

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(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, 2004

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 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 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 Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately \$819.0 million, as calculated using the closing price of the common shares of beneficial interest on the New York Stock Exchange and our outstanding shares as of June 30, 2004; for purposes of calculating this amount only, affiliates are defined as Trustees, executive owners and beneficial owners of more than 10% of the Registrant's outstanding common shares of beneficial interest. At February 28, 2005, 36,851,823 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, 2004 are incorporated by reference into Parts I and II of this report and portions of the proxy statement of the Registrant for its 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Form 10-K contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "estimate" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements. Important factors that may affect these expectations, estimates and projections include, but are not limited to:

- our ability to borrow on favorable terms;
- general economic and business conditions, which will, among other things, affect office property demand and rents, tenant creditworthiness, interest rates and financing availability;
- adverse changes in the real estate markets including, among other things, increased competition with other companies;
- risks of real estate acquisition and development, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- governmental actions and initiatives; and
- environmental requirements.

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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.

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PART I

Item 1. Business

OUR COMPANY

General. We are a fully-integrated and self-managed real estate investment trust ("REIT") that focuses on the ownership, management, leasing, acquisition and development of suburban office properties. We typically focus our operations geographically in select submarkets that are attractive to our tenant base and in which we believe we can establish a critical mass of square footage. At December 31, 2004, all of our properties were located in the Mid-Atlantic region of the United States, although in accordance with our strategy of focusing on submarkets that are attractive to our tenants, we may seek to expand our operations outside of that region. As of December 31, 2004, we owned:

- 145 operating office properties in Maryland, Pennsylvania, New Jersey and Virginia containing 12.0 million rentable square feet that were 94.0% occupied (including two properties totaling 213,261 square feet owned through joint ventures);
- 11 office properties under construction or development that we estimate will total approximately 1.4 million square feet upon completion (including one property that we estimate will total approximately 82,000 square feet owned through a joint venture) and
- land parcels totaling 218 acres that were contiguous to certain of our operating properties and potentially developable into approximately 3.6 million square feet (including

(1) six acres potentially developable into approximately 68,400 square feet that we owned through joint ventures and (2) 33 acres potentially developable into approximately 422,000 square feet that we did not own as of December 31, 2004 but, rather, held options to acquire).

We conduct almost all of our operations through our operating partnership, Corporate Office Properties, L.P. (the "Operating Partnership"), a Delaware limited partnership, of which we are the sole general partner. The 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, 2004, we owned approximately 95% of the outstanding preferred units and approximately 80% of the outstanding common units. The remaining preferred and 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. 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. In addition, we have made available on our website under the heading "Corporate Governance" the charters for our Board of Trustees' Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, as well as our Corporate Governance Guidelines, Code of Business Conduct and Ethics and Code of Ethics for Financial Officers. We intend to make available on our website any future amendments or waivers to our Code of Business Conduct and Ethics and Code of Ethics for Financial Officers within four business days after any such amendments or waivers. The information on our Internet site is not part of this report.

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Significant 2004 Developments

During 2004, we:

- acquired 22 office properties totaling 1.6 million square feet for \$261.4 million and seven parcels of land for \$22.9 million. Of the buildings acquired, three were located in Northern Virginia, 17 in St Mary's and King George Counties (located in Maryland and Virginia, respectively), one in the Suburban Maryland region and one in Northern Baltimore County. These acquisitions were financed using the following: (1) \$160.3 million from borrowings of new and assumed mortgage loans; (2) \$104.3 million in borrowings from our Revolving Credit Facility; (3) \$8.8 million from preferred units in the Operating Partnership issued; (4) \$4.0 million from common share sale proceeds; and (5) cash reserves for the balance;
- acquired our joint venture partner's interest in a consolidated joint venture for \$4.9 million. Through this acquisition, we acquired an office property totaling 156,730 square feet and assumed an \$11.8 million mortgage loan that was subsequently refinanced;
- fully placed into service three newly-constructed buildings totaling 300,691 square feet;
- had construction underway on five new buildings and pre-construction activities underway on four new buildings;
- raised \$115.4 million from the underwritten public offering of common shares of beneficial interest ("common shares"), of which \$31.3 million was used to fund the redemption of our Series B Preferred Shares of beneficial interest, \$26.0 million was used to prepay a mortgage loan and the balance was used to pay down our primary revolving credit facility (the "Revolving Credit Facility"). These public offerings included the following:
 - 2,750,000 common shares at a price of \$21.243 per share; and
 - 2,283,600 common shares at a price of \$25.10 per share;
- obtained a new Revolving Credit Facility with a number of lenders led by Wachovia Bank, National Association. The facility has a maximum principal balance 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);
- obtained \$307.7 million in borrowings from new and assumed mortgage and other loans, excluding our Revolving Credit Facility. We used these borrowings for the following: (1) \$160.3 million to finance acquisitions; (2) \$64.0 million to pay down our Revolving Credit Facility; (3) \$43.5 million to refinance existing debt; (4) \$28.9 million to finance construction activities; and (5) the balance to fund cash reserves; and
- converted, upon the election of the holder of our Series D Preferred Shares of beneficial interest, such preferred shares into 1,196,800 common shares.

Subsequent Events

Subsequent to January 1, 2005, the following events took place:

- On January 28, 2005, we acquired a 19-acre land parcel located in Chantilly, Virginia for a purchase price of \$7.1 million. This acquisition was financed using borrowings under our Revolving Credit Facility; and
- On February 24, 2005, the following events took place:
 - Clay W. Hamlin, III, our Chief Executive Officer, retired effective April 1, 2005. Mr. Hamlin will remain on the Board of Trustees, of which he was appointed Vice Chairman effective April 1, 2005. He will also enter into a three-year consulting agreement with us effective April 1, 2005 to assist with acquisitions and strategic initiatives;
 - Randall M. Griffin, our current President and Chief Operating Officer, was appointed to the position of President and Chief Executive Officer effective April 1, 2005. Mr. Griffin was also elected as a Class I Trustee of our Board of Trustees effective February 24, 2005. The terms of our Class I Trustees will expire upon the election of their successors at our next annual shareholder meeting, to be held on May 19, 2005 (the "2005 Annual Meeting"). Mr. Griffin was nominated to stand for re-election at that time; and
 - Betsy Z. Cohen, a current member of our Board of Trustees, informed us that she will not stand for re-election at the 2005 Annual Meeting.

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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. We focus our operations in select submarkets where we believe that we already possess or can achieve the critical mass necessary to maximize management efficiencies, operating synergies and competitive advantages through our acquisition, property management and development programs. The attributes we look for in selecting submarkets include, among others; (1) proximity to large demand drivers; (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. We may pursue selective expansion opportunities outside the Mid-Atlantic region of the United States, typically to meet the anticipated needs of our existing and future tenants.

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.

Intelligence and Defense Industry Focus. A high concentration of our revenues is generated from tenants in the United States intelligence and defense industry (comprised of the United States Government and intelligence 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 also believe that our experience and existing relationships in the industry position us well to continue and grow on this focus. We seek to reinforce and expand our relationships with current and prospective tenants in the intelligence and defense industry, while monitoring our levels of concentration from a business risk perspective.

Acquisition Strategies. We generally 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 typically seek to make acquisitions at attractive yields and below replacement cost. We also typically 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: (1) proactive property management and leasing; (2) achieving operating efficiencies through increasing economies of scale and, where possible, aggregating vendor contracts to achieve volume pricing discounts; (3) renewing tenant leases and re-tenanting at increased rents where market conditions permit; and (4) 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. One coverage ratio on which our financing policy focuses is fixed charge coverage ratio (defined as various measures of results of operations divided by the sum of (1) interest expense on continuing and discontinued operations; (2) dividends on preferred shares and (3) distributions on preferred units in our Operating Partnership not owned by us). Coverage ratios such as fixed charge coverage ratio 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 both our total assets and total debt; 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. At December 31, 2004, our suburban office real estate operations had seven primary geographical segments all located in the Mid-Atlantic region of the United States: (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) St. Mary's & King George Counties (located in Maryland and Virginia, respectively); (5) Greater Philadelphia, Pennsylvania; (6) Greater Harrisburg, Pennsylvania and (7) 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, which are included in Exhibit 13.1 to this Form 10-K and are incorporated herein by reference.

Employees

We employed 225 persons as of December 31, 2004. 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. Some of the properties competing with ours may be newer or have more desirable locations or the competing

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properties' owners may be willing to accept lower rents than are acceptable to us. We believe that the economic slowdown in the United States over the last three years adversely affected occupancy rates in our regions and our properties and, in turn, led to downward pressure on rental rates. 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.

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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 for the year ended December 31, 2004.

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, 2004, 20 tenants accounted for 59.4% of our portfolio annualized rental revenue, and five of these tenants accounted for 31.7% of our portfolio 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, 2004. 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, 2004. Information regarding our five largest tenants is set forth below:

Tenant	Annualized Rental Revenue at December 31, 2004 (in thousands)	Percentage of Portfolio Annualized Rental Revenue	Number of Buildings In Which Tenant Leased Space
United States of America (1)	\$ 30,008	13.1%	25
Booz Allen Hamilton, Inc.	12,317	5.4%	6
Computer Sciences Corporation (2)	11,794	5.2%	3
AT&T Corporation (2)	9,558	4.2%	7
Titan Corporation (2)	8,876	3.9%	5

(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 2005.

(2) Includes affiliated companies and organizations.

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.

As of December 31, 2004, the United States intelligence and defense industry (comprising the United States Government and intelligence and defense contractors) accounted for approximately 46.8% of our portfolio annualized rental revenue. Most of the 13.1% of our portfolio annualized rental revenue that we derived from leases with agencies of the United States Government as of December 31, 2004 is included in the 46.8% of our portfolio annualized revenue from the United States intelligence and defense industry. 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

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the space leased from us is focused on providing service to the United States Government's intelligence and defense departments, we classify the revenue we earn from the

lease as United States intelligence and 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.

