESS WHEREOF, the parties hereto have executed this Amendment or caused it to be executed on its behalf by their respective duly authorized representatives, with the intention of creating a document under seal on the date first above written.

WITNESS:

SELLER:

JOLLY ACRES LIMITED PARTNERSHIP

By: **Constellation Real Estate, Inc.,** General Partner

/s/ Robert N. Cantor

By: /s/ Steven S. Koren (SEAL)
Name: Steven S. Koren
Title: Authorized Agent

BUYER:

CORPORATE OFFICE PROPERTIES, L.P.

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

/s/ Stephanie L. Shack

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

ASSIGNEE:

NBP 221, LLC, a Maryland limited liability company

By: **Corporate Office Properties, L.P.,** sole member

By: **Corporate Office Properties**

Trust, general partner

/s/ Stephanie L. Shack

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

JOINDER BY CORPORATE OFFICE PROPERTIES TRUST

Corporate Office Properties Trust is executing this Contract to evidence its obligations under Section 9 of this Amendment.

CORPORATE OFFICE PROPERTIES TRUST

/s/ Stephanie L. Shack

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

Selected Financial Data

The following table sets forth summary financial data as of and for each of the years ended December 31, 1999 through 2003. The table illustrates the significant growth our Company experienced 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 development activities. We financed most of the acquisition and development activities by incurring debt and issuing 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. 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 and Subsidiaries
(Dollar and share information in thousands, except ratios and per share data)

	2003	2002	2001	2000	1999
Real Estate Operations:					
Revenues					
Rental revenue (1)	$ 153,048	$ 134,421	$ 107,166	$ 89,946	$ 66,747
Tenant recoveries and other revenue	21,375	15,914	14,497	15,196	10,733
Revenue from real estate operations	174,423	150,335	121,663	105,142	77,480
Expenses					
Property operating	51,699	43,929	35,413	30,162	21,187
Interest	41,079	39,065	32,297	29,786	21,190
Amortization of deferred financing costs (1)	2,767	2,501	2,031	1,535	1,878
Depreciation and other amortization (1)	37,122	30,859	20,405	16,513	11,646
Expenses from real estate operations	132,667	116,354	90,146	77,996	55,901
Earnings from real estate operations before equity in (loss) income of unconsolidated real estate joint ventures	41,756	33,981	31,517	27,146	21,579
Equity in (loss) income of unconsolidated real estate joint ventures	(98)	169	208	—	—
Earnings from real estate operations	41,658	34,150	31,725	27,146	21,579
Income (losses) from service operations	807	(875)	(782)	(310)	198
General and administrative expenses	(7,893)	(6,697)	(5,289)	(4,867)	(3,204)
Income before gain on sales of real estate, minority interests, income taxes, discontinued operations and cumulative effect of accounting change	34,572	26,578	25,654	21,969	18,573
Gain on sales of real estate (2)	472	2,564	1,618	107	1,140
Income before minority interests, income taxes, discontinued operations and cumulative effect of accounting change	35,044	29,142	27,272	22,076	19,713
Minority interests	(6,714)	(7,356)	(8,415)	(7,976)	(5,747)
Income before income taxes, discontinued operations and cumulative effect of accounting change	28,330	21,786	18,857	14,100	13,966
Income tax benefit, net of minority interests	124	242	269	—	—
Income from discontinued operations, net of minority interests (3)	2,423	1,273	970	1,034	1,117
Cumulative effect of accounting change, net of minority interests (4)	—	—	(174)	—	—
Net income	30,877	23,301	19,922	15,134	15,083
Preferred share dividends	(12,003)	(10,134)	(6,857)	(3,802)	(2,854)
Repurchase of preferred units in excess of recorded book value (5)	(11,224)	—	—	—	—
Net income available to common shareholders	$ 7,650	$ 13,167	$ 13,065	$ 11,332	$ 12,229
Basic earnings per common share					
Income before discontinued operations and cumulative effect of accounting change	$ 0.20	$ 0.53	$ 0.61	$ 0.55	$ 0.71
Net income available to common shareholders	$ 0.29	$ 0.59	$ 0.65	$ 0.60	$ 0.72
Diluted earnings per common share					
Income before discontinued operations and cumulative effect of accounting change	$ 0.19	$ 0.51	$ 0.60	$ 0.54	$ 0.64
Net income available to common shareholders	$ 0.27	$ 0.56	$ 0.63	$ 0.59	$ 0.66
Weighted average common shares outstanding – basic	26,659	22,472	20,099	18,818	16,955
Weighted average common shares outstanding – diluted	28,021	24,547	21,623	19,213	22,574

	2003	2002	2001	2000	1999
Balance Sheet Data (as of period end):					
Investment in real estate (1)	$ 1,189,258	$ 1,042,955	$ 923,700	$ 751,587	$ 696,489
Total assets (1)	$ 1,332,076	$ 1,138,721	$ 994,896	$ 794,837	$ 721,034
Mortgage and other loans payable	$ 738,698	$ 705,056	$ 573,327	$ 474,349	$ 399,627
Total liabilities (1)	$ 801,899	$ 749,338	$ 626,193	$ 495,549	$ 416,298
Minority interests	$ 79,796	$ 100,886	$ 104,782	$ 105,560	$ 112,635
Shareholders' equity	$ 450,381	$ 288,497	$ 263,921	$ 193,728	$ 192,101
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$ 67,783	$ 62,242	$ 50,875	$ 35,026	$ 32,296
Investing activities	$ (172,949)	$ (128,571)	$ (155,741)	$ (73,256)	$ (125,836)
Financing activities	$ 108,656	$ 65,680	$ 106,525	$ 40,835	$ 93,567
Numerator for diluted EPS	$ 7,650	$ 13,711	$ 13,573	$ 11,332	$ 14,788
Basic funds from operations (6)	$ 59,665	$ 49,696	$ 40,206	$ 34,434	$ 26,525
Diluted funds from operations (6)	$ 61,268	$ 52,854	$ 43,001	$ 37,351	$ 30,498

Diluted funds from operations per share (6)	$	1.56	$	1.44	$	1.28	$	1.16	$	1.04
Cash dividends declared per common share	$	0.91	$	0.86	$	0.82	$	0.78	$	0.74
Ratio of earnings to combined fixed charges and preferred share dividends		1.11		1.25		1.26		1.30		1.42
Property Data (as of period end):										
Number of properties owned (7)		119		110		98		83		79
Total rentable square feet owned (in thousands) (7)		10,033		8,942		7,801		6,473		6,076

(1) Certain prior period amounts have been reclassified to conform with the current presentation. These reclassifications did not affect consolidated net income or shareholders' equity. You should refer to the section in Note 3 to our Consolidated Financial Statements entitled "Acquisitions of Real Estate" for a description of our reclassification in connection with our accounting under Statement of Financial Accounting Standards No. 141, "Business Combinations." You should also refer to the section in Note 3 to our Consolidated Financial Statements entitled "Recent Accounting Pronouncements" for a description of our reclassification of losses on early retirement of debt in connection with our adoption of 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" on January 1, 2003.

(2) Reflects gain from sales of properties and unconsolidated real estate joint ventures not associated with discontinued operations.

(3) Reflects income derived from one operating real estate property that we sold in 2003 (see Note 18 to our Consolidated Financial Statements).

(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 10 to our Consolidated Financial Statements).

(5) Reflects a decrease to net income available to common shareholders representing the excess of the repurchase price of the Series C Preferred Units in our Operating Partnership over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder.

(6) For definitions of basic funds from operations, diluted funds from operations per share, diluted funds from operations and reconciliations of these measures to their comparable measures under generally accepted accounting principles, you should refer to the section entitled "Funds from Operations" within the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(7) Amounts reported for December 31, 2003 include one property totaling 157,394 rentable square feet held through a joint venture. 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 real estate investment trust, or REIT, that focuses 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. We conduct our real estate ownership activity through our operating partnership, Corporate Office Properties, L.P. (the "Operating Partnership"), for which we are the sole general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies. The Operating Partnership also owns an entity through which we provide real estate-related services that include (1) property management, (2) construction and development management and (3) heating and air conditioning services and controls. The number of operating properties in our portfolio totaled 119 as of December 31, 2003, 110 as of December 31, 2002 and 98 as of December 31, 2001. Our growth in number of operating properties over that timeframe was achieved primarily through our acquisition and development of properties.

REITs were created by the United States Congress to provide large numbers of investors with the ability to invest in real estate and receive income from such investments that would be free from income tax on REIT taxable income at the entity level, provided that the entity distributes 100% of its REIT taxable income and meets a number of other strict requirements (it is noteworthy that REITs are required to distribute only 90% of REIT taxable income to maintain their tax status as a REIT, although any differential between the 90% and 100% would be taxable). Most of our revenues come from rents and property operating expense reimbursements earned from tenants leasing space in our properties. Most of our expenses take the form of (1) property operating costs, such as real estate taxes, utilities and repairs and maintenance, (2) financing costs, such as interest and loan costs and (3) depreciation and amortization of our operating properties and tenant lease costs.

The attributes we look for in selecting submarkets include, among others, (1) proximity to large markets, (2) strong demographics, (3) attractiveness to high quality tenants, including our existing tenants, (4) potential for growth and stability in economic down cycles and (5) future acquisition and development opportunities. Once we select a submarket, our strategy generally involves establishing an initial presence by acquiring properties in that submarket and then increasing our ownership through future acquisitions and development until we own a significant portion of the rental space in that submarket of the same class as our properties. Due to this strategy, we own most or all of the same class office space in a number of the submarkets in which we own properties. As of December 31, 2003, most of our submarkets were located in (1) the Baltimore/Washington Corridor (defined as the Maryland counties of Howard and Anne Arundel), (2) Northern Virginia (defined as Fairfax County, Virginia), (3) Northern Central New Jersey, (4) Greater Philadelphia, Pennsylvania, (5) Greater Harrisburg, Pennsylvania and (6) Suburban Maryland (defined as the Maryland counties of Montgomery and Prince George's).

Achieving optimal performance from our properties is crucial to our Company. We evaluate the performance of our properties by focusing on changes in revenues and property operating expenses. While we experienced significant growth in revenues from real estate operations and property operating expenses between 2001 and 2003, our growth in number of properties makes such revenue and expense growth misleading. Therefore, we evaluate the changes in revenues and property operating expenses attributable to property additions and property sales separately from the changes attributable to properties that were owned and operational throughout any two periods being compared (these concepts are discussed further in the section entitled "Results of Operations"). In addition to evaluating changes in the main components of revenues from these property groupings ((1) rental revenues and (2) tenant recoveries and other revenues), we consider the portion of any change in rental revenue from these properties that is attributable to (a) straight-line rental revenue adjustments and (b) amortization of origination value of leases on acquired properties; these revenue adjustments, which are discussed and defined in greater detail in Note 3 to the Consolidated Financial Statements, are important to us in evaluating changes in total rental revenue because such adjustments are not indicative of the cash revenue stream from those properties.

In order to maximize the revenue potential of our properties, we try to maintain high levels of occupancy; as a result, we consider occupancy rates to be an important measure of the productivity of our properties. One way that we attempt to maximize occupancy rates is by renewing a high percentage of our existing tenants; accordingly, tenant renewal rates are important to us in monitoring our leasing activities and tenant relationships. In managing the effect of our leasing activities on our financial position and future operating performance stability, we also monitor the timing of our lease maturities with the goal being that such timing not be highly concentrated in a given one-year or five-year period.

We focus on tenants that are large, financially sound entities with significant long-term space requirements. A number of these tenants lease a significant portion or all of the space in individual properties, and in some cases these tenants lease all of the space in a number of our properties. Through this strategy, our goal is to become a preferred landlord for such tenants. A result of this strategy is that most of our revenues come from a highly concentrated number of tenants. Since we rely on a relatively small number of tenants for such a large portion of our revenues, we closely monitor the concentration levels we have with our tenants, particularly our 20 largest tenants. In addition, as we discuss below, a high concentration of our revenues is generated from tenants in the United States defense industry (comprised of the United States Government and defense contractors); we monitor this level of concentration from a business risk perspective.

Cash provided from operations is our primary source of cash for funding dividends and distributions, debt service on our loans and other working capital requirements. A good place to start in evaluating our cash flow provided by operations is the line entitled “net cash provided by operating activities” on our Statements of Cash Flows. We also believe that the amount that we incur on our operating properties for tenant and capital improvements and leasing costs are particularly useful in evaluating our cash flow from operations since these costs are required to operate our properties; we provide this information in the section entitled “Funds from Operations.” Since we are a REIT and therefore distribute 100% of our REIT taxable income in order to avoid paying income taxes, our dividends and distributions paid are also useful in determining how much cash we have available for other uses; however, it is noteworthy that we have historically paid dividends in excess of our REIT taxable income (see Note 17 to our Consolidated Financial Statements for further discussion of income taxes).

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

- borrowings under our primary revolving credit facility (the “Revolving Credit Facility”);
- borrowings from new loans;
- issuances of common shares of beneficial interest (“common shares”), preferred shares of beneficial interest (“preferred shares”) and common units and/or preferred units in our Operating Partnership;
- contributions from outside investors into real estate joint ventures;
- proceeds from sales of real estate; and
- any available residual cash flow from operations after application to the items described in the previous paragraph.

One aspect of how we manage our financing policy involves monitoring the relationship of certain measures of earnings to certain financing cost requirements; these relationships are known as coverage ratios. The coverage ratios on which our financing policy focuses are debt service coverage ratio (defined as various measures of results of operations divided by the sum of (1) interest expense on continuing and discontinued operations and (2) scheduled principal amortization on mortgage loans for continuing and discontinued operations) and fixed charge coverage ratio (defined as various measures of results of operations divided by the sum of (a) interest expense on continuing and discontinued operations, (b) dividends on preferred shares and (c) distributions on preferred units in our Operating Partnership not owned by us). These coverage ratios are important to us in evaluating whether our operations are sufficient to satisfy the cash flow requirements of our loans and equity holders, including minority interest holders. Another aspect to our financing policy involves monitoring the relationship of our total variable-rate debt to our total assets; this is important to us in limiting the amount of our debt that is subject to future increases in interest rates. We also closely monitor the timing of our debt maturities to ensure that the maximum maturities of debt in any year, both including and excluding our Revolving Credit Facility, do not exceed a defined percentage of total assets.

In this section, we discuss our financial condition and results of operations for 2003 and 2002. This section includes discussions on, among other things:

- our results of operations and why various components of our Consolidated Statements of Operations changed from 2002 to 2003 and from 2001 to 2002;
- how we raised cash for acquisitions and other capital expenditures during 2003;
- our cash flows;
- how we expect to generate cash for short and long-term capital needs;
- our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition, results of operations and liquidity;
- our commitments and contingencies;

- our accounting policies that require our most difficult, subjective or complex judgments and materially affect our reported operating performance or financial condition; and
- the computation of our Funds from Operations for 2003, 2002 and 2001.

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 activities;
- 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,			
	2003	2002	Variance	% Change	2002	2001	Variance	% Change
Real Estate Operations:								
Revenues								
Rental revenue	$ 153,048	$ 134,421	$ 18,627	14%	$ 134,421	$ 107,166	$ 27,255	25%

Tenant recoveries and other revenue	21,375	15,914	5,461	34%	15,914	14,497	1,417	10%
Revenues from real estate operations	174,423	150,335	24,088	16%	150,335	121,663	28,672	24%
Expenses								
Property operating	51,699	43,929	7,770	18%	43,929	35,413	8,516	24%
Interest and amortization of deferred financing costs	43,846	41,566	2,280	5%	41,566	34,328	7,238	21%
Depreciation and other amortization	37,122	30,859	6,263	20%	30,859	20,405	10,454	51%
Expenses from real estate operations	132,667	116,354	16,313	14%	116,354	90,146	26,208	29%
Earnings from real estate operations before equity in (loss) income of unconsolidated real estate joint ventures	41,756	33,981	7,775	23%	33,981	31,517	2,464	8%
Equity in (loss) income of unconsolidated real estate joint ventures	(98)	169	(267)	N/A	169	208	(39)	(19)%
Earnings from real estate operations	41,658	34,150	7,508	22%	34,150	31,725	2,425	8%
Income (losses) from service operations	807	(875)	1,682	N/A	(875)	(782)	(93)	12%
General and administrative expenses	(7,893)	(6,697)	(1,196)	18%	(6,697)	(5,289)	(1,408)	27%
Gain on sales of real estate	472	2,564	(2,092)	(82)%	2,564	1,618	946	58%
Income before minority interests, income taxes, discontinued operations and cumulative effect of accounting change	35,044	29,142	5,902	20%	29,142	27,272	1,870	7%
Minority interests	(6,714)	(7,356)	642	(9)%	(7,356)	(8,415)	1,059	(13)%
Income tax benefit, net	124	242	(118)	(49)%	242	269	(27)	(10)%
Income from discontinued operations, net	2,423	1,273	1,150	90%	1,273	970	303	31%
Cumulative effect of accounting change, net	—	—	—	N/A	—	(174)	174	(100)%
Net income	30,877	23,301	7,576	33%	23,301	19,922	3,379	17%
Preferred share dividends	(12,003)	(10,134)	(1,869)	18%	(10,134)	(6,857)	(3,277)	48%
Repurchase of preferred units in excess of recorded book value	(11,224)	—	(11,224)	N/A	—	—	—	N/A
Net income available to common shareholders	$ 7,650	$ 13,167	$ (5,517)	(42)%	$ 13,167	$ 13,065	$ 102	1%
Basic earnings per common share								
Income before discontinued operations and cumulative effect of accounting change	$ 0.20	$ 0.53	$ (0.33)	(62)%	$ 0.53	$ 0.61	$ (0.08)	(13)%
Net income available to common shareholders	$ 0.29	$ 0.59	$ (0.30)	(51)%	$ 0.59	$ 0.65	$ (0.06)	(9)%
Diluted earnings per common share								
Income before discontinued operations and cumulative effect of of accounting change	$ 0.19	$ 0.51	$ (0.32)	(63)%	$ 0.51	$ 0.60	$ (0.09)	(15)%
Net income available to common shareholders	$ 0.27	$ 0.56	$ (0.29)	(52)%	$ 0.56	$ 0.63	$ (0.07)	(11)%

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 many of the variances described in this section. You should also refer to the section entitled “Liquidity and Capital Resources” for certain factors that could negatively affect various aspects of our operations.

Occupancy and leasing

Over the last two to three years, the United States economy suffered from an economic slowdown that we believe had an adverse affect on the office real estate leasing market. Occupancy rates declined in most parts of the country, placing downward pressure on rental rates and increasing the competitive environment for attracting tenants. We believe that the national trend was felt in each of our geographic regions, contributing towards decreased occupancy in our portfolio of properties from 96.1% on December 31, 2001, to 93.0% on December 31, 2002, to 91.2% on December 31, 2003. We also experienced downward pressure on rental rates and increased competition for tenants in our properties, although we believe that our portfolio generally fared better than both the national office market and the office markets in the regions where our properties are located. We believe that the primary reasons our occupancy rates did not fall further include the following:

- Occupancy rates in the Baltimore/Washington Corridor and Northern Virginia office markets, our two largest, fared better than the national office average. We believe that the expansion of the United States defense industry brought about by increased activity in that sector following the events of September 11, 2001 contributed towards these markets’ occupancy rates being stronger than the national average;
- The submarkets in which our properties are located are particularly attractive to the United States defense industry, which helped us maintain higher occupancy than the regional averages in the Baltimore/Washington Corridor and Northern Virginia;
- Only 24.5% of our annualized rental revenues (defined below) on leases in place at December 31, 2001 were from leases expiring in 2002 and 2003 and the weighted

average remaining term for leases in place at that time was 4.6 years; and

- We were able to renew 75.7% of the square footage under leases expiring in 2003 and 66.2% of the square footage under leases expiring in 2002.

Annualized rental revenue is a measure that we use to evaluate the source of our rental revenue as of a point in time. It is computed by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases in our portfolio of properties as of a point in time. Portfolio annualized rental revenue is annualized rental revenue for our entire portfolio of properties as of a point in time, including both consolidated properties and properties owned through unconsolidated real estate joint ventures. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under generally accepted accounting principles ("GAAP") does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

Since rental conditions in many of our regions continue to be affected by the economic downturn, we expect that the operating performance of our properties may be adversely affected as we attempt to lease vacant space and renew leases that are scheduled to expire. However, our exposure over the next year is reduced somewhat by the fact that only 9.0% of our annualized rental revenues from leases in place as of December 31, 2003 were from leases scheduled to expire by the end of 2004, and we were beginning to see signs of improvement in leasing trends in many of our submarkets by the end of 2003. Looking longer term, the weighted average lease term for leases in place as of December 31, 2003 was 4.9 years and 59.5% of our annualized rental revenues on leases in place as of December 31, 2003 were from leases scheduled to expire by the end of 2008, with no more than 15.0% scheduled to expire in any one calendar year between 2004 and 2008.

Most of the leases with our largest tenant, the United States Government, provide for consecutive one-year terms or provide for early termination rights; all of the leasing statistics set forth above assume that the United States Government will remain in the space that they lease through the end of the respective arrangements, without ending consecutive one-year leases prematurely or exercising early termination rights. We reported the statistics in this manner since we manage our leasing activities using these same assumptions and believe these assumptions to be probable. Please refer to the section entitled "Liquidity and Capital Resources" where we further discuss our leases with the United States Government and the underlying risks.