We have become increasingly reliant on intelligence and defense industry tenants, particularly due to the increased activity in those sectors following the events of September 11, 2001. Furthermore, we expect that the percentage of our portfolio annualized rental revenue derived from the intelligence and defense industry will continue to increase. A reduction in government spending for intelligence and 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. 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 may suffer economic harm in the event of a decline in the real estate market or general economic conditions in that region. All of our properties are located in the Mid-Atlantic region of the United States, and as of December 31, 2004, our properties located in the Baltimore/Washington Corridor accounted for 48.7% 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 economic slowdown in the United States over the last three years 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 may affect us further as we attempt to lease vacant space and renew leases scheduled to expire on occupied space. As a result, 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 portfolio annualized rental revenue as of December 31, 2004 that were subject to scheduled lease expirations in each of the next five years:

2005	9.8%
2006	9.8%
2007	14.7%
2008	10.4%
2009	16.5%

Most of the leases with our largest tenant, the United States Government, which account for 13.1% of our annualized rental revenue at December 31, 2004, 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 it leases 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 acquire existing commercial real estate properties. We intend to acquire existing commercial real estate properties to the extent that suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties entail risks, such as the risks that we may not be in a position or have the opportunity in the future to make suitable property acquisitions on advantageous terms and that such acquisitions will fail to perform as expected. Our failure to successfully execute acquisitions of existing real estate properties could adversely affect our financial performance and our ability to make distributions to our shareholders.

We may suffer economic harm as a result making unsuccessful acquisitions in new markets. We may from time to time pursue selective acquisitions outside of the Mid-Atlantic region, expanding into regions where we do not currently have properties. These acquisitions may entail risks in addition to those we have faced in past acquisitions, such as the risk that we do not correctly anticipate conditions or trends in a new region, and are therefore not able to operate the acquired property profitably. If this occurred, it could adversely affect our financial performance and our ability to make 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, 2004, we owned two operating properties and two development/construction properties through joint ventures. We also continue to pursue new investments in real estate through joint ventures. Aside from our inability to unilaterally control the operations of joint ventures, our investments in joint ventures 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. Real estate investments can be 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 by agreements with the sellers of the properties 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 2005. These policies include coverage for acts of terrorism. Due largely to the terrorist attacks on September 11, 2001, the insurance industry 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 many 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, 2004, our total outstanding debt was \$1.0 billion and our debt to total assets (defined as mortgage loans divided by total assets) was 59.0%.

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.

As of December 31, 2004, approximately 27.8% of our total debt had variable interest rates. 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 use interest rate swap agreements from time to time to reduce the impact of changes in interest rates. 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.

We must refinance our mortgage debt in the future. As of December 31, 2004, our scheduled debt payments over the next five years, including maturities, were as follows:

Year	Amount (1) (in thousands)
2005	\$ 60,026
2006	78,904
2007	349,235 (2)
2008	155,003
2009	60,769

(1) Represents principal maturities only and therefore excludes premiums and discounts.

(2) Includes maturities totaling \$261.4 million that may be extended for one-year periods, 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 one entity 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

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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.

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The average daily trading volume of our common shares during 2004 was approximately 147,000 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 at least 90% of our annual taxable income to our shareholders. 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.

Our business and operations would suffer in the event of system failures. Despite system redundancy, the implementation of security measures and the existence of a Disaster Recovery Plan for our internal information technology systems, our systems are vulnerable to damages from computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

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.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses, affect our operations and affect our reputation. Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations and New York Stock Exchange rules, are creating uncertainty for public companies. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment has required the commitment of significant financial and managerial resources. In addition, it has become more difficult and more expensive for us to obtain director and officer liability insurance. We expect these efforts to require the continued commitment of significant resources. Further, our trustees, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result,

we may have difficulty attracting and retaining qualified trustees and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Item 2. Properties

The following table provides certain information about our office properties as of December 31, 2004:

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%	\$ 5,339,130	\$ 22.22	United States of America (100%)
2720 Technology Drive Annapolis Junction, MD	BWI Airport	2004	156,730	100.0%	6,507,028	41.52	The Titan Corporation (100%)
2711 Technology Drive Annapolis Junction, MD	BWI Airport	2002	152,000	100.0%	3,927,232	25.84	Computer Sciences Corporation (100%)
140 National Business Parkway Annapolis Junction, MD	BWI Airport	2003	119,904	100.0%	4,324,776	36.07	United States of America (100%)
132 National Business Parkway Annapolis Junction, MD	BWI Airport	2000	118,456	100.0%	2,947,774	24.88	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%	3,032,110	25.68	General Dynamics Government Corp. (78%); United States of America (22%)
2701 Technology Drive Annapolis Junction, MD	BWI Airport	2001	117,450	100.0%	3,144,018	26.77	Northrop Grumman Systems (62%); Titan Systems Corporation (38%)
1306 Concourse Drive Linthicum, MD	BWI Airport	1990	114,046	96.8%	2,561,730	23.20	IBM (33%); Qwest Communications (21%); AT&T Corporation (13%)
870-880 Elkridge Landing Road Linthicum, MD	BWI Airport	1981	105,151	100.0%	2,128,558	20.24	Northrop Grumman Corporation (95%)
1304 Concourse Drive Linthicum, MD	BWI Airport	2002	102,964	62.9%	1,676,776	25.90	Northrop Grumman Corporation (53%); Debscape (10%)
900 Elkridge Landing Road Linthicum, MD	BWI Airport	1982	97,261	100.0%	2,042,940	21.00	Booz Allen Hamilton (75%); First Annapolis Consulting (25%)
1199 Winterson Road Linthicum, MD	BWI Airport	1988	96,636	100.0%	1,979,715	20.49	United States of America (100%)
920 Elkridge Landing Road Linthicum, MD	BWI Airport	1982	96,566	100.0%	1,535,371	15.90	Ciena Corporation (100%)
134 National Business Parkway	BWI Airport	1999	93,482	100.0%	2,284,912	24.44	Booz Allen Hamilton (100%)

<i>Annapolis Junction, MD</i>							
133 National Business Parkway	BWI Airport	1997	88,666	100.0%	1,991,529	22.46	United States of America (34%); Applied Signal Technology, Inc. (33%); Lockheed Martin Corporation (33%)
<i>Annapolis Junction, MD</i>							
141 National Business Parkway	BWI Airport	1990	87,318	100.0%	1,964,408	22.50	ITT Industries (60%); BAE Systems (22%)
<i>Annapolis Junction, MD</i>							
135 National Business Parkway	BWI Airport	1998	86,863	57.0%	1,215,468	24.54	Praxis Engineering Technologies, Inc. (21%); Omen, Inc. (15%); Impact Science & Technology, Inc. (13%)
<i>Annapolis Junction, MD</i>							
1302 Concourse Drive	BWI Airport	1996	84,505	87.1%	1,674,442	22.75	Booz Allen Hamilton (19%); Aetna, Inc. (16%)
<i>Linthicum, MD</i>							

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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)
7467 Ridge Road	BWI Airport	1990	74,326	100.0%	1,670,126	22.47	Citicorp Trust Bank, FSB (49%); Pro Object (32%); The Mitre Corporation (13%)
<i>Hanover, MD</i>							
7240 Parkway Drive	BWI Airport	1985	73,960	82.5%	1,270,405	20.81	Delmarva Foundation for Medical Research (25%); Deloitte & Touche, USA (10%)
<i>Hanover, MD</i>							
881 Elkridge Landing Road	BWI Airport	1986	73,572	100.0%	1,265,898	17.21	United States of America (100%)
<i>Linthicum, MD</i>							
1099 Winterson Road	BWI Airport	1988	71,076	94.0%	1,319,331	19.75	Preferred Health Network (62%)
<i>Linthicum, MD</i>							
131 National Business Parkway	BWI Airport	1990	69,039	100.0%	1,716,009	24.86	Boeing Advanced Information Systems (71%); United States of America (19%)
<i>Annapolis Junction, MD</i>							
1190 Winterson Road	BWI Airport	1987	69,024	92.0%	1,637,765	25.79	The Titan Corporation (44%); Exceptional Software Strategies, Inc. (15%); General Dynamics (10%)
<i>Linthicum, MD</i>							
849 International Drive	BWI Airport	1988	68,865	96.6%	1,515,639	22.78	Computer Associates (17%); Exceptional Software Strategies, Inc. (14%); United States of America (13%); Dames & Moore (10%)
<i>Linthicum, MD</i>							
911 Elkridge Landing Road	BWI Airport	1985	68,296	100.0%	1,338,602	19.60	United States of America (100%)
<i>Linthicum, MD</i>							
1201 Winterson Road	BWI Airport	1985	67,903	100.0%	936,808	13.80	Ciena Corporation (100%)
<i>Linthicum, MD</i>							
999 Corporate Boulevard	BWI Airport	2000	67,456	91.8%	1,528,216	24.68	Foundation American Coal Holding (71%); A&N Associates, Inc. (15%)
<i>Linthicum, MD</i>							
7318 Parkway Drive	BWI Airport	1984	59,204	100.0%	889,783	15.03	United States of America (100%)
<i>Hanover, MD</i>							
7320 Parkway Drive	BWI Airport	1983	58,453	100.0%	827,631	14.16	Science Applications International Corp. (69%); Baltimore Gas & Electric (27%)
<i>Hanover, MD</i>							
891 Elkridge Landing Road	BWI Airport	1984	57,857	79.9%	1,099,901	23.79	United States of America (53%); Metropolitan Life Insurance Co. (25%)
<i>Linthicum, MD</i>							
930 International Drive	BWI Airport	1986	57,409	40.5%	355,970	15.30	United States of America (41%)
<i>Linthicum, MD</i>							
800 International Drive	BWI Airport	1988	57,379	100.0%	965,130	16.82	Raytheon E-Systems, Inc. (100%)
<i>Linthicum, MD</i>							
901 Elkridge Landing Road	BWI Airport	1984	57,294	100.0%	999,048	17.44	State of Maryland (61%); United States of America (25%); Institute for Operations Research and Management Sciences (14%)
<i>Linthicum, MD</i>							
900 International Drive	BWI Airport	1986	57,140	100.0%	777,682	13.61	Ciena Corporation (100%)
<i>Linthicum, MD</i>							
921 Elkridge Landing Road	BWI Airport	1983	54,175	100.0%	1,036,409	19.13	Northrop Grumman Corporation (100%)
<i>Linthicum, MD</i>							
939 Elkridge Landing Road	BWI Airport	1983	53,031	92.3%	857,773	17.52	First Service Networks, Inc. (36%); Agency Holding Company (34%); United States of America (23%)
<i>Linthicum, MD</i>							
938 Elkridge Landing Road	BWI Airport	1984	52,988	100.0%	971,448	18.33	United States of America (100%)
<i>Linthicum, MD</i>							

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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)
940 Elkridge Landing Road	BWI Airport	1984	51,704	100.0%	841,223	16.27	Cadmus Journal Services (100%)
<i>Linthicum, MD</i>							
1340 Ashton Road	BWI Airport	1989	46,400	100.0%	884,556	19.06	General Dynamics (100%)
<i>Hanover, MD</i>							
7321 Parkway Drive	BWI Airport	1984	39,822	100.0%	731,331	18.36	United States of America (100%)
<i>Hanover, MD</i>							
1334 Ashton Road	BWI Airport	1989	37,565	96.8%	730,916	20.11	Science Applications International (60%); Parsons Transportation Group (37%)
<i>Hanover, MD</i>							
1331 Ashton Road	BWI Airport	1989	29,936	100.0%	492,532	16.45	Booz Allen Hamilton (71%); Aerosol Monitoring & Analysis (29%)
<i>Hanover, MD</i>							
1350 Dorsey Road	BWI Airport	1989	19,992	96.7%	356,063	18.41	Aerrotek, Inc. (23%); Noodles, Inc. (14%); Hunan Pagoda (12%); C.G. Menk & Associates, Inc. (11%); Corestaff Support Services, Inc. (10%)
<i>Hanover, MD</i>							
1344 Ashton Road	BWI Airport	1989	17,061	100.0%	394,087	23.10	Engineering Solutions, Inc. (55%); Mid-Atlantic Clearing House Association (16%); Citizens National Bank (12%); Edward Kraemer & Sons, Inc. (11%)
<i>Hanover, MD</i>							
1341 Ashton Road	BWI Airport	1989	15,841	100.0%	287,958	18.18	Supertots Childcare, Inc. (71%); The Devereux Foundation (29%)
<i>Hanover, MD</i>							
1343 Ashton Road	BWI Airport	1989	9,962	100.0%	153,383	15.40	General Dynamics (100%)
<i>Hanover, MD</i>							
114 National Business Parkway	BWI Airport	2002	9,717	100.0%	63,440	6.53	Huff and Puff, Inc. (44%); Café Joe (39%); Charm City Concierge (17%)
<i>Annapolis Junction, MD</i>							
1348 Ashton Road	BWI Airport	1988	3,108	100.0%	65,544	21.09	Dunkin Donuts Restaurant (100%)
<i>Hanover, MD</i>							
7200 Riverwood	Howard County Perimeter	1986	160,000	100.0%	3,249,210	20.31	United States of America (100%)
<i>Columbia, MD</i>							
9140 Rt. 108	Howard County Perimeter	1974/1985	150,000	100.0%	4,279,500	28.53	United States of America (100%)
<i>Columbia, MD</i>							
7000 Columbia Gateway Drive	Howard County Perimeter	1999	145,806	100.0%	1,353,541	9.28	Honeywell International (100%)
<i>Columbia, MD</i>							
6731 Columbia Gateway Drive	Howard County Perimeter	2002	123,885	98.6%	3,116,563	25.53	CareFirst Inc. & Subsidiaries (40%); Washington Mutual Bank (17%); Bridge Technology Corporation (17%)
<i>Columbia, MD</i>							
6940 Columbia Gateway Drive	Howard County Perimeter	1999	108,847	86.8%	1,989,690	21.06	Ameritrade Holding Corporation (39%); Magellan Behavioral Health, Inc. (26%); BMC Software, Inc. (14%)
<i>Columbia, MD</i>							
6950 Columbia Gateway Drive	Howard County Perimeter	1998	107,778	100.0%	2,138,599	19.84	Magellan Behavioral Health, Inc. (100%)
<i>Columbia, MD</i>							
7067 Columbia Gateway Drive	Howard County	2001	82,953	100.0%	1,821,938	21.96	Community First Financial (50%);

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)
6750 Alexander Bell Drive Columbia, MD	Howard County Perimeter	2001	78,460	100.0%	1,964,704	25.04	Sun Microsystems, Inc. (45%); The Coca-Cola Company (35%)
6700 Alexander Bell Drive Columbia, MD	Howard County Perimeter	1988	74,852	83.7%	1,365,530	21.80	Arbitron, Inc. (27%)
6740 Alexander Bell Drive Columbia, MD	Howard County Perimeter	1992	61,957	100.0%	1,648,846	26.61	Johns Hopkins University (79%); Advanced Career Technologies, Inc. (20%)
8671 Robert Fulton Drive Columbia, MD	Howard County Perimeter	2002	56,350	100.0%	927,599	16.46	Nucletron Corporation (51%); First American Credit Management Solutions (49%)
6716 Alexander Bell Drive Columbia, MD	Howard County Perimeter	1990	52,002	78.3%	952,294	23.39	Sun Microsystems, Inc. (26%); Rational Software Corp. (15%); Johns Hopkins University (13%); AMNET Mortgage, Inc. (10%)
8661 Robert Fulton Drive Columbia, MD	Howard County Perimeter	2002	49,500	69.4%	509,436	14.84	Rohde & Schwarz (69%)
9140 Guilford Road Columbia, MD	Howard County Perimeter	1983	41,704	100.0%	624,392	14.97	COACT, Inc. (29%); Essex Corporation (21%); Microcosm (14%); 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	100.0%	611,692	15.86	EVI Technology, Inc. (100%)
7063 Columbia Gateway Drive Columbia, MD	Howard County Perimeter	2000	36,936	100.0%	792,743	21.46	The Boeing Company (51%); Chesapeake Research Review (49%)
9160 Guilford Road Columbia, MD	Howard County Perimeter	1984	36,528	100.0%	606,145	16.59	AT&T Corporation (100%)
6760 Alexander Bell Drive Columbia, MD	Howard County Perimeter	1991	36,309	84.0%	571,726	18.74	MWH Americas, Inc. (14%); Facilities Dynamics Engineering Corporation (11%)
6708 Alexander Bell Drive Columbia, MD	Howard County Perimeter	1988	35,040	100.0%	745,308	21.27	State Farm Mutual Auto Insurance Co. (100%)
7061 Columbia Gateway Drive Columbia, MD	Howard County Perimeter	2000	29,604	100.0%	713,992	24.12	Manekin, LLC (83%); Dell Franklin Financial (17%)
6724 Alexander Bell Drive Columbia, MD	Howard County Perimeter	2001	28,420	100.0%	652,982	22.98	Lurgi Lentjes North America (95%)
9150 Guilford Road Columbia, MD	Howard County Perimeter	1984	17,655	100.0%	310,151	17.57	Essex Corporation (100%)
9130 Guilford Road Columbia, MD	Howard County Perimeter	1984	13,700	100.0%	208,924	15.25	Eyetel Imaging, Inc. (100%)
2500 Riva Road Annapolis, MD	Annapolis	2000/2001	155,000	100.0%	1,935,000	12.48	Usinternetworking, Inc. (100%)
Subtotal/Average			5,347,828	95.6%	111,349,029	21.77	
Northern Virginia:							
15000 Conference Center Drive Chantilly, VA	Dulles South	1989	470,406	99.5%	9,295,042	19.86	Computer Sciences Corporation (70%); General Dynamics Government Corp. (19%)
15059 Conference Center Drive Chantilly, VA	Dulles South	2000	145,192	100.0%	3,927,679	27.05	The Boeing Company (55%); Booz Allen Hamilton (18%)

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)
15049 Conference Center Drive Chantilly, VA	Dulles South	1997	145,053	100.0%	3,810,061	26.27	The Aerospace Corporation (92%)
14900 Conference Center Drive Chantilly, VA	Dulles South	1999	127,572	89.0%	2,993,486	26.36	MBA Management (11%); Federal Express Corporation (11%)
14280 Park Meadow Drive Chantilly, VA	Dulles South	1999	114,126	100.0%	2,816,176	24.68	Hamilton Resources (26%); ManTech Integrated Data Systems (26%); Edison Mission Energy (26%); AAA Mid-Atlantic, Inc. (12%)
4851 Stonecroft Boulevard Chantilly, VA	Dulles South	2004	88,094	100.0%	1,585,692	18.00	The Aerospace Corporation (100%)
14850 Conference Center Drive Chantilly, VA	Dulles South	2000	69,711	100.0%	1,872,366	26.86	Comstor (51%); Rolls-Royce North America (49%)
14840 Conference Center Drive Chantilly, VA	Dulles South	2000	69,710	100.0%	1,695,238	24.32	Omniplex World Services (100%)
13200 Woodland Park Drive Herdon, VA	Herdon	2002	404,665	100.0%	10,142,650	25.06	Booz Allen Hamilton (68%); VeriSign, Inc. (32%)
13454 Sunrise Valley Road Herdon, VA	Herdon	1998	113,093	88.9%	2,131,366	21.21	National Student Clearinghouse (16%); Treev, LLC (16%); Infodata Systems, Inc. (12%)
13450 Sunrise Valley Road Herdon, VA	Herdon	1998	53,728	14.9%	229,703	28.71	United Management Group (15%)
1751 Pinnacle Drive McLean, VA	Tysons Corner	1989/1995	258,465	92.8%	7,281,492	30.35	PricewaterhouseCoopers (38%); Hunton & Williams (22%); Octagon, Inc. (11%)
1753 Pinnacle Drive McLean, VA	Tysons Corner	1976/2004	181,637	83.3%	4,584,634	30.29	Wachovia Bank (83%)
Subtotal/Average			2,241,452	94.5%	52,365,585	24.72	
Northern/Central New Jersey:							
431 Ridge Road Dayton, NJ	Exit 8A - Cranbury	1958/1998	170,000	100.0%	3,485,558	20.50	AT&T Corporation (100%)
429 Ridge Road Dayton, NJ	Exit 8A - Cranbury	1966/1996	142,385	100.0%	2,983,417	20.95	AT&T Corporation (100%)
68 Culver Road Dayton, NJ	Exit 8A - Cranbury	2000	57,280	100.0%	1,356,766	23.69	AT&T Corporation (100%)
104 Interchange Plaza Monroe Township, NJ	Exit 8A - Cranbury	1990	47,677	97.2%	1,116,868	24.10	Turner Construction Co. (35%); Laborer's International Union (34%)
101 Interchange Plaza Cranbury, NJ	Exit 8A - Cranbury	1985	43,621	90.9%	905,089	22.82	Arquest, Inc. (16%); Ford Motor Credit Company (13%); Middlesex County Improve. Auth. (13%); CSX Transportation, Inc. (11%)
47 Commerce Cranbury, NJ	Exit 8A - Cranbury	1992/1998	41,398	100.0%	547,997	13.24	Somfy Systems, Inc. (100%)
437 Ridge Road Dayton, NJ	Exit 8A - Cranbury	1962/1996	30,000	100.0%	600,996	20.03	AT&T Corporation (100%)
7 Centre Drive Monroe Township, NJ	Exit 8A - Cranbury	1986	19,468	93.8%	440,163	24.12	Compugen, Inc. (23%); Systems Freight (22%)