Geographic concentration of property operations

During 2002 and 2003, we acquired eight operating properties in Northern Virginia, seven in the Baltimore/Washington Corridor and one in Suburban Maryland. We placed six properties into operations in the Baltimore/Washington Corridor (including one that was considered partially operational in 2002, as defined in Note 3 to our Consolidated Financial Statements). We also added three additional properties in the Baltimore/Washington Corridor in 2003 when we acquired the interests of our joint venture partners in joint ventures that were previously not consolidated into our financial statements. The table below sets forth the changes in the regional allocation of our portfolio annualized rental revenue resulting primarily as a result of these acquisition and development activities and changes in leasing activity:

	% of Portfolio Annualized Rental Revenue as of December 31,		
Region	**2003**	**2002**	**2001**
Baltimore/Washington Corridor	53.6%	54.4%	55.8%
Northern Virginia	19.8%	11.3%	7.2%
Northern/Central New Jersey	9.5%	11.5%	13.5%
Greater Philadelphia	5.7%	6.5%	7.3%
Harrisburg, Pennsylvania	5.1%	6.2%	6.9%
Other	3.4%	4.0%	4.7%
Suburban Maryland	2.9%	6.1%	4.6%
	100.0%	100.0%	100.0%

We expect that we will continue to focus most of our acquisition and development activities in the Northern Virginia, Baltimore/Washington Corridor and Suburban Maryland regions in 2004. In addition, we became contractually obligated in February 2004 to acquire 10 office properties in St. Mary's County, Maryland; this acquisition represents our initial entry into that region, which is approximately 40 miles south of Washington, D.C.

Concentration of leases with certain tenants

The percentage of our portfolio annualized rental revenue from leases in place with the United States Government continued to increase in 2003. We also experienced changes in our tenant base during 2003 due primarily to acquisitions and leasing activity. The following schedule lists our 20 largest tenants based on percentage of portfolio annualized rental revenue:

	Percentage of Portfolio Annualized Rental Revenue for 20 Largest Tenants as of December 31,	
Tenant	**2003**	**2002**
United States of America	14.8%	14.2%
Computer Sciences Corporation (1)	6.3%	2.9%
AT&T Corporation (1)	5.2%	6.0%
VeriSign, Inc.	5.1%	N/A
Unisys (2)	4.4%	5.0%
General Dynamics Government Corporation	3.3%	2.8%
Booz Allen Hamilton	2.6%	2.6%
Northrop Grumman Corporation	2.5%	2.2%
Ciena Corporation	2.2%	2.5%
The Boeing Company (1)	2.1%	1.4%
The Aerospace Corporation	1.9%	2.3%
Magellan Health Services, Inc.	1.8%	2.1%
Commonwealth of Pennsylvania (1)	1.5%	1.8%
Merck & Co., Inc. (2)	1.3%	1.5%
Johns Hopkins University (1)	1.3%	1.2%
Titan Corporation (1)	1.3%	N/A
Carefirst, Inc. and Subsidiaries (1)	1.2%	1.4%
USinternetworking, Inc.	1.1%	N/A
Comcast Corporation	1.0%	1.1%

Omniplex World Services	0.9%	N/A
Dyncorp Information Systems, LLC	N/A	3.5%
Ameritrade Holding Corporation	N/A	1.0%
Sun Microsystems, Inc.	N/A	1.0%
Lockheed Martin Corporation	N/A	0.9%
Subtotal of 20 largest tenants	61.8%	57.4%
All remaining tenants	38.2%	42.6%
Total	100.0%	100.0%

(1) Includes affiliated organizations and agencies.
(2) Unisys subleases space to Merck and Co., Inc; revenue from this subleased space is classified as Merck & Co., Inc. revenue.

Most of the leases with the United States Government provide for a series of one-year terms or provide for early termination rights. The government may terminate its leases if, among other reasons, the United States Congress fails to provide funding.

Industry concentration of tenants

The percentage of our portfolio annualized rental revenue derived from the United States defense industry increased from 2001 to 2002 and again from 2002 to 2003. One reason for this increase is the expansion of the industry in the Baltimore/Washington Corridor and Northern Virginia and, in particular, in our submarkets since the events of September 11, 2001. Another reason for the increase is that certain of the properties we acquired in each of the last three years have leases with the United States Government and defense contractors. The table below sets forth the percentage of our annualized rental revenue derived from that industry and, by doing so, demonstrates our increasing concentration:

	% of Annualized Rental Revenue as of December 31,		
	2003	2002	2001
Total Portfolio	39.9%	37.6%	25.7%
Baltimore/Washington Corridor	57.4%	45.4%	32.3%
Northern Virginia	45.5%	81.8%	66.4%

We expect the percentage of our portfolio annualized rental revenue derived from the United States defense industry will continue to increase in 2004.

We classify the revenue from our leases into industry groupings based solely on our knowledge of the tenants' operations in leased space. Occasionally, classifications require subjective and complex judgments. For example, we have a tenant that is considered by many to be in the computer industry; however, since the nature of that tenant's operations in the space leased from us is focused on providing service to the United States Government's defense department, we classify the revenue we earn from the lease as United States defense industry revenue. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into industry groupings and if we did, the resulting groupings would be materially different.

Revenues from real estate operations and property operating expenses

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-Office Properties." For example, when comparing 2002 and 2003, Same-Office Properties would be properties owned and 100% operational from January 1, 2002 through December 31, 2003. 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 during the two years being compared. We define these as changes from "Sold Properties."

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

	Changes from 2002 to 2003					
	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	Same-Office Properties Percentage Change	Sold Properties Dollar Change (2)	Other Dollar Change	Total Dollar Change
Revenues from real estate operations						
Rental revenue	$ 22,614	$ (873)	(1)%	$ (3,114)	$ —	$ 18,627
Tenant recoveries and other revenue	3,229	2,389	17%	(168)	11	5,461
Total	$ 25,843	$ 1,516	1%	$ (3,282)	$ 11	$ 24,088
Property operating expenses	$ 6,811	$ 2,427	6%	$ (1,312)	$ (156)	$ 7,770
Straight-line rental revenue adjustments included in rental revenue	$ 1,141	$ 1,217	N/A	$ (64)	$ —	$ 2,294
Amortization of origination value of leases on acquired properties included in rental revenue	$ (306)	$ (219)	N/A	$ —	$ —	$ (525)
Number of operating properties included in component category	25	93	N/A	2	N/A	120

(1) Includes 17 acquired properties and 8 newly-constructed properties.
(2) This includes sold operating properties that are not reported as discontinued operations.

Changes from 2001 to 2002

	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	Same-Office Properties Percentage Change	Sold Properties Dollar Change (2)	Other Dollar Change	Total Dollar Change
Revenues from real estate operations						
Rental revenue	$ 27,235	$ 1,268	1%	$ (1,248)	$ —	$ 27,255
Tenant recoveries and other revenue	4,746	(884)	(8)%	(86)	(2,359)	1,417
Total	$ 31,981	$ 384	0%	$ (1,334)	$ (2,359)	$ 28,672
Property operating expenses	$ 10,203	$ (1,457)	(5)%	$ (402)	$ 172	$ 8,516
Straight-line rental revenue adjustments included in rental revenue	$ 922	$ (1,564)	N/A	$ (147)	$ —	$ (789)
Amortization of origination value of leases on acquired properties included in rental revenue	$ 2,341	$ 1	N/A	$ —	$ —	$ 2,342
Number of operating properties included in component category	31	78	N/A	2	N/A	111

(1) Includes 23 acquired properties and 8 newly-constructed properties.
(2) This includes sold operating properties that are not reported as discontinued operations.

As the tables above indicate, 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 the Property Additions 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. It is also noteworthy that our Property Additions incurred $398,000 in snow removal expenses in 2003, a year in which snowfall was greater than usual.

The decrease in rental revenue from the Same-Office Properties from 2002 to 2003 includes the following:

- decrease of $2.3 million in net revenue from the early termination of leases. To explain further, when tenants terminate their lease obligations prior to the end of the agreed lease terms, they typically pay fees to break these obligations. We recognize such fees as revenue and write off against such revenue any (1) deferred rents receivable and (2) deferred revenue and deferred assets that are amortizable into rental revenue associated with the leases; the resulting net amount is the net revenue from the early termination of the leases (see the section entitled "Revenue Recognition" in Note 3 to our Consolidated Financial Statements); and
- increase of $965,000 in connection with three properties that experienced significant changes in occupancy between the two periods.

The increase in rental revenue from the Same-Office Properties from 2001 to 2002 includes a $2.3 million increase in net revenue from the early termination of leases. The $2.3 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-Office Properties would have decreased had it not been for the net revenue from early termination of leases 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.

Tenant recoveries and other revenue from the Same-Office Properties increased from 2002 to 2003 due primarily to the increase in property operating expenses described below. The decrease in tenant recoveries and other revenue from the Same-Office Properties from 2001 to 2002 was due primarily to the decrease in occupancy and the decrease in property operating expenses described below.

The increase in the Same-Office Properties' property operating expenses from 2002 to 2003 included the following:

- increase of $1.6 million, or 260.2%, in snow removal due to higher snowfall in 2003;
- increase of $345,000, or 4.6%, in real estate taxes due primarily to an increase in the assessed value of many of our properties;
- increase of $305,000, or 6.0%, in cleaning expenses;
- increase of $304,000, or 16.7%, in heating and air conditioning repairs and maintenance due primarily to additional repair projects undertaken in 2003; and
- decrease of $858,000 in gas and electric utility expenses associated with three properties that were occupied by a single tenant; that tenant assumed responsibility for direct payment of such utility expenses in the latter portion of 2002.

The decrease in the Same-Office Properties' property operating expenses from 2001 to 2002 included the following:

- decrease of $601,000, or 74%, in expense associated with doubtful or uncollectible receivables, $518,000 of which was attributable to one tenant that declared bankruptcy in 2001;
- decrease of $582,000, or 30%, 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;
- decrease of $477,000, or 7%, in utilities, most of which was attributable to certain tenants assuming responsibility for property utility payments;
- decrease of $260,000, or 6%, in cleaning expenses;
- increase of $270,000, or 38%, in property administrative costs due to increased general and administrative costs associated with employees engaged in property operating activities; and
- increase of $261,000, or 5%, in real estate taxes due primarily to an increase in the assessed value of many of our properties.

We expect that the cost of utility services for our properties may increase within the next year as a result of energy de-regulation expected to take place in Maryland during mid-2004. In addition, we expect that real estate taxes assessed by state and local municipalities on our properties may increase in the future in response to budgetary shortfalls in those municipalities. Should these increases in expenses occur, we expect that we will be able to recover a significant portion of the expense increases through increased tenant recovery revenue in the short term and increased rental revenue in the long term.

The $2.4 million decrease from 2001 to 2002 in tenant recoveries and other revenue from other sources is attributable primarily to a $2.5 million decrease in fees earned for certain real estate consulting services provided in 2001 that we generally no longer provide.

Interest expense and amortization of deferred financing costs

Our interest expense and amortization of deferred financing costs increased 5.5% from 2002 to 2003 due primarily to a 15% increase in our average outstanding debt balance resulting from our 2002 and 2003 acquisition and development activities, offset by a decrease in our weighted average interest rates from 6.5% to 5.9%. Our interest expense and amortization of deferred financing costs increased 21% from 2001 to 2002 due primarily to a 29% increase in our average outstanding debt balance resulting from our 2001 and 2002 acquisition and development activities, offset by a decrease in our weighted average interest rates from 7.6% to 6.5%. Interest rates available from lenders on fixed and variable-rate loans decreased throughout these periods. The decreasing interest rate environment contributed to the decrease in our weighted average interest rates by reducing the amount of interest expense we paid on variable-rate debt and enabling us to refinance certain variable and fixed-rate debt with lower interest rate fixed-rate debt.

As of December 31, 2003, 74.3% of our mortgage and other loans payable balance carried fixed interest rates and 92.5% of our fixed-rate loans were scheduled to mature after 2004; for a more comprehensive presentation of our fixed-rate loan maturities, please refer to the section entitled "Quantitative and Qualitative Disclosures About Market Risk." As of December 31, 2003, we also had one interest rate swap that expires after 2004 that fixes the one-month LIBOR base rate on a notional amount of $50.0 million, or 6.8% of our mortgage and other loans payable. As of December 31, 2003, the percentage of variable-rate loans (computed with the variable loan dollar amount being reduced by the $50.0 million interest rate swap expiring after 2004) relative to total assets was 10.5%; this percentage was lower than it has been in prior periods due primarily to variable-rate debt pay downs and reduced variable-rate borrowing needs resulting from cash provided from preferred shares that we sold in the latter portion of 2003.

Depreciation and amortization

Of the $6.3 million increase in our depreciation and other amortization expense from 2002 to 2003, $6.2 million was attributable to the Property Additions. Of the $10.5 million increase in our depreciation and other amortization expense from 2001 to 2002, $8.8 million was attributable to the Property Additions.

We adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") for our acquisitions of real estate occurring after June 30, 2001 (see the section entitled "Critical Accounting Policies and

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Estimates" and Note 3 to our Consolidated Financial Statements for further discussion). One effect that SFAS 141 has on our results of operations is that an allocated portion of new acquisitions of properties are depreciated or amortized over significantly shorter periods of time than our acquisitions occurring prior to our adoption of SFAS 141; this effect results in higher depreciation and amortization expense in the initial years following these new acquisitions.

Income (loss) from service operations

After incurring losses of $875,000 in 2002 and $782,000 in 2001, our service operations generated income of $807,000 in 2003. This improvement can be attributed primarily to $1.4 million in gross profit earned from construction management contracts in 2003, which was substantially more than gross profit earned from such contracts in 2002 of $37,000 and 2001 of $89,000. While the construction services division had a significant increase in volume of services provided in 2003 relative to prior years, most notable is the change in profit margins associated with certain of these contracts. Of the $1.4 million gross profit referred to above, $1.0 million of this profit was earned from three contracts, including $676,000 from one contract; it is also noteworthy that a significant portion of the gross profit, including the most profitable contract, was earned from one customer. For the construction management division to continue to achieve gross profit at levels approaching its 2003 gross profit, it will need to continue to attract new contracts with similar profit margins; while the division intends to continue to pursue such contracts, we believe that there is inherent uncertainty over whether their pursuit will be successful.

Our heating and air conditioning services and controls division incurred losses of $591,000 in 2003 and $207,000 in 2002, after earning income of $82,000 in 2001. The increased losses are due primarily to decreased revenue from service contracts and decreased margins on installation contracts; we believe that these decreases are attributable primarily to the economic slowdown in the Baltimore/Washington region that this service division serves. We believe that due to the slowdown, owners of real estate deferred capital improvement and repair projects and, as a result, the region's competition for contracts increased and margins decreased. While we believe that the heating and air conditioning services and controls division is well staffed and well managed to recover from this downward trend, there is inherent uncertainty on whether it will be successful in doing so.

General and administrative expenses

General and administrative expenses increased $1.2 million, or 18% from 2002 to 2003, which includes an increase of $709,000 associated with common share awards to employees due primarily to more of these awards vesting in 2003. General and administrative expenses increased $1.4 million, or 27% from 2001 to 2002, of which $1.0 million was attributable to additional employee bonus expense, including additional discretionary bonuses awarded to officers in 2002 that were associated with performance in 2001.

Gain on sales of real estate, excluding sales classified as discontinued operations

In 2003, we recognized a $376,000 gain on the sale of two land parcels. In 2002, we recognized a $1.2 million gain on the disposition of investments in two real estate joint ventures and a $1.4 million gain on three land parcel sales. Gain on sales of real estate for 2002 and 2003 also includes amortized gain from a building sale that occurred in 2002 (see Note 4 to the Consolidated Financial Statements for further description of this sale). In 2001, we recognized a $1.6 million gain on the sale of an office property.

We generally do not acquire properties with the intent of selling them. We generally sell properties when we believe that most of the earnings growth potential in such properties has been realized or determine that a property no longer fits within the Company's strategic plans due to its type and/or location. Since our real estate sales activity is driven by transactions unrelated to our core operations, our gain on sales of real estate is subject to material fluctuation from period to period.

Minority interests

Interests in our Operating Partnership are in the form of preferred and common units. The line entitled "minority interests" on our Consolidated Statements of Operations includes primarily income before minority interests, income taxes, discontinued operations and cumulative effect of accounting change allocated to preferred and common units not owned by us; for the amount of this line attributable to preferred units versus common units, you should refer to our Consolidated Statements of Operations. Income is allocated to minority interest preferred unitholders equal to the priority return from the Operating Partnership to which they are entitled. Income is allocated to minority interest common unitholders based on the income earned by the Operating Partnership after allocation to preferred unitholders multiplied by the percentage of the common units in the Operating Partnership owned by those common unitholders.

As of December 31, 2003, we owned 100% of the outstanding preferred units and approximately 75% of the outstanding common units. The percentage of the Operating Partnership owned by minority interests decreased each of the last three years due primarily to the following:

- the Operating Partnership issued very few new common units and no new preferred units to third parties;
- since we receive preferred units and common units in the Operating Partnership each time we issue preferred shares and common shares, additional units were issued to us

as we issued new shares in each of the last three years;

- certain minority interest holders of common units exchanged their common units for our common shares; and
- we owned all of the preferred units in the Operating Partnership during the last three years except for the Series C Preferred Units, which were owned by third parties until the Operating Partnership repurchased the units in June 2003 (see discussion below).

Our income allocated to minority interest holders of preferred units decreased from 2002 to 2003 due to the repurchase of the Series C Preferred Units. Our changes in income allocated to minority interest holders of common units included the following:

- decrease attributable to our increasing ownership of common units and preferred units each year; and
- increase due to yearly increases in the Operating Partnership's income before minority interests, income taxes, discontinued operations and cumulative effect of accounting change.

Income from discontinued operations

Income from discontinued operations is composed entirely of one operating office property that we sold in March 2003. Income from discontinued operations increased from 2002 to 2003 because 2003 includes a $3.0 million gain before minority interests from the sale of the property. See Note 18 to the Consolidated Financial Statements for a summary of income from discontinued operations.

Adjustments to net income to arrive at net income available to common shareholders

We completed the sale of two series of preferred shares in 2003 and three series of preferred shares in 2001. Preferred share dividends increased from 2002 to 2003 due to the dividend requirements of the two new series of preferred shares issued in 2003. Preferred share dividends increased from 2001 to 2002 due to 2002 containing a full year of the dividend requirements of the three new series of preferred shares issued during 2001. We expect preferred share dividends to increase in 2004 over 2003 due to 2004 containing a full year of the dividend requirements of the two new series of preferred shares issued in 2003.

During 2003, we recognized an $11.2 million decrease to net income available to common shareholders, representing the excess of the repurchase price of the Series C Preferred Units in the Operating Partnership over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder; prior to this repurchase, these units were convertible, subject to certain restrictions, into 2,420,672 common units in the Operating Partnership. These units were repurchased by the Operating Partnership for $36.1 million (including $477,000 for accrued and unpaid distributions), or $14.90 per common share on an as-converted basis. Since this decrease to net income available to common shareholders occurred as a direct result of a specific transaction, we expect it to be nonrecurring.

Our Series B Preferred Shares may be redeemed as early as July 15, 2004. If these shares were redeemed, we would recognize a $1.8 million decrease to net income available to common shareholders pertaining to the original issuance costs we incurred on the shares.

Diluted earnings per common share

Diluted earnings per common share decreased from 2002 to 2003 due primarily to the decrease to net income available to common shareholders resulting from the repurchase of the Series C Preferred Units, offset by the net effect of the other items discussed above. Diluted earnings per common share decreased from 2001 to 2002 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.

Liquidity and Capital Resources

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

Cash and cash equivalents

Our cash and cash equivalents balance as of December 31, 2003 totaled $9.5 million, an increase of 58% from the balance as of December 31, 2002. The balance of cash and cash equivalents that we carried as of the end of the eight calendar quarters during the two years ended December 31, 2003 ranged from $4.3 million to $13.3 million and averaged $7.5 million. The cash and cash equivalents balances that we carry as of a point in time can vary significantly due in part to the inherent variability of the cash needs of our development activities. We maintain sufficient cash and cash equivalents to meet our operating cash requirements and short term investing and financing cash requirements. When we determine that the amount of cash and cash equivalents on hand is more than we need to meet such requirements, we may pay down our Revolving Credit Facility or forgo borrowing under construction loan credit facilities to fund development activities.

Operating activities

We generate most of our cash from the operations of our properties. A review of our Statements of Operations indicates that over the last three years, 29% to 30% of our revenues from real estate operations were used for property operating expenses. Most of the amount by which our revenues from real estate operations exceeded property operating expenses was cash flow; we applied most of this cash flow towards interest expense, scheduled principal amortization on mortgage loans, dividends to our shareholders, distributions to minority interest holders of preferred and common units in the Operating Partnership, capital improvements and leasing costs for our operating properties and general and administrative expenses.

Our cash flow from operations determined in accordance with GAAP increased $5.5 million or 8.9% from 2002 to 2003; this increase is attributable primarily to the additional cash flow from operations generated by our newly-acquired and newly-constructed properties. The change in our cash flow from operations from 2002 to 2003 included a $9.4 million increase in accounts receivable due primarily to significant billings to tenants in December 2003 for leasehold improvements completed and paid for by us in space that they rent from us; we consider this increase to be associated primarily with the significance of the improvements for which we billed and the timing of such billings and not a change in trend for the amount of receivables we expect to carry in the future. The change in our cash flow from operations from 2002 to 2003 also included a $6.1 million increase in accounts payable and accrued expenses due primarily to the following: (1) increased payables associated with construction services performed for third parties brought about by an increase in construction services activity and the timing of our payments; (2) increased interest expense payable due to a change in the timing of our monthly debt service payment process; and (3) increased accrual associated with common shares issued to employees that vest in January 2004 due primarily to more shares vesting for 2003 than for 2002.