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)
8 Centre Drive <i>Monroe Township, NJ</i>	Exit 8A - Cranbury	1989	16,199	100.0%	321,661	19.86	American Mortgage Express (55%); Medical World Communications (45%)
2 Centre Drive <i>Monroe Township, NJ</i>	Exit 8A - Cranbury	1989	16,132	61.9%	285,210	28.58	Fleet National Bank (62%)
4301 Route 1 <i>Monmouth Junction, NJ</i>	Monmouth Junction	1986	61,433	85.0%	1,097,832	21.03	Guest Supply, Inc. (50%); Tricore Technologies (10%); Foster & Adoptive Family Services (10%)
695 Rt. 46 <i>Fairfield, NJ</i>	Wayne	1990	157,394	84.2%	2,897,815	21.86	ADT Security Services, Inc. (26%); JPMorgan Chase Bank (15%); Dean Witter Reynolds (13%)
710 Rt. 46 <i>Fairfield, NJ</i>	Wayne	1985	101,263	68.0%	1,470,289	21.35	North Fork Bank (14%); Ericsson, Inc. (13%); Green Point Mortgage (10%)
Subtotal/Average			904,250	91.3%	17,509,661	21.22	
St. Mary's & King George Counties:							
22309 Exploration Drive <i>Lexington Park, MD</i>	St. Mary's County	1984/1997	98,860	100.0%	1,337,632	13.53	General Dynamics (100%)
46579 Expedition Drive <i>Lexington Park, MD</i>	St. Mary's County	2002	61,156	88.2%	991,752	18.38	Raytheon Company (25%); RBC, Inc. (19%); VSE Corporation (13%); CCI, Inc. (13%)
22289 Exploration Drive <i>Lexington Park, MD</i>	St. Mary's County	2000	60,811	96.0%	1,091,376	18.70	BearingPoint, Inc. (39%); AT&T Corporation (13%); Universal Systems (12%)
44425 Pecan Court <i>California, MD</i>	St. Mary's County	1997	59,055	88.4%	931,215	17.84	The Boeing Company (25%); Jorge Scientific Corporation (25%); The Bionetics Corporation (10%)
22299 Exploration Drive <i>Lexington Park, MD</i>	St. Mary's County	1998	58,509	87.3%	1,021,561	20.00	United States of America (28%); Science Applications International (27%); D.P. Associates, Inc. (14%)
44408 Pecan Court <i>California, MD</i>	St. Mary's County	1986	50,532	100.0%	535,882	10.60	BAE Systems (100%)
23535 Cottonwood Parkway <i>California, MD</i>	St. Mary's County	1984	46,656	100.0%	482,599	10.34	BAE Systems (100%)
22300 Exploration Drive <i>Lexington Park, MD</i>	St. Mary's County	1997	44,830	100.0%	644,745	14.38	General Dynamics (100%)
44417 Pecan Court <i>California, MD</i>	St. Mary's County	1989	29,053	100.0%	278,900	9.60	General Dynamics (100%)
44414 Pecan Court <i>California, MD</i>	St. Mary's County	1986	25,444	100.0%	222,889	8.76	BAE Systems (100%)
44420 Pecan Court <i>California, MD</i>	St. Mary's County	1989	25,200	100.0%	126,000	5.00	BAE Systems (100%)
16480 Commerce Drive <i>Dahlgren, VA</i>	King George County	2000	70,728	100.0%	1,047,416	14.81	Northrop Grumman Corporation (100%)
16541 Commerce Drive <i>King George, VA</i>	King George County	1996	36,053	100.0%	425,435	11.80	BAE Systems (89%); Science Applications International (11%)

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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)
16539 Commerce Drive <i>King George, VA</i>	King George County	1990	32,076	100.0%	444,956	13.87	Lockheed Martin Corporation (71%); Northrop Grumman Corporation (29%)
16442 Commerce Drive <i>Dahlgren, VA</i>	King George County	2002	25,518	100.0%	436,360	17.10	Lockheed Martin Corporation (100%)
16501 Commerce Drive <i>Dahlgren, VA</i>	King George County	2002	22,860	100.0%	317,754	13.90	Lockheed Martin Corporation (100%)
16543 Commerce Drive <i>Dahlgren, VA</i>	King George County	2002	17,370	100.0%	340,808	19.62	Northrop Grumman Corporation (87%); Corporate Presentation Services, Inc. (13%)
Subtotal/Average			764,711	96.9%	10,677,280	14.41	
Blue Bell/Philadelphia:							
753 Jolly Road <i>Blue Bell, PA</i>	Blue Bell	1960/92-94	419,472	100.0%	3,946,948	9.41	Unisys (100%)
785 Jolly Road <i>Blue Bell, PA</i>	Blue Bell	1970/1996	219,065	100.0%	2,371,792	10.83	Unisys with 100% sublease to Merck
760 Jolly Road <i>Blue Bell, PA</i>	Blue Bell	1974/1994	208,854	100.0%	2,891,151	13.84	Unisys (100%)
751 Jolly Road <i>Blue Bell, PA</i>	Blue Bell	1966/1991	112,958	100.0%	1,062,858	9.41	Unisys (100%)
Subtotal/Average			960,349	100.0%	10,272,749	10.70	
Greater Harrisburg:							
2605 Interstate Drive <i>Harrisburg, PA</i>	East Shore	1990	79,456	100.0%	1,419,634	17.87	Commonwealth of Pennsylvania (95%)
6345 Flank Drive <i>Harrisburg, PA</i>	East Shore	1989	69,443	65.4%	673,988	14.84	Allstate Insurance (26%); Data Recognition Corporation (18%)
6340 Flank Drive <i>Harrisburg, PA</i>	East Shore	1988	68,200	100.0%	747,986	10.97	Lancaster Lebanon (100%)
2601 Market Place <i>Harrisburg, PA</i>	East Shore	1989	65,411	95.7%	1,151,024	18.40	Ernst & Young, LLP (27%); Quality Insights of PA, Inc. (18%); Albright College (14%); Duke Energy Operating Co., LLC (13%); Penn State Geisinger Systems Services, Inc. (12%); Groundwater Sciences Corporation (11%)
6400 Flank Drive <i>Harrisburg, PA</i>	East Shore	1992	52,439	56.6%	509,311	17.15	Pennsylvania Coalition Against Domestic Violence (51%)
6360 Flank Drive <i>Harrisburg, PA</i>	East Shore	1988	46,500	61.3%	457,950	16.07	Ikon Office Solutions, Inc. (22%); Sentage Corp. d/b/a Dental Services Group (15%)
6385 Flank Drive <i>Harrisburg, PA</i>	East Shore	1995	32,921	54.9%	262,548	14.53	First Health Services (26%); Imagistics International (11%); CGI Information Systems & Management (11%)
6380 Flank Drive <i>Harrisburg, PA</i>	East Shore	1991	32,668	100.0%	423,748	12.97	Critical Care Systems, Inc. (19%); Cancer Recovery Foundation of America (18%); Myers & Stauffer (16%); Lorom America, Inc. (14%); Verizon Network Integration Corporation (14%); Spray on Siding of Pennsylvania (12%)

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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)
6405 Flank Drive <i>Harrisburg, PA</i>	East Shore	1991	32,000	100.0%	353,440	11.05	Primedia Enthusiast (100%)
95 Shannon Road <i>Harrisburg, PA</i>	East Shore	1999	21,976	100.0%	354,535	16.13	New World Pasta (100%)

75 Shannon Road Harrisburg, PA	East Shore	1999	20,887	100.0%	379,127	18.15	McCormick, Taylor & Assoc. (100%)
6375 Flank Drive Harrisburg, PA	East Shore	2000	19,783	100.0%	310,802	15.71	Primedia Enthusiast (71%); McCormick, Taylor & Assoc. (29%)
85 Shannon Road Harrisburg, PA	East Shore	1999	12,863	100.0%	207,517	16.13	New World Pasta (100%)
5035 Ritter Road Mechanicsburg, PA	West Shore	1988	56,556	100.0%	812,290	14.36	Commonwealth of Pennsylvania (100%)
5070 Ritter Road - Building A Mechanicsburg, PA	West Shore	1989	32,309	51.1%	248,734	15.07	Maryland Casualty Co. (36%); Commonwealth of Pennsylvania (15%)
5070 Ritter Road - Building B Mechanicsburg, PA	West Shore	1989	28,347	100.0%	382,817	13.50	Vale National Training Center (62%); Paytime, Inc. (20%); Pennsylvania Trauma Systems Foundation (18%);
Subtotal/Average			671,759	85.4%	8,695,451	15.16	
Suburban Maryland:							
11800 Tech Road Silver Spring, MD	North Silver Spring	1969/1989	235,954	91.9%	3,467,085	15.99	Comcast Cablevision (42%); Holy Cross Hospital of Silver Spring (18%); Kaiser Foundation Health Plan (17%); United States of America (11%)
400 Professional Drive Gaithersburg, MD	Gaithersburg	2000	129,030	90.0%	3,111,541	26.79	Aurora Loan Services (21%); DRS Electronic Systems (17%); PMC - Sierra US, Inc. (12%); Donnally, Vujcic Associates, LLC (11%); The Jack Morton Company (10%); US Filter Wastewater Group (10%)
14502 Greenview Drive Laurel, MD	Laurel	1988	72,392	56.6%	748,803	18.26	KCI Technologies, Inc. (13%); USPRA/IRA (10%)
14504 Greenview Drive Laurel, MD	Laurel	1985	69,334	66.1%	895,200	19.54	Light Wave Communications (10%)
4230 Forbes Boulevard Prince Georges, MD	Lanham	2003	55,867	48.0%	418,248	15.60	Northrop Grumman Corporation (27%); Benco Dental Supply, Inc. (21%)
Subtotal/Average			562,577	79.4%	8,640,877	19.35	
Other:							
10150 York Road Hunt Valley, MD	North Baltimore Co.	1985	176,689	78.3%	2,407,603	17.40	Rewardspus of America (52%); All Risks, Ltd. (24%)
9690 Deereco Road Timonium, MD	North Baltimore Co.	1988	134,096	96.9%	3,120,896	24.02	Katz, Abosch, Windesheim, Gershan & Freedman (16%); CDR Associates, LLC (11%); I4Commerce, Inc. (10%)
375 W. Padonia Road Timonium, MD	North Baltimore Co.	1986	110,328	99.6%	1,655,608	15.06	Tesco Technologies, Inc. (85%)
1615 - 1629 Thames Street Baltimore, MD	Baltimore City	1989	104,214	95.7%	2,107,158	21.14	Johns Hopkins University (46%); Maryland First Financial Services Corporation (14%); Community of Science (12%)

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Subtotal/Average			525,327	91.0%	9,291,265	19.44	
Total/Average			11,978,253	94.0%	\$ 228,801,897	\$ 20.32	

- (1) This percentage is based upon all signed leases and tenants occupancy as of December 31, 2004.
- (2) Total annualized rental revenue is the monthly contractual base rents as of December 31, 2004 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, 2004.
- (4) The Baltimore/Washington Corridor encompasses mostly Anne Arundel and Howard Counties.