We expect to continue to use cash flow provided by operations to meet our short-term capital needs, including all property operating expenses, general and administrative expenses, debt service, dividend and distributions and capital improvements and leasing costs. We do not anticipate borrowing to meet these requirements. Factors that could negatively affect our ability to generate cash flow 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.
- 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.

- When leases for our properties expire, 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 could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms.
- As discussed earlier, we are dependent on a highly concentrated number of tenants for a large percentage of our revenue. Most of the leases of one of these tenants, the United States Government, provide for a series of one-year terms or provide for early termination rights. Our cash flow from operations would be adversely affected if our larger tenants failed 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.
- As discussed earlier, a high concentration of our revenues comes from tenants in the United States defense industry. A reduction in government spending for defense could affect the ability of our tenants in the defense industry to fulfill lease obligations or decrease the likelihood that these tenants will renew their leases. In the case of the United States Government, a reduction in government spending could result in the early termination of leases.
- 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

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tenants. In addition, as noted above, we rely on a relatively small number of tenants for a large percentage of our revenue from real estate operations. 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 results of operations and financial condition.
- We provide construction management services for third-party clients. When providing these services, we usually pay for the costs of construction and subsequently bill our clients for the costs of construction plus a construction management fee. When we provide construction management services, the costs of construction can amount to millions of dollars. If any of our clients for construction management services fail to reimburse us for costs incurred under a significant construction management contract, it could have an adverse effect on our results of operations and financial condition.
- Since all of our properties are located in the Mid-Atlantic region of the United States and are also typically concentrated in office parks in which we own most of the properties, 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, Northern Virginia or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations and cash flows.
- As noted above in the section entitled "Results of Operations," we believe that the recent economic slowdown in the United States has adversely affected occupancy rates in the Mid-Atlantic region and our properties and, in turn, led to downward pressure on rental rates. 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 we believe will affect us further as we attempt to lease vacant space and renew leases scheduled to expire on occupied space. 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, which could adversely affect our financial position, results of operations and cash flows.
- The commercial real estate market is highly competitive. 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 we do. 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, numerous commercial properties compete for tenants with our properties. Some of the properties competing with ours may have newer or more desirable locations or the competing properties' owners may be willing to accept lower rates than are acceptable to us. Competition for property acquisitions, or for tenants in properties that we own, could have an adverse effect on 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. If longer-term interest rates were to increase, we may not be able to refinance our existing indebtedness on terms as favorable as the terms of our existing indebtedness and we would pay more for interest expense on new indebtedness that we incur for future operating property additions.
- Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 2004. These policies include coverage for acts of terrorism. 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. In addition, due largely to the terrorist attacks on September 11, 2001, the insurance industry has changed its risk assessment approach and cost structure. Continuing 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.
- As a REIT, we must distribute at least 90% of our annual REIT taxable income (excluding capital gains), 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 that we actually receive revenue or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement. We may become subject to tax liabilities that adversely affect our operating cash flow.

Investing and financing activities during the year ended December 31, 2003

During 2003, we acquired seven office properties totaling 993,479 square feet for $165.1 million and two parcels of land for $31.8 million. These acquisitions were financed using the following:

- $83.8 million from borrowings under new mortgage loans;
- $63.9 million in proceeds from the sale of common shares in an underwritten public offering;
- $33.1 million in borrowings from our Revolving Credit Facility;
- $9.9 million in funds escrowed from previous property sales; and
- cash reserves for the balance.

During 2003, we acquired our joint venture partners' interests in NBP 140, LLC and Gateway 67, LLC (90% and 20%, respectively) for $6.2 million and assumed $16.5 million in mortgage loans. Prior to these acquisitions, we

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accounted for our investments in these joint ventures using the equity method of accounting (see Note 2 to the Consolidated Financial Statements). Upon completion of these acquisitions, these two entities, which own a total of three office properties totaling 225,754 square feet and a parcel of land that is contiguous to two of these properties, became consolidated subsidiaries.

During 2003, an office property totaling 123,743 square feet that was partially operational and 63% pre-leased at December 31, 2002 became 100% operational. Costs incurred on this project through December 31, 2003 totaled $22.0 million, of which $373,000 was incurred in 2003. We have a construction loan facility in place totaling $14.0 million to finance the construction of this project; borrowings under this facility totaled $12.8 million at December 31, 2003. We also used borrowings from our Revolving Credit Facility and cash reserves funded by a portion of our debt refinancing proceeds.

During 2003, we had construction activities underway on two office properties totaling 244,824 square feet that were 100% pre-leased. Costs incurred on these properties through December 31, 2003 totaled $18.0 million, of which $13.9 million was incurred in 2003. We have a construction loan facility in place totaling $20.0 million to finance the construction of one of these properties; borrowings under this facility totaled $3.3 million at December 31, 2003. The remaining costs were funded using borrowings from our Revolving Credit Facility and cash reserves.

The table below sets forth the major components of our real estate property additions for 2003 and 2002 (in thousands):

	For the Years Ended December 31,	
	2003	2002
Acquisitions (1)	$ 197,300	$ 116,087
Property additions upon acquisition of joint venture partner interests (1)(2)	25,546	29,067
Construction and development	10,681	15,555
Tenant improvements on operating properties (3)	8,588	4,213
Capital improvements on operating properties	4,415	3,264
	$ 246,530	$ 168,186

(1) Includes intangible assets and deferred revenues recorded in connection with acquisitions.

(2) We acquired the ownership interests of partners in two real estate joint ventures for $6,208 in 2003; prior to these acquisitions, we were accounting for our investments in these joint ventures using the equity method of accounting. We also acquired the ownership interests of partners in two real estate joint ventures for $11,809 in 2002; prior to these acquisitions, we were accounting for our investments in these joint ventures using the financing method of accounting (see Note 2 to the Consolidated Financial Statements).

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

During 2003, we sold an office property and two land parcels for a total of $21.3 million. We also contributed a 157,394 square foot office property into a joint venture called Route 46 Partners, LLC in exchange for $20.0 million in cash and a 20% interest in the joint venture. The net proceeds from these transactions after transaction costs totaled $40.2 million; these proceeds were used as follows:

- $29.4 million to pay down our Revolving Credit Facility;
- $7.5 million to fund a cash escrow that was subsequently applied towards an acquisition; and
- $3.3 million to fund cash reserves.

Our investments in unconsolidated real estate joint ventures decreased $2.7 million during 2003; this decrease included primarily the following:

- $4.4 million decrease due to the purchase of our joint venture partners' interests in NBP 140, LLC and Gateway 67, LLC described above, after which those entities became consolidated subsidiaries of ours; and
- $1.1 million increase due to the investment in Route 46 Partners, LLC brought about by our contribution of an office property into the joint venture described above.

For additional information regarding our investments in unconsolidated real estate joint ventures, you may refer to the section below entitled "Off-Balance Sheet Arrangements" and Note 5 to our Consolidated Financial Statements.

During 2003, we borrowed $191.2 million under mortgages and other loans, excluding our Revolving Credit Facility; the proceeds from these borrowings were used as follows:

- $83.8 million to finance acquisitions;
- $45.0 million to refinance existing debt;
- $36.1 million for the repurchase of the Series C Preferred Units of our Operating Partnership described below;
- $18.4 million to pay down our Revolving Credit Facility;
- $1.2 million to finance construction activities; and
- the balance to fund cash reserves.

On May 27, 2003, we sold 5,290,000 common shares in an underwritten public offering at a price of $15.03 per share for net proceeds of $79.4 million. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 5,290,000 common units. The Operating Partnership, in turn, used $63.9 million of the proceeds to fund a property acquisition and the balance to pay down our Revolving Credit Facility.

On June 16, 2003, we redeemed all of the 1,016,662 Series C Preferred Units in our Operating Partnership for $36.1 million using proceeds from a newly acquired $40.0 million mortgage loan. As a result of the repurchase, we recognized an $11.2 million reduction to net income available to common shareholders associated with the excess of the repurchase price over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder.

On August 11, 2003, we completed the sale of 2,200,000 Series G Preferred Shares at a price of $25.00 per share for net proceeds of $53.2 million. These shares are nonvoting and redeemable for cash at $25.00 per share at our option on or after August 11, 2008. Holders of these shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). Dividends accrue from the date of issue at the annual rate of $2.00 per share, which is equal to 8% of the $25.00 per share redemption price. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 2,200,000 Series G Preferred Units. The Series G Preferred Units carry terms that are substantially the same as the Series G Preferred Shares. The Operating Partnership used most of the net proceeds to pay down our Revolving Credit Facility.

On December 18, 2003, we completed the sale of 2,000,000 Series H Preferred Shares at a price of $25.00 per share for net proceeds of $48.3 million. These shares are nonvoting and redeemable for cash at $25.00 per share at our option on or after December 18, 2008. Holders of these shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). Dividends accrue from the date of issue at the annual rate of $1.875 per share, which is equal to 7.5% of the $25.00 per share redemption price. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 2,000,000 Series H Preferred Units. The Series H Preferred Units carry terms that are substantially the same as the Series H Preferred Shares. The Operating Partnership used most of the net proceeds to pay down our Revolving Credit Facility.

Analysis of cash flow associated with investing and financing activities

Our net cash flow used in investing activities increased $44.4 million from 2002 to 2003. This increase was due primarily to the following:

- $63.3 million increase in purchases of and additions to commercial real estate; this increase is due to the dollar amount of property acquisitions completed in 2003 exceeding that of 2002. Our ability to locate and complete acquisitions is dependent on numerous variables and, as a result, is inherently subject to significant fluctuation from year to year; while we expect to continue to acquire properties in the future, we are unable to predict whether the increasing acquisition volume from 2002 to 2003 is a trend that will continue; and
- $32.7 million increase in proceeds from sales of properties; this increase resulted from the dollar amount of transactions completed in 2003 exceeding that of 2002. As

discussed earlier, we generally do not acquire properties with the intent of selling them. We generally sell properties when we believe that most of the earnings growth potential in such properties has been realized or determine that a property no longer fits within the Company's strategic plans due to its type and/or location. Since our real estate sales activity is driven by transactions unrelated to our core operations, our proceeds from sales of properties is subject to material fluctuation from period to period and, therefore, we do not believe that the change from 2002 to 2003 is necessarily indicative of a trend.

Our cash flow provided by financing activities increased $43.0 million from 2002 to 2003. This increase included the following:

- $157.7 million increase in proceeds from the sale of preferred and common shares; most of this increase is attributable to the dollar amount of public offerings completed during 2003 exceeding that of 2002. We were able to complete these sales due to an attractive equity market for our shares in 2003. While we expect to complete additional preferred and common share offerings in the future, our desire and ability to do so will be dependent on both (1) our need for funds from such offerings for our investing and financing activities and (2) the attractiveness of the equity markets at the time the funds are needed;
- $60.5 million increase in repayments of mortgage and other loans payable; this increase is attributable primarily to (1) additional repayments made using the increased proceeds from both the sale of preferred and common shares and sales of properties in 2003, offset by (2) additional repayments that occurred in 2002 compared to 2003 due to additional loan refinancings completed in 2002 in response largely to the decreasing interest rate environment;
- $35.4 million decrease in proceeds from mortgage and other loans payable; this decrease is due primarily to fewer loan refinancings taking place in 2003 than in 2002 and a reduced need for additional borrowings in 2003 due to the sales of preferred and common shares; and
- $35.6 million in cash used to repurchase the Series C Preferred Units in the Operating Partnership; this occurred as a result of a specific transaction that will not reoccur on an ongoing basis. We may use cash in the future to redeem outstanding series of preferred shares once they become redeemable; if this were to occur, we would expect to finance the cost of such a redemption using proceeds from the sale of common or preferred shares.

As discussed above, the increase in repayments of mortgages and other loans payable and decrease in proceeds from mortgages was influenced in part by the availability of proceeds from the sale of common and preferred shares; we were able to complete these sales due to an attractive equity market for our shares in 2003. These changes do not necessarily indicate a continuing trend since equity markets for our shares may not always be as attractive. In less attractive equity market conditions, it is likely that we will finance a larger portion of our investing and financing activities using debt.

Off-Balance Sheet arrangements

Some of our real estate investments are owned through joint ventures. Reasons that we use joint ventures from time to time include the following: (1) they can provide a facility to access new markets and investment opportunities while enabling us to benefit from the expertise of our partners; (2) they are an alternative source for raising capital to put towards acquisition or development activities; and (3) they can reduce our exposure to risks associated with a property and its activities. 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 2003 can be classified into one of the three categories described below:

- Externally-managed construction joint ventures (the "Externally-Managed JVs"). These joint ventures construct buildings to either 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 properties in the Baltimore/Washington Corridor; that company also serves as the project manager for all of these joint ventures. During 2003, we were invested in four of these joint ventures, three of which were remaining at December 31, 2003; all of these investments were accounted for using the equity method of accounting (see Note 2 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 access 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, 2003, none of the three 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 $1.3 million; however, since the determination of this amount is dependent on the operations of the properties and none

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  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 2003, we were invested in two of these joint ventures, one of which was remaining at December 31, 2003; one of these ventures was accounted for using the financing method of accounting and one using the equity method of accounting (see Note 2 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. We also earn construction, property management and guaranty fees from these joint ventures. The Internally-Managed JVs in which we invested during 2003 both contained 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 both contained provisions giving us the option to purchase our partners' joint venture interests for pre-determined purchase prices over limited periods of time; however, if we do not elect to exercise this purchase option in a project, our partner can take control of the joint venture's management committee by appointing an additional representative to the committee. We acquired our partner's interest in one of these joint ventures on December 31, 2003 for a purchase price of $5.4 million. Our partners can 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 partners' interests for pre-determined purchase prices. Our partner in the one Internally-Managed JV remaining at December 31, 2003 can gain control of the joint venture's management committee if construction of the building is not completed by January 2005, although if that were to occur, we would have the option of acquiring our partner's interest for $4.9 million; we could also be required to purchase our partner's interest in this joint venture for a minimum purchase price of $4.9 million in the event that the joint venture defaults on its obligations as landlord or does not meet certain construction completion timeframes. 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, 2003 is September 1, 2004, on which date the purchase price would be $4.9 million.
- Operating joint ventures to which we contribute an office property to partially dispose of our interest (the "Disposition JV"). During 2003, we contributed an office property into a Disposition JV in exchange for cash and a 20% interest in the joint venture. This Disposition JV enabled us to dispose of most of our investment in a property that we believe realized most of its earnings growth potential. We manage the joint venture's property operations and any required construction projects and earn fees for these services. Our joint venture partner has preference in receiving distributions of cash flows for a defined return; once our partner receives its defined return, we are entitled to

receive distributions for a defined return and, once we receive that return, remaining distributions of cash flows are allocated based on percentages defined in the joint venture agreement.

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 12/31/03	Net Cash Flow to Category in 2003	Income from Category in 2003	Fees Earned from Category in 2003 (1)	Balance of Debt Guaranteed by Us at 12/31/2003	Obligation to Unilaterally Fund Additional Project Costs (if necessary)(2)
Externally-Managed JVs	$ 4,207	$ (1,349)	$ (217)	$ —	$ 3,360	$ —
Internally-Managed JVs (3)	—	(4,230)	—	251	3,299	4,500
Disposition JV	1,055	(933)	123	100	—	320
	$ 5,262	$ (6,512)	$ (94)	$ 351	$ 6,659	$ 4,820

(1) Fees earned by us for construction, asset management and property management services provided to joint ventures.
(2) Amounts reported in this column represent additional investments we could be required to fund on a unilateral basis. We are also required to unilaterally fund leasing commissions incurred, if any, above a market rate specified in the joint venture agreement for the Disposition JV. We and our partners are also required to fund proportionally (based on our ownership percentage) additional amounts when needed by the Externally-Managed JVs and Disposition JV. In addition, we are required to fund 50% of additional amounts needed by the Internally-Managed JVs. Since the additional fundings described in this footnote are uncertain in dollar amount and we do not expect that they will be necessary, they are not included in the table.
(3) The one remaining Internally-Managed JV as of December 31, 2003 was accounted for using the financing method of accounting. As a result, we reported a zero investment balance in that JV (see section entitled "Financing Method" in Note 2 to our Consolidated Financial Statements).

The net cash flow to Externally-Managed JVs during the year includes $857,000 paid to acquire our partner's interest in one joint venture during 2003. The net cash flow to Internally-Managed JVs includes $5.4 million paid to acquire our partner's interest in one joint venture.

You should refer to Notes 5 and 19 for additional information pertaining to our investments in unconsolidated real estate joint ventures.

We had no other material off-balance sheet arrangements during 2003.

Analysis of indebtedness

As we discussed earlier, two non-GAAP measures that we use in managing our financing policy are debt service coverage ratio and fixed charge coverage ratio; both of these measures are defined in the section entitled "Overview." We believe that debt service coverage ratio is a useful measure in evaluating the relationship of our earnings to the total cash flow requirements of our loans associated with operating properties. We believe that fixed charge coverage ratio is a useful measure in evaluating the relationship of our earnings to the cash flow requirements of (1) interest expense on loans associated with our operating properties and (2) dividends to our preferred equity holders. The table below reconciles the denominators for debt service coverage ratio and fixed charge coverage ratio to interest expense, the most directly comparable GAAP measure, for the year ended December 31, 2003 (in thousands):

Interest expense from continuing operations	$ 41,079
Interest expense from discontinued operations	100
Scheduled principal amortization on mortgage and other loans	9,221
Denominator for debt service coverage ratio	50,400
Less: scheduled principal amortization on mortgage and other loans	(9,221)
Preferred share dividends	12,003
Preferred unit distributions	1,049
Denominator for fixed charge coverage ratio	$ 54,231

One non-GAAP measure of earnings that is useful in evaluating our debt service coverage and fixed charge coverage is earnings before interest, income taxes, depreciation and amortization ("EBITDA"). EBITDA is net income adjusted for the effects of interest expense, depreciation and amortization, income taxes, gain on sales of real estate (excluding sales of non-operating properties and development services provided on operating properties) and minority interests. We believe that EBITDA is an important measure of performance for a REIT because it provides a further tool to evaluate our ability to incur and service debt and to fund dividends and other cash needs. We believe that net income is the most directly comparable GAAP measure to EBITDA. The table below sets forth our computation of EBITDA for the year ended December 31, 2003 (in thousands):

Net income	$ 30,877
Interest expense from continuing operations	41,079
Interest expense from discontinued operations	100
Amortization of deferred financing costs	2,767
Income tax benefit, gross	(169)
Depreciation of furniture, fixtures and equipment	460
Real estate-related depreciation and amortization	36,681
Gain on sale of depreciated real estate properties, excluding development portion	(2,897)
Minority interests	7,761
EBITDA	$ 116,659

The timing and nature (fixed-rate versus variable-rate) of the scheduled maturities on our debt are discussed in the section entitled "Quantitative and Qualitative Disclosures about Market Risk."

We often use our Revolving Credit Facility initially to 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. Our primary

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Revolving Credit Facility throughout the periods reported herein was with Bankers Trust Company. Amounts available under this Revolving Credit Facility are generally computed based on 65% of the appraised value of properties pledged as collateral. As of March 5, 2004, the maximum amount available under our Revolving Credit Facility was $122.9 million, of which $95.1 million was unused.

We expect to obtain a new Revolving Credit Facility with Wachovia Bank, National Association in March 2004; we expect to use this facility as our primary revolving credit facility to replace the facility with Bankers Trust Company. The facility is expected to have a maximum principal of $300.0 million, a three-year term (with an additional one-year extension available) and a variable interest rate based on the 30-day LIBOR rate plus 1.25% to 1.55% (as determined by our leverage levels at different points in time). We also expect the facility to have a fee of 0.125% to 0.25% on the amount of the credit facility that is unused.

We have a secured revolving credit facility with Wachovia Bank, National Association for a maximum principal amount of $25.0 million. As of March 5, 2004, $6.1 million was unused, although such amount is not available for borrowing until additional properties are pledged as collateral. We expect to repay and eliminate this loan using proceeds from our Revolving Credit Facility in March 2004.

Certain of our mortgage loans require that we comply with a number of restrictive financial covenants, including leverage ratio, adjusted consolidated net worth, minimum property interest coverage, minimum property hedged interest coverage, minimum consolidated interest coverage, minimum fixed charge coverage, minimum debt service coverage, maximum consolidated unhedged floating rate debt and maximum consolidated total indebtedness. As of December 31, 2003, we were in compliance with these financial covenants.

Contractual obligations

The following table summarizes our contractual obligations as of December 31, 2003 (in thousands):

	For the Years Ended December 31,				
	2004	2005 to 2006	2007 to 2008	Thereafter	Total
Contractual obligations (1)					
Mortgage loans payable (2)	$ 176,904	$ 162,466	$ 220,281	$ 179,047	$ 738,698
New construction and development contracts (3)	13,688	—	—	—	13,688
Third-party construction and development contracts (4)	21,310	—	—	—	21,310
Capital expenditures for operating properties (5)	5,204	—	—	—	5,204
Operating leases (6)	1,235	1,896	790	31,711	35,632
Capital lease obligations (6)	33	18	—	—	51
Other purchase obligations (6)	711	1,018	896	2,234	4,859
Total contractual cash obligations	$ 219,085	$ 165,398	$ 221,967	$ 212,992	$ 819,442
Other commitments (7)					
Guarantees of joint venture loans (8)	$ 3,360	$ 3,299	$ —	$ —	$ 6,659

(1) The contractual obligations set forth in this table generally exclude individual contracts that had a value of less than $20 thousand. Also excluded are contracts associated with the operations of our properties that may be terminated with notice of one month or less, which is the arrangement that applies to most of our property operations contracts.
(2) Our loan maturities in 2004 include $107.5 million that we expect to refinance using proceeds from the new Revolving Credit Facility with Wachovia Bank, $25.8 million that we expect to refinance using proceeds from other financings or equity offerings and $27.2 million for which we expect to obtain extensions for a minimum of one year. The remaining $16.4 million represents scheduled principal amortization payments that we expect to pay using cash flow from operations.
(3) Represents contractual obligations pertaining to new construction and development activities. We expect to finance these costs using primarily proceeds from our Revolving Credit Facility and construction loans.
(4) Represents contractual obligations pertaining to projects for which we are acting as construction manager on behalf of unrelated parties who are our clients. We expect to be reimbursed in full for these costs by our clients.
(5) Represents contractual obligations pertaining to capital expenditures for our operating properties. We expect to finance all of these costs using cash flow from operations.
(6) We expect to pay these items using cash flow from operations.
(7) 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.
(8) We do not expect to be required to fulfill our obligation as guarantor of joint venture loans.