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Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place as of December 31, 2004, 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	Portfolio Annualized Rental Revenue of Expiring Leases (2) (in thousands)	Percentage of Portfolio Annualized Rental Revenue Expiring (2)	Annualized Rental Revenue of Expiring Leases per Occupied Square Foot (2)
2005	107	1,079,081	9.6%	\$ 22,346	9.8%	\$ 20.71
2006	84	1,154,855	10.3%	22,371	9.8%	19.37
2007	125	1,736,983	15.4%	33,691	14.7%	19.40
2008	83	1,117,449	9.9%	23,683	10.4%	21.19
2009	108	2,342,074	20.8%	37,835	16.5%	16.15
2010	44	1,152,059	10.2%	26,114	11.4%	22.67
2011	13	316,276	2.8%	6,526	2.9%	20.63
2012	13	558,163	5.0%	11,866	5.2%	21.26
2013	6	386,290	3.5%	10,955	4.8%	28.36
2014	13	657,116	5.8%	17,468	7.6%	26.58
2015	4	312,653	2.8%	7,876	3.4%	25.19
2016	—	—	0.0%	—	0.0%	0.00
2017	—	—	0.0%	—	0.0%	0.00
2018	3	328,944	2.9%	7,204	3.1%	21.90
Other (3)	24	115,240	1.0%	867	0.4%	7.52
Total / Weighted Average	627	11,257,183	100.0%	\$ 228,802	100.0%	\$ 20.32

- (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 it leases 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 because 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, 2004 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 that 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, Related Stockholder Matters and Issuer Repurchases of Equity Securities

Market Information

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."

Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended December 31, 2004, 90,000 of the Operating Partnership's common units were exchanged for 90,000 common shares in accordance with the Operating Partnership's Second Amended and Restated Limited Partnership Agreement, as amended. The issuance of these common shares was effected in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

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 Registered Public Accounting Firm.

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

None.

Item 9A. Controls and Procedures

I. Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our 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 or submitted 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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.

II. Internal Control Over Financial Reporting

(a) Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is included in Exhibit 13.1 to this Form 10-K and is incorporated by reference herein.

(b) Report of Independent Registered Public Accounting Firm

The Report of our Independent Registered Public Accounting Firm is included in Exhibit 13.1 to this Form 10-K and is incorporated by reference herein.

(c) 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.

Item 9B. Other Information

None.

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 Related Stockholder Matters, Certain Relationships and Related Transactions and Principal Accountant 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 2005 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 and Financial Statement Schedules

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

1. **Financial Statements.** Audited consolidated balance sheets as of December 31, 2004 and 2003, 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, 2004 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. See page 36 of this Form 10-K.
3. **See section below entitled "Exhibits."**

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

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
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 Amendment of Amended and Restated Declaration of Trust (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
3.1.3	Articles of Amendment of Amended and Restated Declaration of Trust (filed with the Company's Current Report on Form 8-K on December 29, 2004 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).
3.1.5	Articles Supplementary of Corporate Office Properties Trust (filed with the Company's Current Report on Form 8-K on December 29, 2004 and incorporated herein by reference).
3.1.6	Articles Supplementary of Corporate Office Properties Trust (filed with the Company's Current Report on Form 8-K on December 29, 2004 and incorporated herein by reference).
3.1.7	Articles Supplementary of Corporate Office Properties Trust relating to the 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).
3.1.8	Articles Supplementary of Corporate Office Properties Trust relating to the Series F Cumulative Redeemable Preferred Shares, dated September 13, 2001 (filed with the Registrant's Amended Current Report on Form 8-K on September 14, 2001 and incorporated herein by reference).
3.1.9	Articles Supplementary of Corporate Office Properties Trust relating to the 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).
3.1.10	Articles Supplementary of Corporate Office Properties Trust relating to the Series H Cumulative Redeemable Preferred Shares, dated December 11, 2003 (filed with the Current Report on Form 8-K on December 12, 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).

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<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
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- 3.4 Amended and Restated Registration Rights Agreement, dated March 16, 1998, for the benefit of certain shareholders of the Company (filed on August 12, 1998 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
- 3.5 Registration Rights Agreement, dated January 25, 2001, for the benefit of Barony Trust Limited (filed on March 22, 2001 with the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- 10.1.1 Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 7, 1999 (filed on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 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 on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- 10.1.3 Second Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 21, 1999 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
- 10.1.4 Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 29, 2000 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
- 10.1.5 Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated November 27, 2000 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 April 4, 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 Amended Current Report on Form 8-K dated September 14, 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.1.11	Tenth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated December 29, 2001 (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on August 12, 2003 with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.1.16	Fifteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 31, 2004 (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.1.17	Sixteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 15, 2004 (filed on May 7, 2004 with the Company's Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
10.1.18	Seventeenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated September 23, 2004 (filed with the Company's Current Report on Form 8-K dated September 23, 2004 and incorporated herein by reference).
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 on August 13, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- 10.3.3* Amendment No. 2 to Corporate Office Properties Trust 1998 Long Term Incentive Plan (filed on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).

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EXHIBIT NO.	DESCRIPTION
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 on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.6*	Employment Agreement, dated September 12, 2002, between the Operating Partnership, COPT and Randall M. Griffin (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.7.1*	Employment Agreement, dated September 12, 2002, between the Operating Partnership, COPT and Roger A. Waesche, Jr. (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.7.2*	Amendment to Employment Agreement, dated March 4, 2005, between the Operating Partnership, COPT and Roger A. Waesche, Jr. (filed herewith).
10.8.1*	Employment Agreement, dated May 15, 2003, between Corporate Development Services, LLC, Corporate Office Properties Trust and Dwight Taylor (filed on August 12, 2003 with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
10.8.2*	Amendment to Employment Agreement, dated March 4, 2005, between Corporate Development Services, LLC, Corporate Office Properties Trust and Dwight Taylor (filed herewith).
10.9*	Employment Agreement, dated May 15, 2003, between Corporate Realty Management, LLC, Corporate Office Properties Trust and Michael D. Kaiser (filed on August 12, 2003 with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 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 on March 22, 2002 with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 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 on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on November 13, 1998 with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 and incorporated herein by reference).
10.12	Indemnity Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated

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EXHIBIT NO.	DESCRIPTION
	October 22, 1998, by affiliates of the Operating Partnership for the benefit of Teachers Insurance and Annuity Association of America (filed on November 13, 1998 with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 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 on November 8, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 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 on November 8, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 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 on November 8, 1999 with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 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).
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 on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.20	Option Agreement, dated March 1998, between the Operating Partnership and Comcourt Land, L.P. (filed on March 16, 2000 with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.21.1	Agreement of Sale, dated December 19, 2002, between Jolly Knolls, LLC and the Operating Partnership (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 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 on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.22	Indemnity Deed of Trust Note, dated January 24, 2003, by Corporate Office Properties, LP for the benefit of Jolly Knolls, LLC (filed on March 27, 2003 with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
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 on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.24.1	Contract of Sale, dated February 27, 2003 between Jolly Acres Limited Partnership and the Operating Partnership (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.24.2	Amendment to Contract of Sale, dated November 7, 2003, between Jolly Acres Limited Partnership and the Operating Partnership (filed on March 11, 2004 with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.25	Credit Agreement, dated March 10, 2004, among the Company; the Operating Partnership; Wachovia Bank, National Association; Wachovia Capital Markets, LLC; KeyBank National Association; Fleet National Bank and Manufacturers and Traders Trust Company (filed with the Registrant's Current Report on Form 8-K on April 13, 2004 and incorporated herein by reference).
10.26	Description of Compensation of Non-Employee Trustees (filed herewith).
10.27	Description of annual cash incentive awards to executives (filed herewith).
13.1	Portions of the Annual Report of Corporate Office Properties Trust for the year ended December 31, 2004 (filed herewith).
21.1	Subsidiaries of Registrant (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm (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 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.)

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
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.)

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.

(c) Not applicable.

Corporate Office Properties Trust
Schedule III - Real Estate Depreciation and Amortization
December 31, 2004
(Dollars in thousands)