Investing and financing activity subsequent to December 31, 2003

On March 5, 2004, we acquired for $22.4 million a 129,000 square foot office property located in Gaithersburg, Maryland, which is in Montgomery County. This acquisition was financed using $16.8 million in mortgage loans assumed from the seller and the balance with proceeds from our Revolving Credit Facility.

Other future cash requirements for investing and financing activities

Subsequent to December 31, 2003, we entered into a contract to acquire 10 office properties totaling approximately 535,000 square feet for $65.2 million. These buildings are located in St. Mary's County, Maryland. We expect that these acquisitions will be completed by April 2004 using borrowings under our Revolving Credit Facility.

As previously discussed, we had construction activities underway on two office properties totaling 244,824 square feet that were 100% pre-leased as of December 31, 2003. We estimate remaining costs to be incurred will total approximately $22.8 million upon completion of these properties, most of which we expect to incur in 2004. We have $16.7 million remaining to be borrowed under a $20.0 million construction loan facility for one of the properties; we expect to fund the remaining costs for these activities using primarily borrowings from our Revolving Credit Facility.

As of December 31, 2003, we had development activities underway on a new office property estimated to total 104,000 square feet. We estimate that costs for this property will total approximately $18.0 million, which is expected to be incurred in 2004 and 2005. We expect to fund approximately $12.0 million of these costs using borrowings from a new construction loan and $6.0 million using borrowings from our Revolving Credit Facility.

We estimate that we will incur additional tenant improvement, leasing and construction completion costs of $3.1 million during 2004 for three newly-constructed buildings that are 100% operational. We expect to use remaining balances available under two construction loan facilities to finance these costs.

We intend to develop two of the new parcels of land acquired during 2003 and construct multiple office properties on the land. We expect that the land will require approximately $2.0 million in development-related costs over the next two years prior to commencement of construction activities on the buildings; we expect to fund these costs using a combination of cash flow from operations and proceeds from our Revolving Credit Facility. When construction of the buildings is ready to commence, we expect to obtain construction loans to finance the construction activities. In addition, as construction of the buildings commences, we will need to pay down the portions of the

existing loans on the property that are attributable to the land where the construction is taking place (the total loan balance at December 31, 2003 was $25.7 million, excluding discounts recorded on the loans); we expect to fund these loan pay downs primarily using proceeds from our Revolving Credit Facility. While the timing of development and construction activities is dependent on the demand for office space in the real estate market, we expect to commence construction in 2004 on two office properties on this land parcel that will total approximately $48.4 million upon completion; we expect to fund approximately $33.9 million of these costs with borrowings from new construction loans and the balance using proceeds from our Revolving Credit Facility.

During 2004 and beyond, we expect to complete other acquisitions of properties and commence construction and development activities in addition to the ones previously described. We expect to finance these activities as we have in the past, using mostly a combination of additional equity issuances of common and/or preferred shares, borrowings from new loans and borrowings under our Revolving Credit Facility.

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

- Our strategy is to operate with slightly higher debt levels than most other REITs. However, these higher 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.
- 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 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 our common and preferred shares. These conditions include, but are not limited to (1) market perception of REITs in general and office REITs in particular; (2) market perception of REITs relative to other investment opportunities; (3) the level of institutional investor interest in our company; (4) general economic and business conditions; (5) prevailing interest rates; and (6) market perception of our financial condition, performance, dividends and growth potential.
- 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 our ability to make 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 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 (1) 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 (2) the other parties to these investments may take actions that are inconsistent with our objectives.
- Equity real estate investments such as 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, under certain circumstances, 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 for a certain period of time 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.
- 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

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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 other reasons. Additionally, 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.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with 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 involving estimates and assumptions that (1) require our most difficult, subjective or complex judgments in accounting for highly uncertain matters or matters that are susceptible to change and (2) materially affect our reported operating performance or financial condition. 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. While reviewing this section, you should refer to Note 3 to our Consolidated Financial Statements, including terms defined therein.

- When we acquire real estate properties, we allocate the acquisition to numerous components. Most of the terms in this bullet section are defined in the section of Note 3 to the Consolidated Financial Statements entitled "Acquisitions of Real Estate." Our process for determining the allocation to these components is very complex and requires many estimates and assumptions. Included among these estimates and assumptions are the following: (1) determination of market rental rate; (2) estimates of leasing and tenant improvement costs associated with the remaining term of acquired leases for deemed cost avoidance; (3) leasing assumptions used in determining the as-if vacant value and tenant value, including the rental rates, period of time which it will take to lease vacant space and estimated tenant improvement costs and estimated leasing costs; (4) estimate of the property's future value in determining the as-if vacant value; (5) estimate of value attributable to market concentration premiums and tenant relationship values; and (6) allocation of the as-if vacant value between land and building. A change in any of the above key assumptions, most of which are extremely subjective, can materially change not only the presentation of acquired properties in our Consolidated Financial Statements but also reported results of operations. The allocation to different components affects the following:
  - Amount of the acquisition costs allocated between different categories of assets and liabilities on our balance sheet, the amount of costs assigned to individual properties in multiple property acquisitions and the amount of costs assigned to individual tenants at the time of acquisition;
  - Where the amortization of the components appear over time in our statements of operations. Allocations to the lease to market value component are amortized into rental revenue, whereas allocations to most of the other components (the one exception being the land component of the as-if vacant value) are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as funds from operations, the computation of which includes rental revenue but does not include depreciation and amortization expense;
  - Timing over which the items are recognized as revenue or expense in our statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to lease to market value, deemed cost avoidance, tenant value and tenant relationship value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are generally expensed upon termination. These differences in timing can materially affect our reported results of operations. In addition, we establish lives for tenant value and tenant relationship value based on our estimates of how long we expect the respective tenants to remain in the properties; establishing these lives requires estimates and assumptions that are very subjective.
- 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, which 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.

- 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 our Consolidated Financial Statements). We use the cost method when we own an interest in an entity and cannot exert significant influence over the entity's operations. When the cost method does not apply, we evaluate whether or not we can exert significant influence over the entity's operations but cannot control the entity's operations; when considering that, we need to determine whether a situation exists in which the entity is controlled by its owners (either us or our joint venture partners) without such owners owning most of the outstanding voting rights in the entity. In performing this evaluation, we typically need to make subjective estimates and judgments regarding the entity's future operating performance, financial condition, future valuation and other variables that may affect the partners' share of cash flow from the entity over time; we also need to estimate the probability of different scenarios taking place over time and project the effect that each of those scenarios would have on variables affecting the partners' cash flow. The conclusion reached as a result of this process affects whether or not we use the consolidation method in accounting for our investment or either the equity or financing method of accounting. Whether or not we consolidate an investment can materially affect our Consolidated Financial Statements.

Funds From Operations

Funds from operations ("FFO") is defined as net income computed using GAAP, excluding gains (or losses) from sales of real estate, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Gains from sales of newly-developed properties less accumulated depreciation, if any, required under GAAP are included in FFO on the basis that development services are the primary revenue generating activity; we believe that inclusion of these development gains is in accordance with the National Association of Real Estate Investment Trusts ("NAREIT") definition of FFO, although others may interpret the definition differently. Additionally, the repurchase of the Series C Preferred Units in the Operating Partnership for an amount in excess of their recorded book value was a transaction not contemplated in the NAREIT definition of FFO; we believe that the exclusion of such an amount from FFO is appropriate.

Accounting for real estate assets using historical cost accounting under GAAP assumes that the value of real estate assets diminishes predictably over time. NAREIT stated in its April 2002 White Paper on Funds from Operations that "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." As a result, the concept of FFO was created by NAREIT for the REIT industry to "address this problem." We agree with the concept of FFO and believe that FFO is useful to investors as a supplemental measure of operating performance. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs, although the FFO we present may not be comparable to the FFO presented by other REITs since they may interpret the current NAREIT definition of FFO differently or they may not use the current NAREIT definition of FFO. We believe that net income is the most directly comparable GAAP measure to FFO.

Basic funds from operations ("Basic FFO") is FFO adjusted to (1) subtract preferred share dividends and (2) add back GAAP net income allocated to common units in the Operating Partnership not owned by us. With these adjustments, Basic FFO represents FFO available to common shareholders and common unitholders. Common units in the Operating Partnership are substantially similar to our common shares; common units in the Operating Partnership are also exchangeable into common shares, subject to certain conditions. We believe that Basic FFO is useful to investors due to the close correlation of common units to common shares. We believe that net income is the most directly comparable GAAP measure to Basic FFO.

Diluted funds from operations per share ("Diluted FFO per share") is (1) Basic FFO adjusted to add back any convertible preferred share dividends and any other changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. However, the computation of Diluted FFO per share does not assume conversion of securities that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period. We believe that Diluted FFO per share is useful to investors because it provides investors with a further context for evaluating our FFO results in the same manner that investors use earnings per share ("EPS") in evaluating net income available to common shareholders. In addition, since most equity REITs provide Diluted FFO per share information to the investment community, we believe Diluted FFO per share is a useful supplemental measure for comparing us to other equity REITs. We believe that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share.

Diluted funds from operations ("Diluted FFO") is Basic FFO adjusted to add back any convertible preferred share dividends and any other changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares. However, the computation of Diluted FFO does not assume conversion of securities that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period. We believe that Diluted FFO is useful to investors because it is the numerator used to compute Diluted FFO per share. In addition, since most equity REITs provide Diluted FFO information to the investment community, we believe Diluted FFO is a useful supplemental measure for comparing us to other equity REITs. We believe that the numerator for diluted earnings per share is the most directly comparable GAAP measure to Diluted FFO.

Our Basic FFO, Diluted FFO per share and Diluted FFO for the years ended December 31, 1999 through 2003 and reconciliations of (1) net income to FFO, (2) the numerator for diluted earnings per share to diluted FFO and (3) the denominator for diluted earnings per share to the denominator for diluted FFO per share are set forth in the following table:

	For the Years Ended December 31, (Dollars and shares in thousands, except per share data)				
	2003	2002	2001	2000	1999
Net income	$ 30,877	$ 23,301	$ 19,922	$ 15,134	$ 15,083
Add: Real estate-related depreciation and amortization	36,681	30,832	20,558	16,887	11,987
Add: Depreciation and amortization on unconsolidated real estate entities	295	165	144	—	—
Less: Gain on sales of real estate properties, excluding development and redevelopment portion (1)	(2,897)	(268)	(416)	(107)	(1,140)
Add: Cumulative effect of accounting change	—	—	263	—	—
FFO	64,956	54,030	40,471	31,914	25,930

	2003	2002	2001	2000	1999
Add: Minority interests-common units in the Operating Partnership	6,712	5,800	6,592	6,322	3,449
Less: Preferred share dividends	(12,003)	(10,134)	(6,857)	(3,802)	(2,854)
Basic FFO	59,665	49,696	40,206	34,434	26,525
Add: Preferred unit distributions	1,049	2,287	2,287	2,240	2,620
Add: Convertible preferred share dividends	544	544	508	677	1,353
Add: Restricted common share dividends	—	283	—	—	—
Expense associated with dilutive options	10	44	—	—	—
Diluted FFO	$ 61,268	$ 52,854	$ 43,001	$ 37,351	$ 30,498
Weighted average common shares	26,659	22,472	20,099	18,818	16,955
Conversion of weighted average common units	8,932	9,282	9,437	9,652	4,883
Weighted average common shares/units - basic FFO	35,591	31,754	29,536	28,470	21,838
Assumed conversion of weighted average convertible preferred units	1,101	2,421	2,421	2,371	5,680
Assumed conversion of share options	1,405	936	406	164	9
Assumed conversion of weighted average convertible preferred shares	1,197	1,197	1,118	918	1,845
Assumed conversion of common unit warrants	—	—	—	231	—
Restricted common shares	—	326	—	—	—
Weighted average common shares/units - diluted FFO	39,294	36,634	33,481	32,154	29,372
Diluted FFO per share	$ 1.56	$ 1.44	$ 1.28	$ 1.16	$ 1.04
Other information:					
Straight-line rent adjustments	$ (4,840)	$ (2,389)	$ (3,175)	$ (4,107)	$ (2,766)
Recurring capital improvements	$ (11,456)	$ (6,640)	$ (5,430)	$ (2,843)	$ (2,579)
Amortization of origination value of leases on acquired properties into rental revenue	$ (1,817)	$ (2,342)	$ —	$ —	$ —
Numerator for diluted earnings per share	$ 7,650	$ 13,711	$ 13,573	$ 11,332	$ 14,788
Add: Minority interests-common units in the Operating Partnership	6,712	5,800	6,592	6,322	3,449
Add: Real estate-related depreciation and amortization	36,681	30,832	20,558	16,887	11,987
Add: Depreciation and amortization on unconsolidated real estate entities	295	165	144	—	—
Add: Preferred unit distributions	1,049	2,287	2,287	2,240	61
Add: Expense on dilutive options	10	44	—	—	—
Add: Repurchase of Series C Preferred Units in excess of recorded book value	11,224	—	—	—	—
Add: Restricted common share dividends	—	283	—	—	—
Add: Convertible preferred share dividends	544	—	—	677	1,353
Less: Gain on sales of real estate properties, excluding redevelopment portion (1)	(2,897)	(268)	(416)	(107)	(1,140)
Add: Cumulative effect of accounting change	—	—	263	—	—
Diluted FFO	$ 61,268	$ 52,854	$ 43,001	$ 37,351	$ 30,498
Denominator for diluted earnings per share	28,021	24,547	21,623	19,213	22,574
Weighted average common units	8,932	9,282	9,437	9,652	4,883
Conversion of weighted average convertible preferred shares	1,197	—	—	918	1,845
Conversion of weighted average convertible preferred units	1,101	2,421	2,421	2,371	70
Restricted common shares	—	326	—	—	—
Additional dilutive options	43	58	—	—	—
Denominator for Diluted FFO per share	39,294	36,634	33,481	32,154	29,372

(1) Gains from the sale of real estate that are attributable to sales of non-operating properties are included in FFO. Gains from newly-developed or re-developed properties less accumulated depreciation, if any, required under GAAP are also included in FFO on the basis that

development services are the primary revenue generating activity; we believe that inclusion of these development gains is in compliance with the NAREIT definition of FFO, although others may interpret the definition differently.

Recurring capital improvements are a measure of capitalized costs that in the words of NAREIT "produce a measure of operating performance that is recurring in nature." The measure of recurring capital improvements is defined as capital improvements, tenant improvements and leasing costs associated with our operating properties that are not (1) items contemplated prior to the acquisition of a property, (2) improvements associated with the expansion of a building or its improvements, (3) renovations to a building which change the underlying classification of the building (for example, from industrial to office or Class C office to Class B office) and (4) capital improvements that represent the addition of something new to the property rather than the replacement of something (for example, the addition of a new heating and air conditioning unit that is not replacing one that was previously there). We believe that recurring capital improvements is an important measure of performance for a REIT because it provides a measure of the capital improvements that the Company can expect to incur on an ongoing basis, which is significant to how we manage our business since we fund these improvements using cash flow from operations. As a result, it provides a further indication of the cash flow from operations that were available to fund other uses. We believe that tenant improvements, capital improvements and leasing costs associated with operating properties are the most directly comparable GAAP measures; a reconciliation of recurring capital improvements to these GAAP measures is set forth below (in thousands):

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
Total tenant improvements on operating properties	$ 8,588	$ 4,213	$ 5,032	$ 4,932	$ 3,126
Total capital improvements on operating properties	4,415	3,264	3,483	3,580	6,825
Total leasing costs incurred for operating properties	3,260	4,640	3,582	5,824	2,637

Less: Nonrecurring tenant improvements on operating properties	(2,024)	(773)	(2,366)	(3,903)	(1,789)
Less: Nonrecurring capital improvements on operating properties	(2,347)	(1,727)	(2,681)	(3,234)	(6,224)
Less: Nonrecurring leasing costs incurred for operating properties	(484)	(2,977)	(1,627)	(4,356)	(1,996)
Add: Recurring improvements on operating properties held through joint ventures	48	—	7	—	—
Recurring capital improvements	$ 11,456	$ 6,640	$ 5,430	$ 2,843	$ 2,579

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, 2003, 74.3% of our mortgage and other loans payable balance carried fixed interest rates and 92.5% of our fixed-rate loans were scheduled to mature after 2004. As of December 31, 2003, we also had one interest rate swap that expires after 2004 that fixes the one-month LIBOR base rate on a notional amount of $50.0 million, or 6.8% of our mortgage and other loans payable. As of December 31, 2003, the percentage of variable-rate loans (computed with the variable loan dollar amount being reduced by the $50.0 million interest rate swap expiring after 2004) relative to total assets was 10.5%; this percentage was lower than it has been in prior periods due primarily to variable-rate debt pay downs and reduced variable-rate borrowing needs resulting from cash provided from preferred shares that we sold in the later portion of 2003.

The following table sets forth our long-term debt obligations, principal cash flows by scheduled maturity and weighted average interest rates at December 31, 2003 (dollars in thousands):

	For the Years Ended December 31,						
	2004 (1)	2005 (2)	2006	2007	2008	Thereafter	Total
Long term debt:							
Fixed rate	$ 41,226	$ 32,128	$ 75,858	$ 69,590	$ 150,691	$ 179,047	$ 548,540
Average interest rate	6.52%	6.54%	6.46%	6.10%	6.84%	5.94%	6.24%
Variable rate	$ 135,678	$ 54,480	$ —	$ —	$ —	$ —	$ 190,158
Average interest rate	2.77%	2.94%	—	—	—	—	2.78%

(1) Includes maturities of $12.8 million in March, $25.8 million in August and $8.1 million in November that may each be extended for a one-year period, subject to certain conditions.
(2) Includes maturities totaling $54.5 million in January that may each be extended for two six-month periods, subject to certain conditions.

The fair market value of our mortgage and other loans payable was $771.4 million at December 31, 2003 and $741.6 million at December 31, 2002.

The following table sets forth information pertaining to our derivative contracts in place as of December 31, 2003 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, 2003 (in thousands)
Interest rate swap	$ 50.0	2.308%	1/2/2003	1/2/2005	$ (467)
Interest rate swap	50.0	1.520%	1/7/2003	1/2/2004	—
Total					$ (467)

Based on our variable-rate debt balances, our interest expense would have increased by $1.4 million in 2003 and $1.5 million in 2002 if short-term interest rates were 1% higher. Interest expense in 2003 was less sensitive to a change in interest rates than 2002 due to a lower average variable-rate debt balance in 2003.