Property	Location	Building Type	Initial Cost			Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
			Encumbrances(1)	Land	Building and Land Improvements						
751, 753 760, 785 Jolly Road	Blue Bell, PA	Office	\$ 43,926	\$ 24,402	\$ 88,952	\$ 5	\$ 113,359	\$ (15,928)	1966/1996	10/14/97	40 Years
13200 Woodland Park Drive	Herndon, VA	Office	73,219	10,428	49,476	58	59,962	(5,606)	2002	6/2/03	40 Years
15000 Conference Center Drive	Chantilly, VA	Office	32,660	5,193	47,526	1,273	53,992	(4,570)	1989	11/30/01	40 Years
1751 Pinnacle Drive	McClean, VA	Office	35,869	10,347	42,582	2	52,931	(432)	1989/1985	9/23/04	40 Years
1753 Pinnacle Drive	McClean, VA	Office	28,274	8,219	34,240	2,317	44,776	(242)	1976/2004	9/23/04	40 Years
2730 Hercules Road	Annapolis Junction, MD	Office	22,292	8,737	31,612	—	40,349	(4,943)	1990	9/28/98	40 Years
2720 Technology Drive	Annapolis Junction, MD	Office	18,270	3,863	29,480	—	33,343	(241)	2004	1/31/02	40 Years
140 National Business Parkway	Annapolis Junction, MD	Office	18,397	3,407	22,562	—	25,969	(407)	2003	12/31/03	40 Years
11800 Tech Road	Silver Spring, MD	Office	18,872	4,574	19,812	865	25,251	(1,714)	1969/1989	8/1/02	40 Years
15049 Conference Center Drive	Chantilly, VA	Office	15,104	4,415	20,489	14	24,918	(1,772)	1997	8/14/02	40 Years
2711 Technology Drive	Annapolis Junction, MD	Office	18,500	2,251	21,647	3	23,901	(1,895)	2002	11/13/00	40 Years
6731 Columbia Gateway Drive	Columbia, MD	Office	5,359	3,948	18,840	31	22,819	(1,289)	2002	3/29/00	40 Years
400 Professional Drive	Gaithersburg, MD	Office	16,613	3,673	17,399	265	21,337	(704)	2000	3/5/04	40 Years
431 Ridge Road	Dayton, NJ	Office	28,184	2,782	11,128	7,266	21,176	(3,661)	1958/1998	10/14/97	40 Years
7200 Riverwood Drive	Columbia, MD	Office	15,013	4,089	16,356	470	20,915	(2,602)	1986	10/13/98	40 Years
15059 Conference Center Drive	Chantilly, VA	Office	23,919	5,753	13,816	567	20,136	(1,349)	2000	8/14/02	40 Years
9690 Deereco Road	Timonium, MD	Office	6,919	3,415	13,723	2,375	19,513	(2,544)	1988	12/21/99	40 Years
2721 Technology Drive	Annapolis Junction, MD	Office	13,125	4,605	14,635	9	19,249	(1,620)	2000	10/21/99	40 Years
14280 Park Meadow Drive	Chantilly, VA	Office	9,826	3,512	15,503	10	19,025	(149)	1999	9/29/04	40 Years
14900 Conference Center Drive	Chantilly, VA	Office	15,214	3,436	14,895	243	18,574	(813)	1999	7/25/03	40 Years
870 - 880 Elkridge Landing Road	Linthicum, MD	Office	6,488	2,003	10,403	6,095	18,501	(2,140)	1981	8/3/01	40 Years
6950 Columbia Gateway Drive	Columbia, MD	Office	9,604	3,596	14,269	167	18,032	(2,219)	1998	10/21/98	40 Years
2701 Technology Drive	Annapolis Junction, MD	Office	14,088	1,737	15,267	8	17,012	(1,556)	2001	5/26/00	40 Years
132 National Business Parkway	Annapolis Junction, MD	Office	11,462	2,917	12,438	1,126	16,481	(1,823)	2000	5/28/97	40 Years
10150 York Road	Hunt Valley, MD	Office	5,380	2,700	11,730	1,557	15,987	(457)	1985	4/15/04	40 Years
13454 Sunrise Valley Drive	Herndon, VA	Office	12,239	2,916	12,202	286	15,404	(589)	1998	7/25/03	40 Years
318 Carina Road	Annapolis Junction, MD	Office	9,811	2,769	12,621	—	15,390	—	(2)	11/14/03	N/A
7000 Columbia Gateway Drive	Columbia, MD	Office	5,569	3,131	12,103	27	15,261	(775)	1999	5/31/02	40 Years
429 Ridge Road	Dayton, NJ	Office	9,263	2,932	11,754	514	15,200	(2,214)	1966/1996	10/14/97	40 Years
2691 Technology Drive	Annapolis Junction, MD	Office	9,606	2,097	13,075	—	15,172	—	(2)	11/14/03	N/A
2500 Riva Rd	Annapolis, MD	Office	12,792	2,791	12,146	—	14,937	(631)	2000	3/4/03	40 Years
1306 Concourse Drive	Linthicum, MD	Office	10,006	2,796	11,186	515	14,497	(1,721)	1990	11/18/99	40 Years
6940 Columbia Gateway Drive	Columbia, MD	Office	9,060	3,545	9,916	929	14,390	(1,535)	1999	11/13/98	40 Years
4851 Stonecroft Boulevard	Chantilly, VA	Office	17,481	1,878	12,424	—	14,302	(51)	2004	8/14/02	40 Years
1304 Concourse Drive	Linthicum, MD	Office	11,338	1,999	12,142	3	14,144	(1,002)	2002	11/18/99	40 Years
6750 Alexander Bell Drive	Columbia, MD	Office	8,702	1,263	12,460	231	13,954	(1,676)	2000	12/31/98	40 Years
7067 Columbia Gateway Drive	Columbia, MD	Office	9,016	1,829	11,823	38	13,690	(896)	2001	8/30/01	40 Years
375 West Padonia Road	Timonium, MD	Office	4,875	2,483	10,415	762	13,660	(1,373)	1986	12/21/99	40 Years
Lots 24R-27R & 31RR-32RR	Annapolis Junction, MD	Office	14,199	9,569	4,069	—	13,638	—	(2)	11/14/03	N/A
National Business Pkwy	Baltimore, MD	Office	3,706	2,080	8,322	2,865	13,267	(1,976)	1989	9/28/98	40 Years
1615 - 1629 Thames Street	Annapolis Junction, MD	Office	9,379	2,517	10,068	516	13,101	(1,908)	1997	9/28/98	40 Years
133 National Business Parkway	Fairfield, NJ	Office	5,237	2,154	8,615	1,961	12,730	(2,313)	1985	5/28/98	40 Years
710 Route 46	Lexington Park, MD	Office	2,975	2,243	10,419	—	12,662	(292)	1984	3/24/04	40 Years
22309 Exploration Drive	Annapolis Junction, MD	Office	7,308	2,484	9,750	312	12,546	(1,531)	1998	12/30/98	40 Years
135 National Business Parkway	Annapolis Junction, MD	Office	7,002	2,398	9,590	349	12,337	(1,666)	1990	9/28/98	40 Years
141 National Business Parkway	Chantilly, VA	Office	—	3,500	8,581	—	12,081	—	(2)	11/30/01	N/A
15010 Conference Center Drive	Linthicum, MD	Office	8,586	2,101	9,765	95	11,961	(1,649)	1982	7/2/01	40 Years
920 Elkridge Landing Road	Annapolis Junction, MD	Office	3,914	3,575	7,932	—	11,507	—	(2)	11/14/03	N/A
304 Carina Road	Harrisburg, PA	Office	3,492	2,089	8,355	904	11,348	(1,831)	1990	10/14/97	40 Years
2605 Interstate Drive	Linthicum, MD	Office	6,651	2,078	8,313	918	11,309	(1,416)	1996	11/18/99	40 Years
1302 Concourse Drive	Annapolis Junction, MD	Office	7,539	3,684	7,516	30	11,230	(1,127)	1999	11/13/98	40 Years
134 National Business Parkway	Linthicum, MD	Office	6,895	1,993	7,972	1,177	11,142	(1,604)	1982	4/30/98	40 Years
900 Elkridge Landing Road	Annapolis Junction, MD	Office	5,653	1,906	7,623	957	10,486	(1,729)	1990	9/28/98	40 Years
131 National Business Parkway	Columbia, MD	Office	4,972	1,755	7,019	1,597	10,371	(892)	1988	5/14/01	40 Years
6700 Alexander Bell Drive	Harrisburg, PA	Office	5,756	1,928	7,713	522	10,163	(1,604)	1989	10/14/97	40 Years
2601 Market Place	Linthicum, MD	Office	5,531	1,599	6,395	2,114	10,108	(1,341)	1988	4/30/98	40 Years
1199 Winterson Road	Chantilly, VA	Office	8,655	1,615	8,358	2	9,975	(551)	2000	7/25/03	40 Years
14850 Conference Center Drive	Linthicum, MD	Office	7,467	1,187	8,330	285	9,802	(972)	2000	8/1/99	40 Years
999 Corporate Boulevard	Chantilly, VA	Office	8,790	1,572	8,175	1	9,748	(583)	2000	7/25/03	40 Years
14840 Conference Center Drive	Herndon, VA	Office	—	9,614	68	—	9,682	—	(3)	4/29/04	N/A
Waterview III	Dayton, NJ	Office	6,695	861	8,797	6	9,664	(950)	2000	7/9/99	40 Years

Property	Location	Building Type	Initial Cost			Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
			Encumbrances(1)	Land	Building and Land Improvements						
16480 Commerce Dr	Dahlgren, VA	Office	6,384	1,855	7,662	—	9,517	—	2004	12/28/04	40 Years