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,	
	2003	2002
Assets		
Investment in real estate:		
Operating properties, net	$ 1,116,847	$ 983,597
Property held for sale, net	—	16,792
Projects under construction or development	67,149	34,567
Total commercial real estate properties, net	1,183,996	1,034,956
Investments in and advances to unconsolidated real estate joint ventures	5,262	7,999
Investment in real estate, net	1,189,258	1,042,955
Cash and cash equivalents	9,481	5,991

	2003	2002
Restricted cash	11,030	9,739
Accounts receivable, net	13,047	3,509
Investments in and advances to other unconsolidated entities	1,621	1,621
Deferred rent receivable	17,903	13,698
Intangible assets on real estate acquisitions, net	55,692	28,424
Deferred charges, net	17,723	19,848
Prepaid and other assets	14,311	11,260
Furniture, fixtures and equipment, net	2,010	1,676
Total assets	$ 1,332,076	$ 1,138,721
Liabilities and shareholders' equity		
Liabilities:		
Mortgage and other loans payable	$ 738,698	$ 705,056
Accounts payable and accrued expenses	23,126	11,670
Rents received in advance and security deposits	10,112	8,253
Dividends and distributions payable	12,098	9,794
Deferred revenue associated with acquired operating leases	9,630	12,250
Fair value of derivatives	467	494
Other liabilities	7,768	1,821
Total liabilities	801,899	749,338
Minority interests:		
Preferred units in the Operating Partnership	—	24,367
Common units in the Operating Partnership	79,796	76,519
Total minority interests	79,796	100,886
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Preferred Shares of beneficial interest ($0.01 par value; 15,000,000 shares authorized)		
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, 2003 and 2002)	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, 2003 and 2002)	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, 2003 and 2002)	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, 2003 and 2002)	14	14
2,200,000 designated as Series G Cumulative Redeemable Preferred Shares of beneficial interest (2,200,000 shares issued with an aggregate liquidation preference of $55,000 at December 31, 2003 and $0 at December 31, 2002)	22	—
2,000,000 designated as Series H Cumulative Redeemable Preferred Shares of beneficial interest (2,000,000 shares issued with an aggregate liquidation preference of $50,000 at December 31, 2003 and $0 at December 31, 2002)	20	—
Common Shares of beneficial interest ($0.01 par value; 45,000,000 shares authorized, shares issued of 29,563,867 at December 31, 2003 and 23,772,732 at December 31, 2002)	296	238
Additional paid-in capital	494,299	313,786
Cumulative distributions in excess of net income	(38,483)	(21,067)
Value of unearned restricted common share grants	(4,107)	(2,739)
Treasury shares, at cost (166,600 shares)	(1,415)	(1,415)
Accumulated other comprehensive loss	(294)	(349)
Total shareholders' equity	450,381	288,497
Total liabilities and shareholders' equity	$ 1,332,076	$ 1,138,721

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,		
	2003	2002	2001
Real Estate Operations:			
Revenues			
Rental revenue	$ 153,048	$ 134,421	$ 107,166
Tenant recoveries and other revenue	21,375	15,914	14,497
Revenue from real estate operations	174,423	150,335	121,663
Expenses			
Property operating	51,699	43,929	35,413
Interest	41,079	39,065	32,297
Amortization of deferred financing costs	2,767	2,501	2,031
Depreciation and other amortization	37,122	30,859	20,405
Expenses from real estate operations	132,667	116,354	90,146
Earnings from real estate operations before equity in (loss) income of unconsolidated real estate joint ventures	41,756	33,981	31,517
Equity in (loss) income of unconsolidated real estate joint ventures	(98)	169	208
Earnings from real estate operations	41,658	34,150	31,725
Service operations:			
Construction contract revenues	28,865	826	1,126
Other service revenues	2,875	3,851	3,775
Construction contract expenses	(27,483)	(789)	(1,037)
Other expenses	(3,450)	(4,192)	(4,354)
Equity in loss of unconsolidated Service Companies	—	(571)	(292)
Income (losses) from service operations	807	(875)	(782)
General and administrative expenses	(7,893)	(6,697)	(5,289)

Income before gain on sales of real estate, minority interests, income taxes, discontinued operations and cumulative effect of accounting change	34,572	26,578	25,654
Gain on sales of real estate	472	2,564	1,618
Income before minority interests, income taxes, discontinued operations and cumulative effect of accounting change	35,044	29,142	27,272
Minority interests			
Common units in the Operating Partnership	(5,665)	(5,128)	(6,044)
Preferred units in the Operating Partnership	(1,049)	(2,287)	(2,287)
Other consolidated entities	—	59	(84)
Income before income taxes, discontinued operations and cumulative effect of accounting change	28,330	21,786	18,857
Income tax benefit, net of minority interests	124	242	269
Income before discontinued operations and cumulative effect of accounting change	28,454	22,028	19,126
Income from discontinued operations, net of minority interests	2,423	1,273	970
Income before cumulative effect of accounting change	30,877	23,301	20,096
Cumulative effect of accounting change, net of minority interests	—	—	(174)
Net income	**30,877**	**23,301**	**19,922**
Preferred share dividends	(12,003)	(10,134)	(6,857)
Repurchase of preferred units in excess of recorded book value	(11,224)	—	—
Net income available to common shareholders	**$ 7,650**	**$ 13,167**	**$ 13,065**
Basic earnings per common share			
Income before discontinued operations and cumulative effect of accounting change	$ 0.20	$ 0.53	$ 0.61
Discontinued operations	0.09	0.06	0.05
Cumulative effect of accounting change	—	—	(0.01)
Net income available to common shareholders	$ 0.29	$ 0.59	$ 0.65
Diluted earnings per common share			
Income before discontinued operations and cumulative effect of accounting change	$ 0.19	$ 0.51	$ 0.60
Discontinued operations	0.08	0.05	0.04
Cumulative effect of accounting change	—	—	(0.01)
Net income available to common shareholders	$ 0.27	$ 0.56	$ 0.63

See accompanying notes to consolidated financial statements.

Corporate Office Properties Trust and Subsidiaries
Consolidated Statements of Shareholders' Equity
(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, 2000 (20,409,336 common shares outstanding)	$ 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 (20,648,101 common shares outstanding)	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 (23,606,132 common shares outstanding)	43	238	313,786	(21,067)	(2,739)	(1,415)	(349)	288,497
Conversion of common units to common shares (119,533 shares)	—	1	2,065	—	—	—	—	2,066
Common shares issued to the public (5,290,000 shares)	—	53	79,205	—	—	—	—	79,258
Series G Cumulative Redeemable Preferred Shares issued to the public (2,200,000 shares)	22	—	53,153	—	—	—	—	53,175
Series H Cumulative Redeemable Preferred Shares issued to the public (2,000,000 shares)	20	—	48,312	—	—	—	—	48,332
Series C Preferred Unit Redemption	—	—	—	(11,224)	—	—	—	(11,224)
Increase in fair value of derivatives	—	—	—	—	—	—	55	55
Restricted common share grants issued (119,324 shares)	—	1	1,750	—	(1,751)	—	—	—
Value of earned restricted share grants	—	—	185	—	383	—	—	568
Exercise of share options (262,278 shares)	—	3	2,465	—	—	—	—	2,468
Expense associated with share options	—	—	75	—	—	—	—	75
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(6,697)	—	—	—	—	(6,697)
Net income	—	—	—	30,877	—	—	—	30,877
Dividends	—	—	—	(37,069)	—	—	—	(37,069)

Balance at December 31, 2003 (29,397,267 common shares outstanding)	$ 85	$ 296	$ 494,299	$ (38,483)	$ (4,107)	$ (1,415)	$ (294)	$ 450,381

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,		
	2003	**2002**	**2001**
Cash flows from operating activities			
Net income	$ 30,877	$ 23,301	$ 19,922
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	7,761	8,028	8,963
Depreciation and other amortization	37,141	31,340	20,976
Amortization of deferred financing costs	2,799	2,501	2,031
Amortization of value of acquired operating leases to rental revenue	(1,817)	(2,342)	—
Equity in loss of unconsolidated entities	98	402	84
Gain on sales of real estate, including amounts in discontinued operations	(3,467)	(2,564)	(1,618)
Cumulative effect of accounting change	—	—	263
Changes in operating assets and liabilities:			
Increase in deferred rent receivable	(4,670)	(2,327)	(3,125)
Increase in accounts receivable, restricted cash and prepaid and other assets	(11,144)	(1,904)	(1,758)
Increase in accounts payable, accrued expenses, rents received in advance, security deposits and other liabilities	9,278	4,721	2,660
Other	927	1,086	2,477
Net cash provided by operating activities	67,783	62,242	50,875
Cash flows from investing activities			
Purchases of and additions to commercial real estate properties	(196,888)	(133,553)	(134,015)
Proceeds from sales of properties	40,204	7,509	3,818
Investments in and advances to unconsolidated real estate joint ventures	(7,062)	2,089	(18,739)
(Increase) decrease in advances to certain real estate joint ventures	(2,520)	2,583	(2,583)
Proceeds from sales of unconsolidated real estate joint ventures	—	2,283	—
Cash from acquisition of real estate joint venture	—	—	688
Cash from acquisition of Service Companies	—	—	568
Investments in and advances to other unconsolidated entities	—	—	(808)
Leasing costs paid	(2,861)	(5,974)	(3,540)
Other	(3,822)	(3,508)	(1,130)
Net cash used in investing activities	(172,949)	(128,571)	(155,741)
Cash flows from financing activities			
Proceeds from mortgage and other loans payable	270,956	306,317	430,120
Repayments of mortgage and other loans payable	(271,146)	(210,628)	(364,000)
Deferred financing costs paid	(1,681)	(2,397)	(4,071)
Increase (decrease) in other liabilities associated with financing activities	4,000	(11,336)	2,623
Repurchase of preferred units	(35,591)	—	—
Net proceeds from issuance of preferred shares	101,507	—	72,361
Net proceeds from issuance of common shares	81,726	25,541	998
Dividends paid	(34,719)	(28,997)	(21,626)
Distributions paid	(9,210)	(10,265)	(9,880)
Other	2,814	(2,555)	—
Net cash provided by financing activities	108,656	65,680	106,525
Net increase (decrease) in cash and cash equivalents	3,490	(649)	1,659
Cash and cash equivalents			
Beginning of year	5,991	6,640	4,981
End of year	$ 9,481	$ 5,991	$ 6,640

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 of 1986 and is the successor to a corporation organized in 1988. As of December 31, 2003, our portfolio included 119 office properties, including one property owned through a joint venture.

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,	
2003	**2002**

Common Units	75%	71%
Series B Preferred Units	100%	100%
Series C Preferred Units	N/A	0%
Series D Preferred Units	100%	100%
Series E Preferred Units	100%	100%
Series F Preferred Units	100%	100%
Series G Preferred Units	100%	N/A
Series H Preferred Units	100%	N/A

The Operating Partnership also owns 100% of Corporate Office Management, Inc. ("COMI") (together with its subsidiaries defined as the "Service Companies"). 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 ("CC&C")	Heating and Air Conditioning Unit Installation, Repair, Service and Controls

COMI owns 100% of these entities, although COMI only owned 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%).

See the section in Note 3 entitled "Recent Accounting Pronouncements" for a description of Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" ("FIN 46"). FIN 46 affects our determination of when to use the consolidation method of accounting.

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.

See the section in Note 3 entitled "Recent Accounting Pronouncements" for a description of FIN 46. FIN 46 affects our determination of when to use the equity method of accounting.

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

We use the financing method of accounting for certain real estate joint ventures. We use this method when we contribute a parcel of land into a real estate joint venture and have an option to acquire our partner's joint venture interest for a pre-determined purchase price. Details of the financing method of accounting are described below:

- the costs associated with a land parcel at the time of its contribution into a joint venture are reported as commercial real estate properties on our Consolidated Balance Sheets;
- the cash received from a joint venture in connection with our land contribution is reported as other liabilities on our Consolidated Balance Sheets. The liability is accreted towards the pre-determined purchase price over the life of our option to acquire our partner's interest in the joint venture. We also report interest expense in connection with the accretion of the liability;
- as construction of a building on the land parcel is completed and operations of the building commence, we report 100% of the revenues and expenses associated with the property on our Consolidated Statements of Operations; and
- construction costs and debt activity for the real estate project relating to periods after the land contribution are not reported by us.

At the time we exercise the option to acquire our partner's joint venture interest, we begin consolidating the accounts of the entity with our accounts. See the section in Note 3 entitled "Recent Accounting Pronouncements" for a description of FIN 46. FIN 46 affects our determination of when to use the financing method of accounting.

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.

Acquisitions of Real Estate

For acquisitions of real estate prior to July 1, 2001, we allocated the costs of such acquisitions between land and building and improvements. We allocated the components of these acquisitions using relative fair values using our estimates and assumptions.

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. We believe that interpretations of SFAS 141 by the real estate industry indicate that upon the acquisition of operating real estate, value should be assigned not only to land and building improvements but also to a number of additional components. The components to which property acquisitions are assigned are set forth below.

- Real estate based on a valuation of the acquired property performed with the assumption that the property is vacant upon acquisition (the "as if vacant value"). We then allocate the real estate value derived using this approach between land and building and improvements using our estimates and assumptions;
- In-place operating leases to the extent that the present value of future rents under the contractual lease terms are above or below the present value of market rents at the time of acquisition (the "lease to market value"). For example, if we acquire a property and the leases in place for that property carry rents below the market rent for such leases at the time of acquisition, we classify the amount equal to the difference between (1) the present value of the future rental revenue under the lease using market rent assumptions and (2) the present value of future rental revenue under the terms of the lease as deferred revenue. Conversely, if the leases in place for that property carry rents above the market rent, we classify the difference as an intangible asset. Deferred revenue or deferred assets recorded in connection with in-place operating leases of acquired properties are amortized into rental revenue over the lives of the leases.
- Existing tenants in a property (the "tenant value"). This amount represents the value associated with acquiring a built-in revenue stream on a leased building. It is computed as the difference between the present value of the property's (1) revenues less operating expenses as if the property was vacant upon acquisition and (2) revenues less operating expenses as if the property was acquired with leases in place at market rents.
- Deemed cost avoidance of acquiring in-place operating leases ("deemed cost avoidance"). For example, when a new lease is entered into, the lessor typically incurs a number of origination costs in connection with the leases; such costs include tenant improvements and leasing costs. When a property is acquired with in-place leases, the origination costs for such leases were already incurred by the prior owner. Therefore, to recognize the value of these costs in recording a property acquisition, we assign value to the tenant improvements and leasing costs associated with the remaining term of in-place operating leases.
- Market concentration premium equal to the additional amount that we pay for a property over the fair value of assets in connection with our strategy of increasing our presence in regional submarkets (the "market concentration premium").
- Tenant relationship value equal to the additional amount that we pay for a property in connection with the presence of a particular tenant in that property (the "tenant relationship value").

We changed our presentation of the effects of SFAS 141 on the results of operations from the presentation that we used in our 2002 Annual Report on Form 10-K by reclassifying the depreciation of tenant improvements and amortization of leasing costs associated with in-place operating leases of acquired properties from rental revenue to depreciation and amortization expense. We also changed our Consolidated Balance Sheet as of December 31, 2002 to separately present intangible assets and deferred revenues associated with real estate acquisitions. We believe that these revised presentations more closely reflect the economic substance of an acquisition transaction. The change in classification on the Statements of Operations increased 2002 rental revenues by $2,342, with an offsetting increase to depreciation and amortization expense. The change in classification on our Consolidated Balance Sheets decreased acquisition costs classified as commercial real estate properties by $16,174 and increased the lines entitled "intangible assets on real estate acquisitions, net" by $28,424 and "deferred revenue associated with acquired operating leases" by $12,250. The reclassifications described above changed certain financial statement line items in the Consolidated Financial Statements, as well as certain presentations of operating results and measures of performance that include rental revenue but exclude depreciation and amortization expense, that appear in our previous reports pertaining to 2002. However, such changes do not affect net income, EPS or net cash flows.

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:

• Buildings and building improvements	10-40 years
• Land improvements	10-20 years
• Tenant improvements on operating properties	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.

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 $548 at December 31, 2003 and $767 at December 31, 2002.

Revenue Recognition

We recognize rental revenue evenly over the terms of tenant leases. When our leases provide for contractual rent increases, which is most often the case, we average the non-cancelable rental revenues over the lease terms to evenly recognize such revenues; we refer to the adjustments resulting from this process as straight-line rental revenue adjustments. We consider rental revenue under a lease to be non-cancelable 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 these straight-line rental revenue adjustments 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.

When tenants terminate their lease obligations prior to the end of their agreed lease terms, they typically pay fees to break these obligations. We recognize such fees as revenue and write off against such revenue any (1) deferred rents receivable and (2) deferred revenue and intangible assets that are amortizable into rental revenue associated with the leases; the resulting net amount is the net revenue from the early termination of the leases. When a tenant's lease in a property is terminated early but the tenant continues to lease space under a new or modified lease in the property, the net revenue from the early termination of the lease is recognized evenly over the remaining life of the new or modified lease in place on that property.

We recognize tenant recovery revenue in the same periods in which 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. We generally recognize revenue under construction contracts using the percentage of completion method when the contracts call for services to be provided over a period of time exceeding six months and the revenue and costs for such contracts can be estimated with reasonable accuracy; when these criteria do not apply to a contract, we recognize revenue on that contract once the services under the contract are complete. Under the percentage of completion method, we recognize a percentage of the total estimated revenue on a contract based on the cost of services provided on the contract as of a point in time relative to the total estimated costs on the contract.

Major Tenants

The following table summarizes the respective percentages of our rental revenue earned from our individual tenants that accounted for at least 5% of our rental revenue and our five largest tenants (in aggregate):

	For the Years Ended December 31,		
	2003	2002	2001
United States Government	11%	10%	11%
Computer Sciences Corporation	6%	N/A	N/A
AT&T Local Services (1)	6%	6%	7%
Unisys	N/A	6%	7%
Five largest tenants	32%	28%	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 55% of our total revenue from real estate operations in 2003, 56% in 2002 and 56% in 2001.

Intangible Assets and Deferred Revenue on Real Estate Acquisitions

We capitalize intangible assets and deferred revenue on real estate acquisitions as described in the section above entitled "Acquisitions of Real Estate." We amortize the intangible assets and deferred revenue as follows:

- Lease to market value — Related lease terms
- Tenant value — Estimated period of time that tenant will lease space in property
- Deemed cost avoidance — Related lease terms
- Market concentration premium — 40 years
- Tenant relationship value — Estimated period of time that tenant will lease space in property

We recognize the amortization of lease to market value assets and deferred revenues as adjustments to rental revenue reported in our Consolidated Statements of Operations; we refer to this amortization as amortization of origination value of leases on acquired properties. We recognize the amortization of other intangible assets on real estate acquisitions as additional depreciation and amortization expense on our Consolidated Statements of Operations.

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 on a straight-line basis, which approximates the amortization that would occur under the effective interest method of amortization. We expense any unamortized loan costs 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 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.

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, CC&C, 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 not owned by us 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. These units were convertible, subject to certain conditions, into common units on the basis of 2.381 common units for each Series C Preferred Unit. These units were repurchased by the Operating Partnership on June 16, 2003 for $36,068 (including $477 for accrued and unpaid distributions), or $14.90 per common share on an as-converted basis. As a result of the repurchase, we recognized an $11,224 reduction to net income available to common shareholders associated with the excess of the repurchase price over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder.

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, 2003, 4,400 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.

We grant common shares subject to forfeiture restrictions to certain employees (see Note 11). 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 included in our Consolidated Statements of Operations as follows:

	For the Years Ended December 31,		
	2003	2002	2001

	2003	2002	2001
Increase in general and administrative expenses	$ 1,020	$ 411	$ 977
Decrease in income from service operations	374	136	435

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,		
	2003	2002	2001
Net income available to common shareholders, as reported	$ 7,650	$ 13,167	$ 13,065
Add: Stock-based compensation expense, net of related tax effects and minority interests, included in the determination of net income available to common shareholders	917	341	820
Less: Stock-based compensation expense determined under the fair value based method, net of related tax effects and minority interests	(835)	(847)	(818)
Net income available to common shareholders, pro forma	$ 7,732	$ 12,661	$ 13,067
Basic earnings per share on net income available to common shareholders, as reported	$ 0.29	$ 0.59	$ 0.65
Basic earnings per share on net income available to common shareholders, pro forma	$ 0.29	$ 0.56	$ 0.65
Diluted earnings per share on net income available to common shareholders, as reported	$ 0.27	$ 0.56	$ 0.63
Diluted earnings per share on net income available to common shareholders, pro forma	$ 0.28	$ 0.54	$ 0.63

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 weighted average assumptions we used in that model are set forth below:

	For the Years Ended December 31,		
	2003	2002	2001
Risk-free interest rate	3.05%	4.09%	4.81%
Expected life-years	5.87	3.68	3.60
Expected volatility	23.97%	24.46%	25.85%
Expected dividend yield	7.80%	7.90%	8.06%

Earnings Per Share ("EPS")

We present both basic and diluted EPS. We compute basic EPS by dividing net 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,		
	2003	2002	2001
Numerator:			
Numerator for basic EPS on net income available to common shareholders	$ 7,650	$ 13,167	$ 13,065
Add: Cumulative effect of accounting change, net	—	—	174
Less: Income from discontinued operations, net	(2,423)	(1,273)	(970)
Numerator for basic EPS before discontinued operations and cumulative effect of accounting change	5,227	11,894	12,269
Add: Convertible preferred shares	—	544	508
Numerator for diluted EPS before discontinued operations and cumulative effect of accounting change	5,227	12,438	12,777
Add: Income from discontinued operations, net	2,423	1,273	970
Numerator for diluted EPS before cumulative effect of accounting change	7,650	13,711	13,747
Less: Cumulative effect of accounting change, net	—	—	(174)
Numerator for diluted EPS on net income available to common shareholders	$ 7,650	$ 13,711	$ 13,573
Denominator (all weighted averages):			
Denominator for basic EPS (common shares)	26,659	22,472	20,099
Assumed conversion of share options	1,362	878	406
Assumed conversion of convertible preferred shares	—	1,197	1,118
Denominator for diluted EPS	28,021	24,547	21,623
Basic EPS:			
Income before discontinued operations and cumulative effect of accounting change	$ 0.20	$ 0.53	$ 0.61
Income from discontinued operations	0.09	0.06	0.05
Cumulative effect of accounting change	—	—	(0.01)
Net income available to common shareholders	$ 0.29	$ 0.59	$ 0.65
Diluted EPS:			
Income before discontinued operations and cumulative effect of accounting change	$ 0.19	$ 0.51	$ 0.60
Income from discontinued operations	0.08	0.05	0.04
Cumulative effect of accounting change	—	—	(0.01)
Net income available to common shareholders	$ 0.27	$ 0.56	$ 0.63

Our diluted EPS computations do not include the effects of the following securities since the conversions of such securities would increase diluted EPS for the respective periods:

	Weighted average shares in denominator For the Years Ended December 31,		
	2003	2002	2001
Conversion of weighted average common units	8,932	9,282	9,437
Conversion of weighted average convertible preferred shares	1,197	—	—
Conversion of weighted average convertible preferred units	1,101	2,421	2,421
Restricted common shares	166	326	—
Conversion of share options	47	62	84

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, 2003 and 2002. You should refer to Notes 9 and 10 for fair value of mortgage and other loans payable and derivative information.

Reclassification

We reclassified certain amounts from the prior periods to conform to the current period presentation of our Consolidated Financial Statements. These reclassifications did not affect consolidated net income or shareholders' equity. You should refer to the section in Note 3 entitled "Acquisitions of Real Estate" for a description of our reclassification in connection with our accounting under SFAS 141. You should also refer to the next section entitled "Recent Accounting Pronouncements" for a description of our reclassification of losses on early retirement of debt in connection with our adoption of 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 145") on January 1, 2003.

Recent Accounting Pronouncements

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 an operating property that was sold in 2003 are classified as discontinued operations on our Consolidated Statements of Operations for all periods reported.