1190 Winterson Road	Linthicum, MD	Office	4,618	1,335	5,340	2,371	9,046	(1,467)	1987	4/30/98	40 Years
7467 Ridge Road	Hanover, MD	Office	5,681	1,629	6,517	710	8,856	(1,296)	1990	4/28/99	40 Years
7240 Parkway Drive	Hanover, MD	Office	5,139	1,496	5,985	1,047	8,528	(989)	1985	4/18/00	40 Years
14502 Greenview Drive	Laurel, MD	Office	4,626	1,482	5,899	1,096	8,477	(1,318)	1988	9/28/98	40 Years
9144 Route 108	Columbia, MD	Office	8,454	1,637	5,500	1,304	8,441	(654)	1974/1985	12/14/00	40 Years
6740 Alexander Bell Drive	Columbia, MD	Office	4,515	1,424	5,696	1,100	8,220	(1,525)	1992	12/31/98	40 Years
849 International Drive	Linthicum, MD	Office	4,691	1,356	5,426	1,206	7,988	(1,278)	1988	2/23/99	40 Years
14504 Greenview Drive	Laurel, MD	Office	4,369	1,429	5,716	730	7,875	(1,169)	1985	9/28/98	40 Years
16539 & 16541 Commerce Drive	Dahlgren, VA	Office	2,813	1,462	6,132	133	7,727	—	2004	12/21/04	40 Years
1099 Winterson Road	Linthicum, MD	Office	4,578	1,323	5,293	779	7,395	(1,208)	1988	4/30/98	40 Years
6716 Alexander Bell Drive	Columbia, MD	Office	3,939	1,242	4,969	1,175	7,386	(1,420)	1990	12/31/98	40 Years
46579 Expedition Drive	Lexington Park, MD	Office	2,819	1,406	5,943	—	7,349	(166)	2002	3/24/04	40 Years
22299 Exploration Drive	Lexington Park, MD	Office	2,995	1,362	5,808	—	7,170	(162)	1998	3/24/04	40 Years
22289 Exploration Drive	Lexington Park, MD	Office	3,404	1,422	5,719	—	7,141	(112)	2000	3/24/04	40 Years
911 Elkridge Landing Road	Linthicum, MD	Office	4,204	1,215	4,861	1,034	7,110	(1,221)	1985	4/30/98	40 Years
6711 Columbia Gateway Drive	Columbia, MD	Office	—	3,970	3,113	—	7,083	—	(2)	9/28/00	N/A
6345 Flank Drive	Harrisburg, PA	Office	1,674	1,324	5,268	482	7,074	(866)	1989	12/3/99	40 Years
101 Interchange Plaza	Cranbury, NJ	Office	3,848	1,160	4,666	1,181	7,007	(1,182)	1985	10/30/98	40 Years
13450 Sunrise Valley Drive	Herdon, VA	Office	6,085	1,394	5,576	8	6,978	(199)	1998	7/25/03	40 Years
104 Interchange Plaza	Cranbury, NJ	Office	4,388	1,329	5,315	304	6,948	(902)	1990	10/30/98	40 Years
4301 Route 1	Monmouth Junction, NJ	Office	2,133	1,208	4,832	898	6,938	(1,030)	1986	6/24/99	40 Years
8671 Robert Fulton Drive	Columbia, MD	Office	3,912	1,717	4,279	829	6,825	(118)	2003	12/30/03	40 Years
44425 Pecan Court	California, MD	Office	4,047	1,309	5,458	—	6,767	(132)	1997	5/5/04	40 Years
306 Carina Road	Annapolis Junction, MD	Office	—	3,575	2,900	—	6,475	—	(2)	11/14/03	N/A
1201 Winterson Road	Linthicum, MD	Office	4,457	1,288	5,154	21	6,463	(865)	1985	4/30/98	40 Years
Columbia Gwty T11 Lot 1	Columbia, MD	Office	2,528	6,386	50	—	6,436	—	(3)	9/20/04	N/A
6340 Flank Drive	Harrisburg, PA	Office	1,855	1,274	5,071	50	6,395	(662)	1988	12/3/99	40 Years
7065 Columbia Gateway Drive	Columbia, MD	Office	3,509	919	4,222	1,191	6,332	(870)	2000	8/30/01	40 Years
891 Elkridge Landing Road	Linthicum, MD	Office	4,492	1,160	4,792	240	6,192	(507)	1984	7/2/01	40 Years
22300 Exploration Drive	Lexington Park, MD	Office	3,020	1,094	5,038	—	6,132	(31)	1989	11/9/04	40 Years
901 Elkridge Landing Road	Linthicum, MD	Office	3,973	1,151	4,416	439	6,006	(510)	1984	7/2/01	40 Years
938 Elkridge Landing Road	Linthicum, MD	Office	4,766	1,204	4,727	71	6,002	(421)	1984	7/2/01	40 Years
5035 Ritter Road	Harrisburg, PA	Office	2,589	1,116	4,442	111	5,669	(609)	1988	12/3/99	40 Years
881 Elkridge Landing Road	Linthicum, MD	Office	3,578	1,034	4,137	495	5,666	(754)	1986	4/30/98	40 Years
921 Elkridge Landing Road	Linthicum, MD	Office	3,612	1,044	4,176	425	5,645	(889)	1983	4/30/98	40 Years
939 Elkridge Landing Road	Linthicum, MD	Office	3,249	939	3,756	874	5,569	(977)	1983	4/30/98	40 Years
6400 Flank Drive	Harrisburg, PA	Office	1,569	1,093	4,350	54	5,497	(556)	1992	12/3/99	40 Years
6724 Alexander Bell Drive	Columbia, MD	Office	3,110	449	5,039	6	5,494	(393)	2002	5/14/01	40 Years
7063 Columbia Gateway Drive	Columbia, MD	Office	3,319	902	4,145	437	5,484	(835)	2000	8/30/01	40 Years
6760 Alexander Bell Drive	Columbia, MD	Office	2,822	890	3,561	965	5,416	(765)	1991	12/31/98	40 Years
930 International Drive	Linthicum, MD	Office	3,505	1,013	4,053	335	5,401	(711)	1986	4/30/98	40 Years
8661 Robert Fulton Drive	Columbia, MD	Office	3,437	1,509	3,762	1	5,272	(94)	2003	12/30/03	40 Years
940 Elkridge Landing Road	Linthicum, MD	Office	3,618	1,100	3,961	170	5,231	(362)	1984	7/2/01	40 Years
900 International Drive	Linthicum, MD	Office	3,392	981	3,922	263	5,166	(697)	1986	4/30/98	40 Years
7321 Parkway Drive	Hanover, MD	Office	3,278	940	3,760	431	5,131	(722)	1984	4/16/99	40 Years
1340 Ashton Road	Hanover, MD	Office	3,156	905	3,620	560	5,085	(649)	1989	4/28/99	40 Years
7318 Parkway Drive	Hanover, MD	Office	3,390	972	3,888	91	4,951	(580)	1984	4/16/99	40 Years
7320 Parkway Drive	Hanover, MD	Office	2,917	905	3,635	335	4,875	(393)	1983	4/4/02	40 Years
6360 Flank Drive	Harrisburg, PA	Office	1,377	911	3,625	332	4,868	(623)	1988	12/3/99	40 Years
6708 Alexander Bell Drive	Columbia, MD	Office	2,542	897	3,588	291	4,776	(337)	1988	5/14/01	40 Years
8621 Robert Fulton Drive	Columbia, MD	Office	—	3,035	1,475	—	4,510	—	(2)	4/5/2001(4)	N/A
322 Carina Road	Annapolis Junction, MD	Office	—	2,764	1,696	—	4,460	—	(2)	11/14/03	N/A
800 International Drive	Linthicum, MD	Office	2,680	775	3,099	477	4,351	(548)	1988	4/30/98	40 Years
4230 Forbes Boulevard	Lanham, MD	Office	3,631	511	3,837	—	4,348	(194)	2003	5/18/2001(4)	40 Years
9140 Guilford Road	Columbia, MD	Office	3,040	794	3,261	170	4,225	(309)	1983	4/4/02	40 Years
6385 Flank Drive	Harrisburg, PA	Office	2,420	811	3,242	49	4,102	(617)	1995	10/14/97	40 Years
7061 Columbia Gateway Drive	Columbia, MD	Office	2,728	729	3,347	10	4,086	(481)	2000	8/30/01	40 Years
44408 Pecan Court	California, MD	Office	2,061	817	3,269	—	4,086	(61)	1986	3/24/04	40 Years
302 Carina Road	Annapolis Junction, MD	Office	—	3,575	466	—	4,041	—	(2)	11/14/03	N/A
Parcel 3-A, Westfields International	Chantilly, VA	Office	—	3,609	417	—	4,026	—	(3)	7/31/02	N/A
Corporate Center	Chantilly, VA	Office	—	3,609	417	—	4,026	—	(3)	7/31/02	N/A
23535 Cottonwood Parkway	California, MD	Office	1,905	763	3,051	—	3,814	(57)	1984	3/24/04	40 Years
1334 Ashton Road	Hanover, MD	Office	2,568	736	2,946	101	3,783	(517)	1989	4/28/99	40 Years
47 Commerce Drive	Cranbury, NJ	Office	2,497	756	3,025	1	3,782	(467)	1992/1998	10/30/98	40 Years
437 Ridge Road	Dayton, NJ	Office	1,984	717	2,866	45	3,628	(530)	1962/1996	10/14/97	40 Years
9160 Guilford Road	Columbia, MD	Office	2,700	665	2,836	26	3,527	(312)	1984	4/4/02	40 Years

Property	Location	Building Type	Encumbrances(1)	Initial Cost		Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
				Land	Building and Land Improvements						
46591 Expedition Drive	Lexington Park, MD	Office	—	1,905	1,598	—	3,503	—	(2)	3/24/04	N/A
114 National Business Parkway	Annapolis Junction, MD	Office	—	364	3,060	3	3,427	(214)	2002	6/30/00	40 Years
320 Carina Road	Annapolis Junction, MD	Office	—	2,767	522	—	3,289	—	(2)	11/14/03	N/A
6405 Flank Drive	Harrisburg, PA	Office	1,080	656	2,610	7	3,273	(333)	1991	12/3/99	40 Years
5070 Ritter Road- Bldg A	Harrisburg, PA	Office	499	583	2,320	332	3,235	(437)	1989	12/3/99	40 Years
16442 Commerce Drive	Dahlgren, VA	Office	2,545	613	2,582	—	3,195	—	2005	12/21/04	40 Years
6380 Flank Drive	Harrisburg, PA	Office	1,323	589	2,346	162	3,097	(377)	1991	12/3/99	40 Years
1331 Ashton Road	Hanover, MD	Office	2,046	587	2,347	34	2,968	(335)	1989	4/28/99	40 Years
16501 Commerce Drive	Dahlgren, VA	Office	2,159	522	2,194	1	2,717	—	2006	12/21/04	40 Years
5070 Ritter Road- Bldg B	Harrisburg, PA	Office	1,142	510	2,030	44	2,584	(294)	1989	12/3/99	40 Years
7 Centre Drive	Monroe Township, NJ	Office	1,553	470	1,881	201	2,552	(409)	1989	10/30/98	40 Years
2 Centre Drive	Monroe Township, NJ	Office	1,586	480	1,922	34	2,436	(297)	1989	10/30/98	40 Years
44417 Pecan Court	California, MD	Office	1,119	434	1,939	8	2,381	(68)	1989	3/24/04	40 Years
95 Shannon Road	Harrisburg, PA	Office	1,411	472	1,891	12	2,375	(258)	1995	8/12/99	40 Years
75 Shannon Road	Harrisburg, PA	Office	1,343	450	1,799	107	2,356	(296)	1995	8/12/99	40 Years
16543 Commerce Drive	Dahlgren, VA	Office	1,805	436	1,830	—	2,266	—	2007	12/21/04	40 Years
1350 Dorsey Road	Hanover, MD	Office	1,371	393	1,573	238	2,204	(339)	1989	4/28/99	40 Years
8 Centre Drive	Monroe Township, NJ	Office	1,283	388	1,554	257	2,199	(420)	1986	10/30/98	40 Years
44414 Pecan Court	California, MD	Office	873	405	1,619	—	2,024	(30)	1986	3/24/04	40 Years
1344 Ashton Road	Hanover, MD	Office	1,239	355	1,421	221	1,997	(285)	1989	4/28/99	40 Years
6375 Flank Drive	Harrisburg, PA	Office	1,104	191	1,659	1	1,851	(163)	2000	11/4/99	40 Years
44420 Pecan Court	California, MD	Office	1,115	344	1,374	45	1,763	(6)	1989	11/9/04	40 Years
9150 Guilford Road	Columbia, MD	Office	1,304	319	1,354	29	1,702	(143)	1984	4/4/02	40 Years
1341 Ashton Road	Hanover, MD	Office	1,066	306	1,223	79	1,608	(245)	1989	4/28/99	40 Years
8681 Robert Fulton Drive	Columbia, MD	Office	1,004	998	557	—	1,555	—	(3)	12/30/03	N/A
85 Shannon Road	Harrisburg, PA	Office	827	277	1,109	3	1,389	(150)	1995	8/12/99	40 Years
9130 Guilford Road	Columbia, MD	Office	1,018	230	975	71	1,276	(110)	1984	4/4/02	40 Years
1343 Ashton Road	Hanover, MD	Office	674	193	774	2	969	(110)	1989	4/28/99	40 Years
MOR Montpelier 3 LLC	Laurel, MD	Office	—	558	389	—	947	—	(3)	(4)	N/A
Commerce 2 Building	Harrisburg, PA	Office	—	—	768	—	768	—	(3)	(5)	N/A
Park Center	Chantilly, VA	Office	—	—	666	—	666	—	(3)	7/18/02	N/A
Airport Square XXII	Linthicum, MD	Office	—	630	8	—	638	—	(3)	12/19/01	N/A
COPT Princeton South	Dayton, NJ	Office	—	512	—	—	512	—	(3)	9/29/04	N/A
COPT Pennlyn LLC	Blue Bell, PA	Office	—	401	1	—	402	—	(3)	7/14/04	N/A
1338 Ashton Road	Hanover, MD	Office	35	50	—	40	90	(4)	(3)	4/28/99	N/A
Gateway Exchange III	Columbia, MD	Office	—	—	87	—	87	—	(3)	9/28/00	N/A
Fort Ritchie	Washington County, MD	Mixed Use	—	—	218	—	218	—	(3)	(5)	N/A