On January 1, 2003, we adopted SFAS 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 those of sale-leaseback transactions. Certain aspects of the standard were effective for certain types of transactions occurring after May 15, 2002, although we had no such types of transactions. Upon adoption, we reclassified 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 did not result in changes to net income available to common shareholders or basic and diluted EPS on net income available to common shareholders. Losses from early retirement of debt reclassified totaled $312 for 2002 and $213 for 2001.

On January 1, 2003, we adopted FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") on a prospective basis for guarantees issued or modified after December 31, 2002. FIN 45 clarifies the requirements of Statements 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. Since our adoption of FIN 45's provisions was prospective, we were not affected for our guarantees previously in place. However, since we expect to continue to enter into guarantee arrangements covered within the scope of FIN 45 as we have in the past, we expect to be affected in the future primarily by having to record liabilities associated with such arrangements.

In January 2003, the FASB issued FIN 46. In December 2003, FASB issued FIN No. 46R which replaced FIN 46 and clarified ARB 51. 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 adopted FIN 46 immediately for all VIEs created subsequent to January 31, 2003. We expect to adopt FIN 46 effective March 31, 2004 for VIEs created prior to February 1, 2003, 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 for VIEs created prior to February 1, 2003, we currently believe that we will be required to use the consolidation method of accounting for our investments in the following unconsolidated real estate joint ventures: Gateway 70 LLC and MOR Forbes 2 LLC. We also believe that we may be required to begin using the consolidation method of accounting for our investment in MOR Montpelier 3 LLC. See Note 5 for disclosures pertaining to our unconsolidated real estate joint ventures. In addition, we believe that we may be required to use the consolidation method of accounting for our investment in NBP 220, LLC, a real estate joint venture that we are currently accounting for using the financing method of accounting (see Notes 2 and 4). The following table sets forth condensed combined balance sheets as of December 31, 2003 for NBP 220 and the unconsolidated real estate joint ventures that we believe we will consolidate or may consolidate effective March 31, 2004:

Commercial real estate property	$	22,030
Other assets		1,206
Total assets	$	23,236
Liabilities	$	13,109
Owners' equity		10,127
Total liabilities and owners' equity	$	23,236

Most of the entities that we will consolidate or may consolidate effective March 31, 2004 own properties under development or construction; as a result, these entities did not earn significant revenue or incur significant expenses during the year ended December 31, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). The statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective on July 1, 2003, except in the case of evaluating investments in certain finite life entities, in which case the effective date for classification and measurement provisions of SFAS 150 have been deferred indefinitely pending further FASB action. Our adoption of SFAS 150 on July 1, 2003 did not affect our Consolidated Financial Statements. With regard to the effect of the adoption of SFAS 150 at a future date for investments in certain finite life entities, we will not know the effect upon adoption until pending amendments are finalized by the FASB.

4. Commercial Real Estate Properties

Operating properties consisted of the following:

	December 31,	
	2003	2002
Land	$ 216,703	$ 186,813
Buildings and improvements	1,003,214	872,962
	1,219,917	1,059,775
Less: accumulated depreciation	(103,070)	(76,178)
	$ 1,116,847	$ 983,597

As of December 31, 2002, we were negotiating the saleof 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 as of 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 sold these properties on March 31, 2003.

Projects we had under construction or development consisted of the following:

	December 31,	
	2003	2002
Land	$ 53,356	$ 24,641
Construction in progress	13,793	9,926
	$ 67,149	$ 34,567

2003 Acquisitions

We acquired the following office properties in 2003:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
2500 Riva Road	Annapolis, MD	4/4/2003	1	155,000	$ 18,038
13200 Woodland Park Drive	Herndon, VA	6/2/2003	1	404,665	71,449
Dulles Tech	Herndon, VA	7/25/2003	2	166,821	27,035
Ridgeview	Chantilly, VA	7/25/2003	3	266,993	48,537

During 2003, we acquired a 108-acre land parcel from an affiliate of Constellation Real Estate, Inc. ("Constellation"). The land parcel is located adjacent to an office park that we own in Annapolis Junction, Maryland. We completed the acquisition in two phases for a total cost of $30,094, of which $25,668 was financed by seller-provided mortgage loans bearing interest at 3%. Since we considered the interest rate on these loans to be below the market rate for similar loans, we discounted the recorded amounts for the acquisition and mortgage loans by $2,075. Under an agreement that was terminated on March 5, 2002, Constellation nominated two members for election to our Board of Trustees; these members still served on our Board of Trustees as of December 31, 2003. The terms of the land parcel acquisition were determined as a result of arms-length negotiations. In management's opinion, the resulting terms reflected fair value for the property based on management's knowledge and experience in the real estate market.

On November 14, 2003, we acquired from Constellation another parcel of land adjacent to the office park discussed above in Annapolis Junction, Maryland for $1,658.

In December 2003, we acquired three office properties and a land parcel through the purchase of our joint venture partners' interests in two of our real estate joint ventures. These acquisitions are discussed in Note 5.

2003 Construction/Development

During 2003, a 123,743 square foot building that was partially operational at December 31, 2002 became 100% operational. The building is located in Columbia, Maryland.

As of December 31, 2003, we had construction underway on two new buildings, one of which is located in Annapolis Junction, Maryland and the other in Chantilly, Virginia (excluding construction activities of a real estate joint venture accounted for using the equity method of accounting). We also had development underway on one new building located in Annapolis Junction, Maryland.

2003 Dispositions

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. We have the option to acquire our joint venture partner's interest between September 1, 2004 and February 28, 2005 or prior to that date if certain events defined in the agreement occur. The minimum purchase price would be $4,911. We account for our interest in this joint venture using the financing method of accounting, which is discussed in Note 2 above. Our commitments and contingencies pertaining to NBP 220 are included in Note 19. Our maximum exposure to loss in NBP 220 was $31,734 at December 31, 2003; this amount was derived from the sum of the investment balance, loan guarantees (based on maximum loan balance) and maximum additional unilateral capital contributions required from us (excludes additional amounts that we and our partner are obligated to fund as and when needed proportional to our ownership percentage).

On March 14, 2003, we contributed a 157,394 square foot office building located in Fairfield, New Jersey into a real estate joint venture called Route 46 Partners, LLC in exchange for $19,960 in cash and a 20% interest in the joint venture. Our joint venture partner has preference in receiving distributions of cash flows for a defined return; once our partner receives its defined return, we are entitled to receive distributions for a defined return and, once we receive that return, remaining distributions of cash flows are allocated based on percentages defined in the joint venture agreement. We did not recognize a gain on this sale due to our continuing investment in the property through the joint venture. See Notes 5 and 19 for further disclosures related to this joint venture.

On March 31, 2003, we sold an office property totaling 181,768 square feet and two adjacent land parcels located in Oxon Hill, Maryland, for a total sale price of $21,288. We recognized a total gain of $3,371 on this sale.

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	$ 4,933
Rivers 95	Columbia, MD	4/4/2002	4	109,696	11,635
7000 Columbia Gateway Drive	Columbia, MD	5/31/2002	1	145,806	15,851
11800 Tech Road	Silver Spring, MD	8/1/2002	1	236,441	27,272
Greens I and II	Chantilly, VA	8/14/2002	2	290,245	47,664

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, 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 11);
- 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; this building was completed in 2003.

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.

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 (excluding NBP 220, a real estate joint venture accounted for using the financing method of accounting):

	Balance at December 31, 2003	Balance at December 31, 2002	Date Acquired	Ownership % at 12/31/03	Nature of Activity	Total Assets at 12/31/03	Maximum Exposure to Loss (1)
Gateway 70 LLC	$ 3,017	$ 2,472	4/5/01	80%	Developing land parcel (2)	$ 3,474	$ 3,017
Route 46 Partners, LLC	1,055	—	3/14/03	20%	Operating building (3)	23,501	1,375
MOR Forbes 2 LLC	735	712	12/24/02	80%	Constructing building (4)	4,698	5,247
MOR Montpelier 3 LLC	455	455	2/21/02	50%	Developing land parcel (5)	902	455
Gateway 67, LLC	—	4,130	9/28/00	100%	Owns newly-constructed buildings (2)	—	—
NBP 140, LLC	—	230	12/27/01	100%	Constructed building (6)	—	—
	$ 5,262	$ 7,999				$ 32,575	$ 10,094

(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.
(2) This joint venture's property is located in Columbia, Maryland.
(3) This joint venture's property is located in Fairfield, New Jersey.
(4) This joint venture's property is located in Lanham, Maryland.
(5) This joint venture's property is located in Laurel, Maryland.
(6) This joint venture's property is located in Annapolis Junction, Maryland.

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 19.

During 2003, we acquired our joint venture partners' interests in NBP 140, LLC and Gateway 67, LLC (90% and 20%, respectively) for $6.2 million. Prior to these acquisitions, we accounted for our investments in these joint ventures using the equity method of accounting. Upon completion of these acquisitions, these two entities, which own a total of three office properties totaling 225,754 square feet and a parcel of land that is contiguous to two of these properties, became consolidated subsidiaries.

During 2002, we also owned investment interests in the following joint ventures: MOR Montpelier LLC and MOR Forbes LLC. In 2002, the properties owned by these entities 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 our unconsolidated real estate joint ventures:

	December 31, 2003	December 31, 2002
Commercial real estate property	$ 30,594	$ 25,463
Other assets	1,981	493
Total assets	$ 32,575	$ 25,956
Liabilities	$ 18,687	$ 12,636
Owners' equity	13,888	13,320
Total liabilities and owners' equity	$ 32,575	$ 25,956

The following table sets forth condensed combined statements of operations for our unconsolidated real estate joint ventures:

	For the Years Ended December 31, 2003	2002	2001
Revenues	$ 3,227	$ 658	$ 710
Property operating expenses	(1,335)	(217)	(139)
Interest expense	(925)	(202)	(188)
Depreciation and amortization expense	(635)	(189)	(170)
Net income	$ 332	$ 50	$ 213

While we are currently reviewing the provisions of FIN 46 and assessing the impact upon adoption, we believe that we will be required to use the consolidation method of accounting for our investments in Gateway 70 LLC and MOR Forbes 2 LLC. We also concluded that we may be required to use the consolidation method of accounting for our investment in MOR Montpelier 3 LLC. See Note 3 for disclosures pertaining to the potential effect of adopting FIN 46 for these joint ventures.

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, 2003	Balance at December 31, 2002	Date Acquired	Ownership % at 12/31/03	Investment Accounting Method
TractManager, Inc. (1)	$ 1,621	$ 1,621	Various 2000	5%	Cost

(1) TractManager, Inc. has developed an Internet-based contract imaging and management system for sale to real estate owners and healthcare providers.

In December 2002, Paragon Smart Technologies, LLC ("Paragon"), an entity in which we held a 22% ownership interest, was dissolved under approval of its board of directors. Since we did not 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.

7. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	December 31, 2003	December 31, 2002
Tenant value	$ 46,613	$ 23,876
Lease to market value	7,819	1,119
Lease cost portion of deemed cost avoidance	5,294	2,939
Market concentration premium	1,333	1,333
Subtotal	61,059	29,267
Accumulated amortization	(5,367)	(843)
Deferred charges, net	$ 55,692	$ 28,424

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8. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2003	2002
Deferred leasing costs	$ 20,712	$ 19,267
Deferred financing costs	13,263	11,458
Goodwill	1,880	1,880
Deferred other	155	155
	36,010	32,760
Accumulated amortization (1)	(18,287)	(12,912)
Deferred charges, net	$ 17,723	$ 19,848

(1) Included accumulated amortization associated with goodwill of $151 at December 31, 2003 and 2002.

9. Mortgage and Other Loans Payable

Mortgage and other loans payable consisted of the following:

	December 31,	
	2003	2002
Teachers Insurance and Annuity Association of America, 6.89%, maturing November 2008	$ 77,248	$ 78,999
Teachers Insurance and Annuity Association of America, 7.72%, maturing October 2006	56,121	57,168
Transamerica Occidental Life Insurance Company, 5.36%, maturing December 2010	52,000	—
KeyBank National Association, LIBOR + 1.75%, maturing November 2004	35,924	36,000
Metropolitan Life Insurance Company, 6.91%, maturing June 2007	33,242	33,741
Teachers Insurance and Annuity Association of America, 7.0%, maturing March 2009	33,177	33,727
Allstate Life Insurance Company, 5.6%, maturing January 2013	28,892	29,400
State Farm Life Insurance Company, 6.51%, maturing August 2012	27,133	27,601
Mutual of New York Life Insurance Company, 7.79%, maturing August 2004 (1)	26,097	26,530
Transamerica Life Insurance and Annuity Company, 7.18%, maturing August 2009	25,593	25,995
State Farm Life Insurance Company, 7.9%, maturing April 2008	25,014	25,408
Allstate Life Insurance Company, 6.93%, maturing July 2008	20,175	20,533
Transamerica Occidental Life Insurance Company, 7.3%, maturing May 2008	20,352	20,671
Manufacturers and Traders Trust Company, LIBOR + 1.85%, maturing January 2005 (2)(3)	20,198	—
Allstate Life Insurance Company, 5.6%, maturing January 2013	19,261	19,600
Wachovia Bank, National Association, LIBOR + 1.9%, maturing January 2005 (4)	18,900	—
Jolly Knolls, LLC, 3%, maturing December 2007 (5)	17,363	—
Transamerica Life Insurance and Annuity Company, 8.3%, maturing October 2005	16,885	17,127
KeyBank National Association, LIBOR + 2.0%, maturing August 2004	16,000	16,000
Northwestern Mutual Life Insurance Company, 7.0%, maturing February 2010	15,519	15,907
Allstate Life Insurance Company, 7.14%, maturing September 2007	15,436	15,677
Manufacturers and Traders Trust Company, LIBOR + 1.75%, maturing January 2005 (2)	14,720	6,425
IDS Life Insurance Company, 7.9%, maturing March 2008	13,084	13,274
Bank of America, LIBOR + 1.75%, maturing June 2004 (6)(7)	12,776	11,571
Bankers Trust Company, Revolving Credit Facility, LIBOR + 1.75%, maturing March 2004 (1)	12,775	128,000
Citizens Bank, LIBOR + 1.85%, maturing January 2005 (2)(3)	11,881	—
SunTrust Bank, LIBOR + 1.5%, maturing July 2004	11,800	12,000
Manufacturers and Traders Trust Company, LIBOR +1.75%, maturing April 2004	10,792	10,940
Manufacturers and Traders Trust Company, LIBOR + 1.85%, maturing April 2004 (8)	8,353	—
Branch Banking and Trust, LIBOR + 1.75%, maturing November 2004 (1)(9)	8,117	—
Provident Bank, LIBOR + 1.85%, maturing January 2005 (2)(3)	7,921	—
Teachers Insurance and Annuity Association of America, 8.35%, maturing October 2006	7,610	7,741
Jolly Knolls, LLC, 3%, maturing December 2007 (10)	6,700	—
Aegon USA Realty Advisors, Inc., 8.29%, maturing May 2007	5,469	5,666
Citibank Federal Savings Bank, 6.93%, maturing July 2008	4,804	4,889
Seller loan, 5.95%, maturing May 2007	1,366	1,466
Constellation Real Estate, Inc., Prime rate, repaid January 2003	—	3,000
KeyBank National Assoc, LIBOR + 2.0%, borrowed $45,000 July 2003, repaid November 2003	—	—
	$ 738,698	$ 705,056

(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) Total additional borrowings of up to $10,500 under these three loans may be available to fund tenant improvements and leasing commissions at a later date.
(4) Individual borrowings under this line of credit have one-year maturities.
(5) Note with a face value of $18,433, discounted using a rate of 6%. The lender is an affiliate of Constellation Real Estate, Inc.
(6) May be extended for one six-month period, subject to certain conditions.
(7) Construction loan with a commitment of $14,000.
(8) Construction loan with a commitment of $10,060.
(9) Construction loan with a commitment of $14,100.
(10) Note with a face value of $7,235, discounted using a rate of 5.92%. The lender is an affiliate of Constellation Real Estate, Inc.

The LIBOR interest rate in effect on our LIBOR-based variable-rate loans ranged from 1.12% to 1.17% at December 31, 2003 and from 1.38% to 1.42% on December 31, 2002. The Prime interest rate in effect at December 31, 2002 on our Prime-based variable-rate loan was 4.25%.

We have guaranteed the repayment of $209.1 million of the mortgage and other loans set forth above as of December 31, 2003.

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, 2003, 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, 2003, we were in compliance with these financial

covenants.

Our mortgage loans mature on the following schedule (excluding extension options):

2004	$	176,904
2005		86,608
2006		75,858
2007		69,590 (1)
2008		150,691
Thereafter		179,047
Total	$	738,698

(1) Amount reflects discounts recorded on notes maturing in 2007.

We estimate the fair value of our mortgage and other loans was $771,367 at December 31, 2003 and $741,587 at December 31, 2002.

Weighted average borrowings under our secured revolving credit facility with Bankers Trust Company totaled $88,636 in 2003 and $120,348 in 2002. The weighted average interest rate on this credit facility totaled 3.06% in 2003 and 3.61% in 2002.

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, 2003, the maximum amount available under this line of credit totaled $122,850, of which $110,075 was unused.

In 2003, we entered into a secured revolving credit facility with Wachovia Bank, National Association for a maximum principal amount of $25,000. As of December 31, 2003, $6,100 was unused, although such amount was not available for borrowing until additional properties were pledged as collateral.

We capitalized interest costs of $2,846 in 2003, $3,091 in 2002, and $5,295 in 2001.

10. 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, 2003		Fair Value at December 31, 2002	
Interest rate swap	$	50.0	2.308%	1/2/2003	1/3/2005	$	(467)	$	(482)
Interest rate swap		50.0	1.520%	1/7/2003	1/2/2004		—		—
Interest rate swap		100.0	5.760%	1/2/2001	1/2/2003		—		(12)
Total						$	(467)	$	(494)

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, 2003, 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, 2003		2002		2001	
Increase (decrease) in fair value applied to AOCL and minority interests	$	105	$	3,285	$	(3,533)
Decrease (increase) in fair value recognized as (loss) gain (1)	$	(77)	$	2	$	(8)

(1) Represents hedge ineffectiveness and is included in interest expense 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 $388 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.

11. Shareholders' Equity

Preferred Shares

On August 11, 2003, we completed the sale of 2,200,000 Series G Preferred Shares of beneficial interest (the "Series G Preferred Shares") at a price of $25.00 per share for net proceeds of $53,175. We contributed the net proceeds to our Operating Partnership in exchange for 2,200,000 Series G Preferred Units. The Series G Preferred Units carry terms that are substantially the same as the Series G Preferred Shares.

On December 18, 2003, we completed the sale of 2,000,000 Series H Preferred Shares of beneficial interest (the "Series H Preferred Shares") at a price of $25.00 per share for net proceeds of $48,332. We contributed the net proceeds to our Operating Partnership in exchange for 2,000,000 Series H Preferred Units. The Series H Preferred Units carry terms that are substantially the same as the Series H 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.

Set forth below is a summary of our 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
Series G	2,200,000	August 2003	8.000 %	2.00000	8/11/08
Series H	2,000,000	December 2003	7.500 %	1.87500	12/18/08

(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). 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.

The Series D Preferred Shares were also 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. On February 11, 2004, the holder of the Series D Preferred Shares converted the shares into 1,196,800 common shares.

Common Shares

On May 27, 2003, we sold 5,290,000 common shares in an underwritten public offering at a net price of $15.03 per share. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 5,290,000 common units.

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, 2003, 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 119,533 in 2003, 617,510 in 2002 and 90,519 in 2001.

We issued common shares to certain employees totaling 119,324 in 2003 and 23,000 in 2001. All of these share issuances are subject to forfeiture restrictions that lapse annually as the employees remain employed by us. Forfeiture restrictions lapsed on common shares issued to employees in the amount of 49,073 in 2003, 72,659 in 2002 and 48,428 in 2001.

Over the three years ended December 31, 2003, we issued common shares in connection with the exercise of share options of 262,278 in 2003, 255,692 in 2002 and 125,246 in 2001.

The table below sets forth the activity in the accumulated other comprehensive loss component of shareholders' equity:

	For the Years Ended December 31, 2003	2002	2001
Beginning balance	$ (349)	$ (2,500)	$ —
Unrealized gain on interest rate swaps, net of minority interests	55	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	$ (294)	$ (349)	$ (2,500)

12. Share Options

In 1993, we adopted a share option plan for our 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 and employees. 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 five 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, 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
Granted – 2003	174,740	$13.47 - $18.08	$ 15.53
Forfeited – 2003	(15,979)	$7.63 - $13.69	$ 11.52
Exercised – 2003	(262,278)	$7.63 - $14.30	$ 9.39
Outstanding at December 31, 2003	3,202,026	$5.25 - $14.30	$ 10.03
Available for future grant at December 31, 2003	645,260		
Exercisable at December 31, 2001	1,465,030	$5.25 - $12.26	$ 8.64

Exercisable at December 31, 2002	1,768,919	$5.25 - $14.30	$	9.37
Exercisable at December 31, 2003	1,986,464	(1)	$	9.64

(1) 432,183 of these options had an exercise price ranging from $5.25 to $7.99, 1,089,165 had an exercise price ranging from $8.00 to $10.99 and 465,116 had an exercise price ranging from $11.00 to $18.08.

The weighted average remaining contractual life of the options at December 31, 2003 was approximately 7 years.

A summary of the weighted average grant-date fair value per option granted is as follows:

	For the Years Ended December 31,		
	2003	2002	2001
Weighted average grant-date fair value	$ 1.34	$ 1.13	$ 1.00
Weighted average grant-date fair value-exercise price equals market price on grant-date	$ 1.30	$ 1.11	$ 1.02
Weighted average grant-date fair value-exercise price exceeds market price on grant-date	$ 1.16	$ 1.01	$ 0.94
Weighted average grant-date fair value-exercise price less than market price on grant-date	$ 1.62	$ 1.41	$ 1.09

13. Related Party Transactions

The table below sets forth revenues earned and costs incurred in our transactions with related parties:

	For the Years Ended December 31,		
	2003	2002	2001
Rental revenue earned from Constellation	$ —	$ 56	$ 103
Interest income earned from unconsolidated real estate joint venture/affiliate	$ —	$ 126	$ —
Fee revenue earned from:			
Unconsolidated real estate joint ventures	$ 351	$ 158	$ 712
TractManager, Inc.	—	—	75
	$ 351	$ 158	$ 787

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.

14. Operating Leases

We lease our properties to tenants under operating leases with various expiration dates extending to the year 2018. Gross minimum future rentals on noncancelable leases at December 31, 2003 were as follows:

For the Years Ended December 31,	
2004	$ 154,214
2005	142,296
2006	124,759
2007	104,337
2008	82,838
Thereafter	219,005
Total	$ 827,449

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.

15. Supplemental Information to Statements of Cash Flows

	For the Years Ended December 31,		
	2003	2002	2001
Interest paid, net of capitalized interest	$ 39,737	$ 38,963	$ 34,198
Supplemental schedule of non-cash investing and financing activities:			
Purchase of commercial real estate properties by acquiring joint venture partner interests:			
Operating properties	$ 25,400	$ —	$ 34,607
Investments in and advances to unconsolidated real estate joint ventures	(10,634)	—	(11,516)
Restricted cash	—	—	86
Accounts receivable, net	152	—	—
Deferred rent receivable	134	—	—
Deferred costs	1,902	—	197
Prepaid and other assets	68	—	182
Mortgage and other loans payable	(16,470)	—	(24,068)
Accounts payable and accrued expenses	(370)	—	—
Rents received in advance and security deposits	(120)	—	(176)
Other liabilities	(62)	—	—
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 assumed in connection with acquisitions	$ 16,917	$ 36,040	$ 15,750
Debt repaid in connection with sales of properties	$ —	$ —	$ 7,000
Notes receivable assumed upon sales of real estate	$ —	$ 2,326	$ —
Increase in minority interests resulting from issuance of preferred and common units in connection with property acquisitions	$ —	$ —	$ 3,249
Investment in real estate joint venture obtained with disposition property	$ 2,300	$ —	$ —
Increase (decrease) in accrued capital improvements	$ 4,670	$ (1,408)	$ (2,632)
Increase in other accruals associated with investment activities	$ 351	$ —	$ —
Amortization of discount on mortgage loan to commercial real estate properties	$ 445	$ —	$ —
Accretion of other liability to commercial real estate properties	$ 503	$ —	$ —
Reclassification of other liabilities from projects under construction or development	$ —	$ —	$ 9,600
(Decrease) increase in fair value of derivatives applied to AOCL and minority interests	$ (104)	$ 3,285	$ (3,778)
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	$ 6,697	$ 5,970	$ 818
Dividends/distribution payable	$ 12,098	$ 9,794	$ 8,965
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	$ 2,066	$ 8,623	$ 919

16. Information by Business Segment

We have six primary office property segments: Baltimore/Washington Corridor, Northern Virginia, Greater Philadelphia, Northern/Central New Jersey, Greater Harrisburg and Suburban Maryland.

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, a measure we define as net operating income ("NOI"). We believe that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of the core operations that is unaffected by depreciation, amortization, financing and general and administrative expenses; this measure is particularly useful in our opinion in evaluating the performance of geographic segments, same-office property groupings and individual properties.

	Baltimore/ Washington Corridor	Northern Virginia	Greater Philadelphia	Northern/ Central New Jersey	Greater Harrisburg	Suburban Maryland	Other	Total
Year Ended December 31, 2003:								
Revenues	$ 95,796	$ 30,398	$ 10,025	$ 15,643	$ 9,897	$ 6,722	$ 6,852	$ 175,333
Property operating expenses	29,289	9,186	134	5,579	2,707	2,674	2,489	52,058
NOI	$ 66,507	$ 21,212	$ 9,891	$ 10,064	$ 7,190	$ 4,048	$ 4,363	$ 123,275
Commercial real estate property expenditures	$ 85,175	$ 125,188	$ 663	$ 675	$ 502	$ 1,015	$ 1,519	$ 214,737
Segment assets at December 31, 2003	$ 683,030	$ 263,524	$ 102,219	$ 84,435	$ 69,376	$ 42,228	$ 87,264	$ 1,332,076
Year Ended December 31, 2002:								
Revenues	$ 86,830	$ 14,250	$ 10,025	$ 18,991	$ 9,553	$ 7,994	$ 6,661	$ 154,304
Property operating expenses	24,723	5,463	151	6,925	2,562	3,193	2,270	45,287
NOI	$ 62,107	$ 8,787	$ 9,874	$ 12,066	$ 6,991	$ 4,801	$ 4,391	$ 109,017
Commercial real estate property expenditures	$ 80,863	$ 46,977	$ 563	$ 1,095	$ 956	$ 24,669	$ 932	$ 156,055
Segment assets at December 31, 2002	$ 598,561	$ 115,243	$ 103,686	$ 106,928	$ 70,431	$ 59,738	$ 84,134	$ 1,138,721
Year Ended December 31, 2001:								
Revenues	$ 69,743	$ 947	$ 10,025	$ 19,464	$ 9,677	$ 6,506	$ 9,192	$ 125,554
Property operating expenses	21,148	419	117	7,552	2,600	2,599	2,347	36,782
NOI	$ 48,595	$ 528	$ 9,908	$ 11,912	$ 7,077	$ 3,907	$ 6,845	$ 88,772
Commercial real estate property expenditures	$ 117,516	$ 56,609	$ 517	$ 3,825	$ 1,173	$ 688	$ 686	$ 181,014
Segment assets at December 31, 2001	$ 528,497	$ 64,298	$ 105,091	$ 110,681	$ 71,106	$ 32,273	$ 82,950	$ 994,896

The following table reconciles our NOI for reportable segments to income before income taxes and discontinued operations as reported on our Consolidated Statements of Operations:

	For the Years Ended December 31,		
	2003	2002	2001
NOI for reportable segments	$ 123,275	$ 109,017	$ 88,772
Equity in (loss) income of unconsolidated real estate joint ventures	(98)	169	208
Income (loss) from service operations	807	(875)	(782)
Add: Gain on sales of real estate	472	2,564	1,618
Less:			

Interest	(41,079)	(39,065)	(32,297)
Depreciation and other amortization	(37,122)	(30,859)	(20,405)
General and administrative	(7,893)	(6,697)	(5,289)
Amortization of deferred financing costs	(2,767)	(2,501)	(2,031)
Minority interests	(6,714)	(7,356)	(8,415)
NOI from discontinued operations	(551)	(2,611)	(2,522)
Income before income taxes, discontinued operations and cumulative effect of accounting change	$ 28,330	$ 21,786	$ 18,857

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 (loss) income of unconsolidated real estate joint ventures, income (loss) from service operations, general and administrative expense and minority interests because these items represent general corporate items not attributable to segments.

17. 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 2003 and actual 2002 and 2001) and net income as reported on our Consolidated Statements of Operations are set forth below (unaudited):

	For the Years Ended December 31,		
	2003 (Estimated)	2002	2001
Net income	$ 30,877	$ 23,301	$ 19,922
Adjustments:			
Rental revenue recognition	(6,980)	(62)	(784)
Compensation expense recognition	(966)	(171)	208
Operating expense recognition	(214)	51	637
Gain on sales of properties	(1,531)	(731)	(1,618)
Interest income	—	25	308
Losses from service operations	457	867	782
Income tax benefit, gross	(169)	(347)	(409)
Income (loss) from cost method investments	116	(701)	(667)
Depreciation and amortization	2,538	(252)	842
Earnings from unconsolidated real estate joint ventures	449	(960)	(355)
Minority interests, gross	1,883	389	80
Other	116	26	283
Taxable income	$ 26,576	$ 21,435	$ 19,229

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,		
	2003	2002	2001
Ordinary income	68.6%	59.5%	83.9%
Return of capital	27.6%	31.2%	16.1%
Long term capital gain	3.8%	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 2001, 2002 and 2003 and, as a result, did not incur Federal income tax in those years on such income.

COMI is subject to Federal and state income taxes. COMI had losses before income taxes under GAAP of $458 in 2003, $910 in 2002 and $1,106 in 2001. COMI recognized an income tax benefit on these losses of $169 in 2003, $347 in 2002 and $409 in 2001. COMI's income tax benefit for 2003, 2002 and 2001 consisted of the following:

	For the Years Ended December 31,		
	2003	2002	2001
Current			
Federal	$ —	$ 182	$ 202
State	—	39	37
	—	221	239
Deferred			
Federal	139	104	140
State	30	22	30
	169	126	170
Total	$ 169	$ 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,		
	2003	2002	2001
Income taxes at U.S. statutory rate	35.0%	35.0%	35.0%
State and local, net of U.S. Federal tax benefit	4.2%	4.4%	4.4%
Other	(2.6)%	(1.5)%	(2.4)%

Effective tax rate	36.6%	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, expenses associated with stock-based compensation and net operating losses that are not deductible until future periods.

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.

18. Discontinued Operations

Income from discontinued operations includes revenues and expenses associated with an operating property located in Oxon Hill, Maryland which was classified as held for sale at December 31, 2002 and was subsequently sold in March 2003. The table below sets forth the components of income from discontinued operations:

	For the Years Ended December 31,		
	2003	2002	2001
Revenue from real estate operations	$ 910	$ 3,969	$ 3,891
Expenses from real estate operations			
Property operating expenses	359	1,358	1,369
Depreciation and amortization	19	481	571
Interest expense	100	291	484
Expenses from real estate operations	478	2,130	2,424
Earnings from real estate operations before gain on sale of real estate and minority interests	432	1,839	1,467
Gain on sale of real estate	2,995	—	—
Income from discontinued operations before minority interests	3,427	1,839	1,467
Minority interests in discontinued operations	(1,004)	(566)	(497)
Income from discontinued operations	$ 2,423	$ 1,273	$ 970

19. 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.

Joint Ventures

In the event that the costs to complete construction of a building owned by NBP 220, LLC 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 $4,500. We do not expect that such contributions will be necessary.

We may be required to make additional unilateral capital contributions to Route 46 Partners, LLC of up to $320 to fund our partners' preferred return; we do not expect that such contributions will be necessary. We may also be required to fund leasing commissions associated with leasing space in this joint venture's building to the extent such commissions exceed a defined amount; we do not expect that any such funding, if required, will be material to us.

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, 2003, we served as guarantor for the repayment of mortgage loans totaling $6,659 for certain of our real estate joint ventures in the event that the joint ventures default on the payment of such loans. The maturity dates of these loans range from May 2004 to September 2005.

In three of our four unconsolidated real estate joint ventures owned as of December 31, 2003, we would be obligated to acquire the other members' interest in each of the joint ventures (20% in the case of two and 50% in the case of one) if defined events were to occur. 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 office properties owned by the respective joint ventures were sold for a capitalized fair value (as defined in the agreements) on a defined date. We estimate the aggregate amount we would need to pay for our partners' membership interests in these joint ventures to be $1.3 million; however, since the determination of this amount is dependent on the operations of the office properties and none of the

properties are both completed and occupied, this estimate is preliminary and could be materially different from the actual obligation.

We would be required to acquire the other member's interest in NBP 220, LLC in the event that the joint venture defaults on its obligations as landlord or does not meet established construction completion timeframes. The minimum amount we would need to acquire this membership interest is $4,911 at December 31, 2003.

Office 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, 2003 were as follows:

2004	$ 601
2005	585
2006	324
2007	39
2008	29
	$ 1,578

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, 2003 were as follows:

2004	$	353
2005		353
2006		353
2007		353
2008		353
Thereafter		31,711
	$	33,476

We have the option to acquire these two parcels of land over a three-year period beginning in January 2004 for an aggregate maximum purchase price of $4,000; we expect to exercise this purchase option in 2004.

Other Operating Leases

We are obligated under various leases for vehicles and office equipment. Future minimum annual rental payments due under the terms of these leases as of December 31, 2003 were as follows:

2004	$	281
2005		180
2006		101
2007		16
	$	578

20. Quarterly data (Unaudited)

	For the Year Ended December 31, 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues from real estate operations	$ 41,518	$ 40,878	$ 45,448	$ 46,579
Income before minority interests, income taxes and discontinued operations	7,318	8,057	10,625	9,044
Minority interests	(1,787)	(1,815)	(1,833)	(1,279)
Income tax benefit (expense), net	21	19	(221)	305
Income before discontinued operations	5,552	6,261	8,571	8,070
Discontinued operations, net	2,435	(23)	11	—
Net income	7,987	6,238	8,582	8,070
Preferred share dividends	(2,533)	(2,534)	(3,157)	(3,779)
Repurchase of preferred units in excess of recorded book value	—	(11,224)	—	—
Net income available to common shareholders	$ 5,454	$ (7,520)	$ 5,425	$ 4,291
Basic earnings per share:				
Income before discontinued operations	$ 0.13	$ (0.29)	$ 0.19	$ 0.15
Net income available to common shareholders	$ 0.23	$ (0.30)	$ 0.19	$ 0.15
Diluted earnings per share:				
Income before discontinued operations	$ 0.12	$ (0.29)	$ 0.18	$ 0.14
Net income available to common shareholders	$ 0.22	$ (0.30)	$ 0.18	$ 0.14
Weighted average common shares:				
Basic	23,323	25,443	28,832	28,951
Diluted	25,492	25,443	31,509	31,806

	For the Year Ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues from real estate operations	$ 33,715	$ 37,184	$ 38,065	$ 41,371
Income before minority interests, income taxes and discontinued operations	6,723	7,509	7,800	7,110
Minority interests	(1,771)	(1,935)	(1,897)	(1,753)
Income tax benefit (expense), net	27	25	(9)	199
Income before discontinued operations	4,979	5,599	5,894	5,556
Discontinued operations, net	316	285	268	404
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	$ 0.12	$ 0.13	$ 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	$ 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	21,654	24,872	25,149	25,329

21. Pro Forma Financial Information (Unaudited)

We accounted for our 2002 and 2003 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, 2003.

We prepared our pro forma condensed consolidated financial information presented below as if all of our 2002 and 2003 acquisitions and dispositions of operating properties had occurred on January 1, 2002. 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, 2002, nor does it intend to indicate our results of operations for future periods.

	For the Years Ended December 31,	
	2003 (Unaudited)	2002 (Unaudited)
Pro forma total revenues	$ 214,423	$ 171,071
Pro forma net income available to common shareholders	$ 7,097	$ 15,815
Pro forma earnings per common share on net income available to common shareholders		
Basic	$ 0.25	$ 0.57
Diluted	$ 0.24	$ 0.55

22. Subsequent Events

In February 2004, we entered into a contract to acquire 10 office properties totaling approximately 535,000 square feet for $65,150. These buildings are located in St. Mary's County, Maryland.

In February 2004, we entered into a contract for a new revolving credit facility with Wachovia Bank, National Association; we expect to use this facility as our primary revolving credit facility to replace our facility with Bankers Trust Company. The new facility is expected to have a maximum principal of $300,000, a three-year term (with an additional one-year extension available) and a variable interest rate based on the 30-day LIBOR rate plus 1.25% to 1.55% (as determined by our leverage levels at different points in time). We also expect the facility to have a fee of 0.125% to 0.25% on the amount of the credit facility that is unused.

On March 5, 2004, we acquired for $22,400 a 129,000 square foot office property located in Gaithersburg, Maryland, which is in Montgomery County.

Report of Independent Auditors

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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
March 5, 2004

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.

2003	Price Range Low	Price Range High	Dividends Per Share
First Quarter	$ 13.50	$ 15.07	$ 0.220
Second Quarter	14.75	16.96	$ 0.220
Third Quarter	16.79	19.35	$ 0.235
Fourth Quarter	18.51	22.40	$ 0.235

2002	Price Range Low	Price Range High	Dividends Per Share
First Quarter	$ 11.62	$ 13.20	$ 0.210
Second Quarter	12.95	14.69	$ 0.210
Third Quarter	11.97	14.50	$ 0.220
Fourth Quarter	11.60	14.16	$ 0.220

The number of holders of record of our shares was 236 as of December 31, 2003. 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.

Corporate Office Properties Trust
Schedule III - Real Estate Depreciation and Amortization
December 31, 2003
(Dollars in thousands)

Property	Location	Building Type	Encumbrances	Initial Cost: Land	Initial Cost: Building and Land Improvements
751, 753 760, 785 Jolly Road	Blue Bell, PA	Office	$ 8,145	$ 23,870	$ 88,707
13200 Woodland Park Drive	Herndon, VA	Office	40,000	10,428	49,476
15000 Conference Center Drive	Chantilly, VA	Office	33,242	5,193	47,639
2730 Hercules Road	Annapolis Junction, MD	Office	22,847	8,737	31,612
Lots 21-25 & 30-32, National Business Parkway	Annapolis Junction, MD	Office	24,063 (1)	28,578	1,414
2711 Technology Drive	Annapolis Junction, MD	Office	18,834	3,055	22,096
11800 Tech Road	Silver Spring, MD	Office	19,261	4,574	19,871
15049 Conference Center Drive	Chantilly, VA	Office	15,519	4,415	20,513
6731 Columbia Gateway Drive	Columbia, MD	Office	12,776	3,948	17,508
431 Ridge Road	Dayton, NJ	Office	11,952	2,782	11,128
7200 Riverwood Drive	Columbia, MD	Office	1,250	4,089	16,356
14900 Conference Center Drive	Chantilly, VA	Office	15,516	3,844	16,301
2721 Technology Drive	Annapolis Junction, MD	Office	13,353	4,605	14,633
9690 Deereco Road	Timonium, MD	Office	1,190	3,431	13,724
2701 Technology Drive	Annapolis Junction, MD	Office	14,343	3,031	15,263
6950 Columbia Gateway Drive	Columbia, MD	Office	9,843	3,596	14,269
15059 Conference Center Drive	Chantilly, VA	Office	16,000	3,154	13,878
132 National Business Parkway	Annapolis Junction, MD	Office	11,661	2,917	12,435
7000 Columbia Gateway Drive	Columbia, MD	Office	11,800	3,131	12,179
429 Ridge Road	Dayton, NJ	Office	12,597	2,932	11,729
2500 Riva Rd	Annapolis, MD	Office	10,500	2,791	12,145
13454 Sunrise Valley Drive	Herndon, VA	Office	12,483	2,772	11,700
1306 Concourse Drive	Linthicum, MD	Office	9,980	2,796	11,186
6940 Columbia Gateway Drive	Columbia, MD	Office	9,211	3,545	9,916
1304 Concourse Drive	Linthicum, MD	Office	11,572	1,999	12,142
6750 Alexander Bell Drive	Columbia, MD	Office	8,865	1,263	12,459
375 W. Padonia Road	Timonium, MD	Office	818	2,604	10,415
7067 Columbia Gateway Drive	Columbia, MD	Office	9,108	1,736	11,451
133 National Business Parkway	Annapolis Junction, MD	Office	9,613	2,517	10,068
140 National Business Parkway	Annapolis Junction, MD	Office	8,117	3,407	9,261
1615 and 1629 Thames Street	Baltimore, MD	Office	838	2,080	8,322
710 Route 46	Fairfield, NJ	Office	5,469	2,154	8,615
135 National Business Parkway	Annapolis Junction, MD	Office	7,489	2,484	9,750
141 National Business Parkway	Annapolis Junction, MD	Office	7,177	2,398	9,590
870 - 880 Elkridge Landing Road	Linthicum, MD	Office	—	2,003	9,405
920 Elkridge Landing Road	Linthicum, MD	Office	8,763	2,101	9,734
2605 Interstate Drive	Harrisburg, PA	Office	5,100	2,089	8,355
134 National Business Parkway	Annapolis Junction, MD	Office	7,674	3,684	7,530
1302 Concourse Drive	Linthicum, MD	Office	7,417	2,078	8,313
900 Elkridge Landing Road	Linthicum, MD	Office	7,036	1,993	7,972
131 National Business Parkway	Annapolis Junction, MD	Office	5,794	1,906	7,623
14850 Conference Center Drive	Chantilly, VA	Office	8,828	1,603	8,504
2601 Market Place	Harrisburg, PA	Office	5,855	1,928	7,713
6700 Alexander Bell Drive	Columbia, MD	Office	5,051	1,755	7,019
68 Culver Road	Dayton, NJ	Office	8,296	861	8,794
999 Corporate Boulevard	Linthicum, MD	Office	7,610	1,187	8,326
1199 Winterson Road	Linthicum, MD	Office	5,645	1,599	6,395
7467 Ridge Road	Hanover, MD	Office	5,791	1,629	6,517
14840 Conference Center Drive	Chantilly, VA	Office	8,966	1,311	7,300
9140 Route 108	Columbia, MD	Office	14,720	1,637	5,500
1190 Winterson Road	Linthicum, MD	Office	4,714	1,335	5,340
7240 Parkway Drive	Hanover, MD	Office	5,267	1,496	5,985

Property	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	$ 6	$ 112,583	$ (13,719)	1966/1996	10/14/1997	40 Years
13200 Woodland Park Drive	7	59,911	(1,002)	2002	6/2/2003	40 Years
15000 Conference Center Drive	911	53,743	(3,740)	1989	11/30/2001	40 Years
2730 Hercules Road	1	40,350	(4,153)	1990	9/28/1998	40 Years
Lots 21-25 & 30-32, National Business Parkway	—	29,992	—	(2)	11/14/2003	N/A
2711 Technology Drive	3	25,154	(1,175)	2002	11/13/2000	40 Years
11800 Tech Road	534	24,979	(1,117)	1969/1989	8/1/2002	40 Years
15049 Conference Center Drive	14	24,942	(1,131)	1997	8/14/2002	40 Years
6731 Columbia Gateway Drive	26	21,482	(737)	2002	3/29/2000	40 Years
431 Ridge Road	6,938	20,848	(3,067)	1958/1998	10/14/1997	40 Years
7200 Riverwood Drive	239	20,684	(2,151)	1986	10/13/1998	40 Years
14900 Conference Center Drive	2	20,147	(249)	1999	7/25/2003	40 Years
2721 Technology Drive	6	19,244	(1,212)	2000	10/21/1999	40 Years
9690 Deereco Road	1,506	18,661	(1,943)	1988	12/21/1999	40 Years
2701 Technology Drive	7	18,301	(1,058)	2001	5/26/2000	40 Years
6950 Columbia Gateway Drive	47	17,912	(1,856)	1998	10/21/1998	40 Years
15059 Conference Center Drive	453	17,485	(862)	2000	8/14/2002	40 Years
132 National Business Parkway	1,126	16,478	(1,311)	2000	5/28/1997	40 Years
7000 Columbia Gateway Drive	27	15,337	(585)	1999	5/31/2002	40 Years
429 Ridge Road	358	15,019	(1,901)	1966/1996	10/14/1997	40 Years
2500 Riva Rd	1	14,937	(304)	2000	3/4/2003	40 Years

13454 Sunrise Valley Drive	53	14,525	(140)	1998	7/25/2003	40 Years
1306 Concourse Drive	489	14,471	(1,352)	1990	11/18/1999	40 Years
6940 Columbia Gateway Drive	730	14,191	(1,167)	1999	11/13/1998	40 Years
1304 Concourse Drive	2	14,143	(592)	2002	11/18/1999	40 Years
6750 Alexander Bell Drive	39	13,761	(1,235)	2000	12/31/1998	40 Years
375 W. Padonia Road	337	13,356	(1,063)	1986	12/21/1999	40 Years
7067 Columbia Gateway Drive	7	13,194	(589)	2001	8/30/2001	40 Years
133 National Business Parkway	510	13,095	(1,588)	1997	9/28/1998	40 Years
140 National Business Parkway	—	12,668	—	2003	12/31/2003	40 Years
1615 and 1629 Thames Street	2,227	12,629	(1,577)	1989	9/28/1998	40 Years
710 Route 46	1,698	12,467	(1,859)	1985	5/28/1998	40 Years
135 National Business Parkway	79	12,313	(1,273)	1998	12/30/1998	40 Years
141 National Business Parkway	313	12,301	(1,390)	1990	9/28/1998	40 Years
870 - 880 Elkridge Landing Road	737	12,145	(1,499)	1981	8/3/2001	40 Years
920 Elkridge Landing Road	95	11,930	(1,095)	1982	7/2/2001	40 Years
2605 Interstate Drive	865	11,309	(1,533)	1990	10/14/1997	40 Years
134 National Business Parkway	29	11,243	(915)	1999	11/13/1998	40 Years
1302 Concourse Drive	692	11,083	(1,098)	1996	11/18/1999	40 Years
900 Elkridge Landing Road	530	10,495	(1,318)	1982	4/30/1998	40 Years
131 National Business Parkway	937	10,466	(1,408)	1990	9/28/1998	40 Years
14850 Conference Center Drive	2	10,109	(173)	2000	7/25/2003	40 Years
2601 Market Place	408	10,049	(1,324)	1989	10/14/1997	40 Years
6700 Alexander Bell Drive	1,114	9,888	(547)	1988	5/14/2001	40 Years
68 Culver Road	4	9,659	(729)	2000	7/9/1999	40 Years
999 Corporate Boulevard	16	9,529	(744)	2000	8/1/1999	40 Years
1199 Winterson Road	1,008	9,002	(1,021)	1988	4/30/1998	40 Years
7467 Ridge Road	608	8,754	(1,069)	1990	4/28/1999	40 Years
14840 Conference Center Drive	2	8,613	(166)	2000	7/25/2003	40 Years
9140 Route 108	1,278	8,415	(474)	1974/1985	12/14/2000	40 Years
1190 Winterson Road	1,730	8,405	(985)	1987	4/30/1998	40 Years
7240 Parkway Drive	750	8,231	(730)	1985	4/18/2000	40 Years

				Initial Cost	
Property	**Location**	**Building Type**	**Encumbrances**	**Land**	**Building and Land Improvements**
6740 Alexander Bell Drive	Columbia, MD	Office	4,599	1,424	5,696
14502 Greenview Drive	Laurel, MD	Office	4,741	1,482	5,899
849 International Drive	Linthicum, MD	Office	4,788	1,356	5,426
14504 Greenview Drive	Laurel, MD	Office	4,477	1,429	5,716
1099 Winterson Road	Linthicum, MD	Office	4,672	1,323	5,293
6716 Alexander Bell Drive	Columbia, MD	Office	4,013	1,242	4,969
6345 Flank Drive	Harrisburg, PA	Office	4,288	1,324	5,268
6711 Columbia Gateway Drive	Columbia, MD	Office	—	3,970	2,991
911 Elkridge Landing Road	Linthicum, MD	Office	4,290	1,215	4,861
13450 Sunrise Valley Drive	Herndon, VA	Office	6,207	1,400	5,398
104 Interchange Plaza	Cranbury, NJ	Office	4,469	1,329	5,315
101 Interchange Plaza	Cranbury, NJ	Office	3,919	1,160	4,666
4301 Route 1	Monmouth Junction, NJ	Office	534	1,208	4,832
1201 Winterson Road	Linthicum, MD	Office	4,549	1,288	5,154
6340 Flank Drive	Harrisburg, PA	Office	4,128	1,274	5,071
8671 Robert Fulton Drive	Columbia, MD	Office	3,958	1,728	4,304
938 Elkridge Landing Road	Linthicum, MD	Office	4,864	1,204	4,723
901 Elkridge Landing Road	Linthicum, MD	Office	3,899	1,151	4,327
891 Elkridge Landing Road	Linthicum, MD	Office	4,297	1,160	4,536
921 Elkridge Landing Road	Linthicum, MD	Office	3,686	1,044	4,176
5035 Ritter Road	Harrisburg, PA	Office	3,616	1,116	4,442
881 Elkridge Landing Road	Linthicum, MD	Office	3,652	1,034	4,137
6724 Alexander Bell Drive	Columbia, MD	Office	3,159	449	5,039
6400 Flank Drive	Harrisburg, PA	Office	3,541	1,093	4,350
939 Elkridge Landing Road	Linthicum, MD	Office	3,315	939	3,756
7065 Columbia Gateway Drive	Columbia, MD	Office	3,652	919	4,203
8661 Robert Fulton Drive	Columbia, MD	Office	3,476	1,519	3,785
900 International Drive	Linthicum, MD	Office	3,577	1,013	4,053
6760 Alexander Bell Drive	Columbia, MD	Office	2,875	890	3,561
940 Elkridge Landing Road	Linthicum, MD	Office	3,693	1,100	3,925
930 International Drive	Linthicum, MD	Office	3,462	981	3,922
7063 Columbia Gateway Drive	Columbia, MD	Office	3,395	902	4,126
7321 Parkway Drive	Hanover, MD	Office	3,341	940	3,760
1340 Ashton Road	Hanover, MD	Office	3,217	905	3,620
7318 Parkway Drive	Hanover, MD	Office	3,455	972	3,888
7320 Parkway Drive	Hanover, MD	Office	3,300	905	3,618
6360 Flank Drive	Harrisburg, PA	Office	2,951	911	3,625
Washington Tech Park II	Chantilly, VA	Office	—	3,500	1,234
Lot 20, National Business Parkway	Annapolis Junction, MD	Office	—	3,757	957
6708 Alexander Bell Drive	Columbia, MD	Office	2,582	897	3,588
9140 Guilford Road	Columbia, MD	Office	3,098	794	3,272
4851 Stonecroft Boulevard	Chantilly, VA	Office	—	466	3,641
6385 Flank Drive	Harrisburg, PA	Office	2,462	811	3,242
800 International Drive	Linthicum, MD	Office	2,735	775	3,099
7061 Columbia Gateway Drive	Columbia, MD	Office	2,765	729	3,293
1334 Ashton Road	Hanover, MD	Office	2,618	736	2,946
47 Commerce Drive	Cranbury, NJ	Office	2,545	756	3,025
Parcel 3-A, Westfields International Corporate Center	Chantilly, VA	Office	—	3,609	47
437 Ridge Road	Dayton, NJ	Office	3,079	717	2,866
9160 Guilford Road	Columbia, MD	Office	2,748	665	2,843
114 National Business Parkway	Annapolis Junction, MD	Retail	—	364	3,058
6405 Flank Drive	Harrisburg, PA	Office	2,124	656	2,610
5070 Ritter Road- Bldg A	Harrisburg, PA	Office	1,888	583	2,320
6380 Flank Drive	Harrisburg, PA	Office	1,909	589	2,346

Property	Location	Building Type	Encumbrances	Initial Cost: Land	Initial Cost: Building and Land Improvements
1331 Ashton Road	Hanover, MD	Office	2,085	587	2,347
5070 Ritter Road- Bldg B	Harrisburg, PA	Office	1,652	510	2,030
7 Centre Drive	Cranbury, NJ	Office	1,581	470	1,881

Property	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
6740 Alexander Bell Drive	1,104	8,224	(1,247)	1992	12/31/1998	40 Years
14502 Greenview Drive	756	8,137	(1,086)	1988	9/28/1998	40 Years
849 International Drive	1,028	7,810	(992)	1988	2/23/1999	40 Years
14504 Greenview Drive	515	7,660	(926)	1985	9/28/1998	40 Years
1099 Winterson Road	778	7,394	(1,013)	1988	4/30/1998	40 Years
6716 Alexander Bell Drive	1,140	7,351	(1,124)	1990	12/31/1998	40 Years
6345 Flank Drive	397	6,989	(643)	1989	12/3/1999	40 Years
6711 Columbia Gateway Drive	—	6,961	—	(2)	9/28/2000	N/A
911 Elkridge Landing Road	820	6,896	(1,041)	1985	4/30/1998	40 Years
13450 Sunrise Valley Drive	4	6,802	(31)	1998	7/25/2003	40 Years
104 Interchange Plaza	143	6,787	(729)	1990	10/30/1998	40 Years
101 Interchange Plaza	895	6,721	(919)	1985	10/30/1998	40 Years
4301 Route 1	615	6,655	(862)	1986	6/24/1999	40 Years
1201 Winterson Road	21	6,463	(735)	1985	4/30/1998	40 Years
6340 Flank Drive	50	6,395	(524)	1988	12/3/1999	40 Years
8671 Robert Fulton Drive	—	6,032	—	2003	12/30/2003	40 Years
938 Elkridge Landing Road	44	5,971	(314)	1984	7/2/2001	40 Years
901 Elkridge Landing Road	423	5,901	(366)	1984	7/2/2001	40 Years
891 Elkridge Landing Road	148	5,844	(347)	1984	7/2/2001	40 Years
921 Elkridge Landing Road	421	5,641	(660)	1983	4/30/1998	40 Years
5035 Ritter Road	61	5,619	(466)	1988	12/3/1999	40 Years
881 Elkridge Landing Road	420	5,591	(630)	1986	4/30/1998	40 Years
6724 Alexander Bell Drive	7	5,495	(227)	2002	5/14/2001	40 Years
6400 Flank Drive	25	5,468	(449)	1992	12/3/1999	40 Years
939 Elkridge Landing Road	746	5,441	(762)	1983	4/30/1998	40 Years
7065 Columbia Gateway Drive	189	5,311	(683)	2000	8/30/2001	40 Years
8661 Robert Fulton Drive	—	5,304	—	2003	12/30/2003	40 Years
900 International Drive	219	5,285	(600)	1986	4/30/1998	40 Years
6760 Alexander Bell Drive	833	5,284	(560)	1991	12/31/1998	40 Years
940 Elkridge Landing Road	170	5,195	(268)	1984	7/2/2001	40 Years
930 International Drive	264	5,167	(586)	1986	4/30/1998	40 Years
7063 Columbia Gateway Drive	128	5,156	(684)	2000	8/30/2001	40 Years
7321 Parkway Drive	365	5,065	(591)	1984	4/16/1999	40 Years
1340 Ashton Road	468	4,993	(458)	1989	4/28/1999	40 Years
7318 Parkway Drive	91	4,951	(478)	1984	4/16/1999	40 Years
7320 Parkway Drive	310	4,833	(258)	1983	4/4/2002	40 Years
6360 Flank Drive	275	4,811	(489)	1988	12/3/1999	40 Years
Washington Tech Park II	—	4,734	—	(2)	11/30/2001	N/A
Lot 20, National Business Parkway	—	4,714	—	(2)	1/31/2002	N/A
6708 Alexander Bell Drive	61	4,546	(234)	1988	5/14/2001	40 Years
9140 Guilford Road	96	4,162	(219)	1983	4/4/2002	40 Years
4851 Stonecroft Boulevard	—	4,107	—	(2)	8/14/2002	N/A
6385 Flank Drive	47	4,100	(526)	1995	10/14/1997	40 Years
800 International Drive	208	4,082	(453)	1988	4/30/1998	40 Years
7061 Columbia Gateway Drive	10	4,032	(341)	2000	8/30/2001	40 Years
1334 Ashton Road	101	3,783	(434)	1989	4/28/1999	40 Years
47 Commerce Drive	1	3,782	(391)	1992/1998	10/30/1998	40 Years
Parcel 3-A, Westfields International Corporate Center	—	3,656	—	(3)	7/31/2002	N/A
437 Ridge Road	29	3,612	(456)	1962/1996	10/14/1997	40 Years
9160 Guilford Road	27	3,535	(226)	1984	4/4/2002	40 Years
114 National Business Parkway	3	3,425	(138)	2002	6/30/2000	40 Years
6405 Flank Drive	6	3,272	(268)	1991	12/3/1999	40 Years
5070 Ritter Road- Bldg A	211	3,114	(330)	1989	12/3/1999	40 Years
6380 Flank Drive	162	3,097	(285)	1991	12/3/1999	40 Years
1331 Ashton Road	25	2,959	(275)	1989	4/28/1999	40 Years
5070 Ritter Road- Bldg B	44	2,584	(236)	1989	12/3/1999	40 Years
7 Centre Drive	143	2,494	(350)	1989	10/30/1998	40 Years

Property	Location	Building Type	Encumbrances	Initial Cost	
				Land	Building and Land Improvements
2 Centre Drive	Cranbury, NJ	Office	1,616	480	1,922
95 Shannon Road	Harrisburg, PA	Office	1,436	472	1,891
75 Shannon Road	Harrisburg, PA	Office	1,366	450	1,799
8 Centre Drive	Cranbury, NJ	Office	1,306	388	1,554
1350 Dorsey Road	Hanover, MD	Office	1,398	393	1,573
1344 Ashton Road	Hanover, MD	Office	1,263	355	1,421
6375 Flank Drive	Harrisburg, PA	Office	1,123	191	1,659
9150 Guilford Road	Columbia, MD	Office	1,329	319	1,358
1341 Ashton Road	Hanover, MD	Office	1,087	306	1,223
Gateway 67 Land Parcel	Columbia, MD	Office	919	1,004	412
85 Shannon Road	Harrisburg, PA	Office	842	277	1,109
9130 Guilford Road	Columbia, MD	Office	1,038	230	978
1343 Ashton Road	Hanover, MD	Office	688	193	774
191 National Business Parkway	Annapolis Junction, MD	Office	—	—	820
Commerce 2 Building	Harrisburg, PA	Office	—	—	768
Airport Square XXII	Linthicum, MD	Office	—	630	8
304 National Business Parkway	Annapolis Junction, MD	Office	—	—	529
318 National Business Parkway	Annapolis Junction, MD	Office	—	—	416
Other Developments	Various	Office	—	—	155
1338 Ashton Road	Hanover, MD	Office	36	50	—
			737,332	$ 270,059	$ 971,521

Property	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
2 Centre Drive	2	2,404	(248)	1989	10/30/1998	40 Years
95 Shannon Road	3	2,366	(209)	1995	8/12/1999	40 Years
75 Shannon Road	107	2,356	(238)	1995	8/12/1999	40 Years
8 Centre Drive	257	2,199	(357)	1986	10/30/1998	40 Years
1350 Dorsey Road	218	2,184	(267)	1989	4/28/1999	40 Years
1344 Ashton Road	198	1,974	(205)	1989	4/28/1999	40 Years
6375 Flank Drive	—	1,850	(121)	2000	11/4/1999	40 Years

9150 Guilford Road	29	1,706	(104)	1984	4/4/2002	40 Years
1341 Ashton Road	79	1,608	(200)	1989	4/28/1999	40 Years
Gateway 67 Land Parcel	—	1,416	—	(3)	12/30/2003	N/A
85 Shannon Road	3	1,389	(123)	1995	8/12/1999	40 Years
9130 Guilford Road	29	1,237	(69)	1984	4/4/2002	40 Years
1343 Ashton Road	1	968	(91)	1989	4/28/1999	40 Years
191 National Business Parkway	—	820	—	(2)	Various	N/A
Commerce 2 Building	—	768	—	(2)	(4)	N/A
Airport Square XXII	—	638	—	(3)	12/19/2001	N/A
304 National Business Parkway	—	529	—	(2)	(5)	N/A
318 National Business Parkway	—	416	—	(2)	(5)	N/A
Other Developments	—	155	—	(2)	Various	N/A
1338 Ashton Road	12	62	(2)	(3)	4/28/1999	40 Years
	$ 45,486	$ 1,287,066	$ (103,070)			

(1) Amount reflects discounts of $1,605 recorded on the mortgage loans encumbering this property.
(2) Under construction or development at December 31, 2003.
(3) Held for future development at December 31, 2003.
(4) Development in progress in anticipation of acquisition.
(5) Construction taking place on Lots 21-25 and 30-32, National Business Parkway, which is separately reported herein.

The following table summarizes our changes in cost of properties (in thousands):

Original balance at December 31, 2002	$ 1,127,225
Adjustments (1)	(14,200)
Adjusted balance at December 31, 2002	1,113,025
Property acquisitions	191,053
Building and land improvements	23,684
Sales	(40,696)
Balance at December 31, 2003	$ 1,287,066

The following table summarizes our changes in accumulated depreciation (in thousands):

Original balance at December 31, 2002	$ 76,095
Adjustments (1)	1,974
Adjusted balance at December 31, 2002	78,069
Depreciation expense	29,730
Sales	(4,729)
Balance at December 31, 2003	$ 103,070

(1) Amounts related to 2002 acquisitions were reclassified in 2003 in connection with our accounting under Statement of Financial Accounting Standards No. 141, "Business Combinations." For a description of this reclassification, you should refer Note 3 to our Consolidated Financial Statements.

Report of Independent Auditors on Financial Statement Schedules

To the Board of Directors and Shareholders of
Corporate Office Properties Trust:

Our audits of the consolidated financial statements referred to in our report dated March 5, 2004 appearing in the 2003 Annual Report to Shareholders of Corporate Office Properties Trust (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, Maryland
March 5, 2004

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 Gate 63, LLC
COPT Gate 6700-6708-6724, LLC
COPT Gateway, LLC
COPT Montpelier, 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 67, LLC
Honeyland 108, LLC
Jolly COPT I, LLC
Jolly COPT II, 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 140, LLC
NBP 191, LLC
NBP 201, LLC
NBP 201 Holdings, LLC
NBP 211, LLC
NBP 211 Holdings, LLC
NBP 220, LLC
NBP 220 Holdings, LLC
NBP 221, LLC

RIVA Trustee, LLC
Tech Park I, LLC
Tech Park II, LLC
Tech Park IV, 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
Route 46 Partners, 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 Chantilly II, LLC
COPT Greens I, LLC

COPT Greens II, LLC
COPT Greens III, LLC
COPT Ridgeview I, LLC
COPT Ridgeview II & III, LLC
COPT Stonecroft, LLC
COPT Sunrise, LLC
COPT Waterview I, LLC

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (No. 333-36740, No. 333-59766, No. 333-71807, No. 333-60379, No. 333-85210, No. 333-108785), Forms S-3A (No. 333-59766, No. 333-60379, No. 333-36740, No. 333-85210), Form S-3MEF (No. 333-107652) and Forms S-8 (No. 333-87384, No. 333-88711, No. 333-111736) of Corporate Office Properties Trust of our report dated March 5, 2004, relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 5, 2004 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, MD
March 10, 2004

EXHIBIT 31.1

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATIONS

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/s/ Clay W. Hamlin, III
Clay W. Hamlin, III
Chief Executive Officer

EXHIBIT 31.2

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATIONS

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

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

EXHIBIT 31.3

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATIONS

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Corporate Office Properties Trust (the "Company") on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clay W. Hamlin, III, Chief Executive Officer of the Company, certify that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Clay W. Hamlin, III
Clay W. Hamlin, III
Chief Executive Officer

Date: March 10, 2004

EXHIBIT 32.2

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Corporate Office Properties Trust (the “Company”) on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Randall M. Griffin, President and Chief Operating Officer of the Company, certify that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: March 10, 2004

EXHIBIT 32.3

CORPORATE OFFICE PROPERTIES TRUST

CERTIFICATIONS REQUIRED BY
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Corporate Office Properties Trust (the "Company") on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger A. Waesche, Jr., Executive Vice President and Chief Financial Officer of the Company, certify that based on my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Executive Vice President and Chief Financial Officer

Date: March 10, 2004