Other Developments (6)	Various	Office	—	2	3	(119)	(114)	—	Various	Various	N/A
			\$ 1,019,851	\$ 342,517	\$ 1,272,591	\$ 69,908	\$ 1,685,016	\$ (141,716)			

- (1) Excludes net premiums of \$1,569 and \$1,268 in unsecured notes payable.
(2) Under construction or development at December 31, 2004.
(3) Held for future development at December 31, 2004.
(4) These joint ventures were consolidated effective March 31, 2004 as required under Financial Accounting Standards Board Interpretation 46, as revised in December 2003 ("FIN 46(R)"). See Note 2 to our Consolidated Financial Statements for a discussion of FIN 46(R).
(5) Development in progress in anticipation of acquisition.
(6) Includes intercompany eliminations.

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The following table summarizes our changes in cost of properties for the periods ended December 31, 2004, 2003 and 2002 (in thousands):

	2004	2003	2002
Beginning balance	\$ 1,287,066	\$ 1,127,225	\$ 967,558
Adjustments related to FAS 141 (1)	-	(14,200)	-
Adjusted beginning balance	\$ 1,287,066	1,113,025	\$ 967,558
Property acquisitions	260,023	191,053	145,154
Building and land improvements	117,817	23,684	23,032
Sales	-	(40,696)	(8,519)
Adjustments related to consolidation of joint ventures (2)	20,187	-	-
Adjustments related to acquisition of joint venture	(77)	-	-
Ending balance	\$ 1,685,016	\$ 1,287,066	\$ 1,127,225

The following table summarizes our changes in accumulated depreciation for the same time periods (in thousands):

	2004	2003	2002
Beginning balance	\$ 103,070	\$ 76,095	\$ 51,552
Adjustments related to FAS 141 (1)	-	1,974	-
Adjusted beginning balance	103,070	78,069	51,552
Depreciation expense	38,594	29,730	25,049
Sales	-	(4,729)	(506)
Adjustments related to consolidation of joint ventures (2)	52	-	-
Ending balance	\$ 141,716	\$ 103,070	\$ 76,095

(1) 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. Under SFAS 141, the value associated with acquisitions of real estate is assigned not only to land and building improvements but also to a number of additional components; these components are described in the section entitled "Acquisitions of Real Estate" in Note 3 to the Consolidated Financial Statements. In 2002, 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.

(2) We began consolidating the accounts of several of our real estate joint ventures effective March 31, 2004 as required by FIN 46(R). For a description of our accounting under FIN 46(R), you should refer to Note 2 to our Consolidated Financial Statement

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Report of Independent Registered Public Accounting Firm on
Financial Statement Schedule

To the Board of Directors
of Corporate Office Properties Trust:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated March 16, 2005 appearing in the 2004 Annual Report to Shareholders of Corporate Office Properties Trust (which report, consolidated financial statements and assessment 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 16, 2005

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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 16, 2005

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

Date: March 16, 2005

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:

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jay H. Shidler</u> (Jay H. Shidler)	Chairman of the Board and Trustee	March 16, 2005
<u>/s/ Clay W. Hamlin, III</u> (Clay W. Hamlin, III)	Chief Executive Officer and Trustee	March 16, 2005
<u>/s/ Randall M. Griffin</u> (Randall M. Griffin)	President, Chief Operating Officer and Trustee	March 16, 2005
<u>/s/ Roger A. Waesche, Jr.</u> (Roger A. Waesche, Jr.)	Executive Vice President and Chief Financial Officer	March 16, 2005
<u>/s/ Thomas F. Brady</u> (Thomas F. Brady)	Trustee	March 16, 2005
<u>/s/ Betsy Z. Cohen</u> (Betsy Z. Cohen)	Trustee	March 16, 2005
<u>/s/ Robert L. Denton</u> (Robert L. Denton)	Trustee	March 16, 2005
<u>/s/ Steven D. Kesler</u> (Steven D. Kesler)	Trustee	March 16, 2005
<u>/s/ Kenneth S. Sweet, Jr.</u> (Kenneth S. Sweet, Jr.)	Trustee	March 16, 2005
<u>/s/ Kenneth D. Wethe</u> (Kenneth D. Wethe)	Trustee	March 16, 2005

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement ("Amendment"), is made and entered into as of the 4 day of March, 2005, by and between CORPORATE OFFICE PROPERTIES, L. P. (the "Employer"), CORPORATE OFFICE PROPERTIES TRUST ("COPT") and ROGER A. WAESCHE, JR. (the "Executive").

RECITALS

A. The Executive and the Employer executed an Employment Agreement dated September 12, 2002, providing for the employment of the Executive by the Employer upon the terms and conditions therein stated.

B. Executive acknowledges that he is familiar with the provisions of the Code of Business Conduct and Ethics (the "Code") and agrees that, absent this Amendment, he has been and is bound by the terms of the Code and the requirements set forth therein.

C. In order to clarify this requirement in the Employment Agreement, among other things, the Employer desires to amend paragraph 4(e) of the Employment Agreement ("TERMINATION FOR CAUSE") as set out below.

NOW, THEREFORE, in consideration of Executive's continued employment under the Employment Agreement, and pursuant to paragraph 11(b) of the Employment Agreement, it is covenanted and agreed by and between the parties hereto as follows:

1. AMENDMENT TO PARAGRAPH 4(e). Paragraph 4(e) of the Employment Agreement shall be amended as follows:

(e) TERMINATION FOR CAUSE. The employment of the Executive and this Agreement may be terminated "for cause" as hereinafter defined. Termination "for cause" shall mean the termination of employment on the basis or as a result of (i) a violation by the Executive of any applicable law or regulation respecting the business of the Employer; (ii) the Executive's conviction of a felony or any crime involving moral turpitude; (iii) any act of dishonesty or fraud or the Executive's commission of an act, which in the opinion of the Board of Directors, disqualifies the Executive from serving as an officer or director of the Employer; (iv) the willful or negligent failure of the Executive to perform his duties hereunder, which failure continues for a period of thirty (30) days after written notice thereof is given to the Executive; or (v) a violation of any provision of the Code. In the event the Employer terminates the Executive's employment "for cause" under this Paragraph 4(e), the Executive shall be entitled only to the Base Salary through the date of termination of the Executive's employment and any other benefits otherwise due in accordance with applicable plans, programs, or agreements with the Employer.

2. ENFORCEABILITY. Executive acknowledges and agrees that this Amendment is entered into consistent with and pursuant to paragraph 11(b) of the Employment Agreement.

3. NO OTHER AMENDMENTS. With the exception of paragraph 4(e) of the Employment Agreement, this Amendment does not affect or otherwise supersede any other provisions of the Employment Agreement or otherwise limit its enforceability in any way.

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

"Employer"
CORPORATE OFFICE PROPERTIES L. P.
Maryland limited liability company
By: Corporate Office Properties Trust,
General Partner

"Executive"

By: /s/ Randall M. Griffin

Randall M. Griffin,
President and COO

/s/ Roger A. Waesche, Jr.

Roger A. Waesche, Jr.

CORPORATE OFFICE PROPERTIES TRUST
a Maryland estate investment trust

By: /s/ Randall M. Griffin

Randall M. Griffin
President and COO

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement ("Amendment"), is made and entered into as of the 4 day of March, 2005, by and between CORPORATE DEVELOPMENT SERVICES, LLC (the "Employer"), CORPORATE OFFICE PROPERTIES TRUST ("COPT") and DWIGHT S. TAYLOR (the "Executive").

RECITALS

A. The Executive and the Employer executed an Employment Agreement dated May 13, 2003, providing for the employment of the Executive by the Employer upon the terms and conditions therein stated.

B. Executive acknowledges that he is familiar with the provisions of the Code of Business Conduct and Ethics (the "Code") and agrees that, absent this Amendment, he has been and is bound by the terms of the Code and the requirements set forth therein.

C. In order to clarify this requirement in the Employment Agreement, among other things, the Employer desires to amend paragraph 4(e) of the Employment Agreement ("TERMINATION FOR CAUSE") as set out below.

NOW, THEREFORE, in consideration of Executive's continued employment under the Employment Agreement, and pursuant to paragraph 11(b) of the Employment Agreement, it is covenanted and agreed by and between the parties hereto as follows:

1. AMENDMENT TO PARAGRAPH 4(e). Paragraph 4(e) of the Employment Agreement shall be amended as follows:

(e) TERMINATION FOR CAUSE. The employment of the Executive and this Agreement may be terminated "for cause" as hereinafter defined. Termination "for cause" shall mean the termination of employment on the basis or as a result of (i) a violation by the Executive of any applicable law or regulation respecting the business of the Employer; (ii) the Executive's conviction of a felony or any crime involving moral turpitude; (iii) any act of dishonesty or fraud or the Executive's commission of an act, which in the opinion of the Board of Directors, disqualifies the Executive from serving as an officer or director of the Employer; (iv) the willful or negligent failure of the Executive to perform his duties hereunder, which failure continues for a period of thirty (30) days after written notice thereof is given to the Executive; or (v) a violation of any provision of the Code. In the event the Employer terminates the Executive's employment "for cause" under this Paragraph 4(e), the Executive shall be entitled only to the Base Salary through the date of termination of the Executive's employment and any other benefits otherwise due in accordance with applicable plans, programs, or agreements with the Employer.

2. ENFORCEABILITY. Executive acknowledges and agrees that this Amendment is entered into consistent with and pursuant to paragraph 11(b) of the Employment Agreement.

3. NO OTHER AMENDMENTS. With the exception of paragraph 4(e) of the Employment Agreement, this Amendment does not affect or otherwise supersede any other provisions of the Employment Agreement or otherwise limit its enforceability in any way.

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

"Employer"
CORPORATE DEVELOPMENT SERVICES, LLC,
a Maryland limited liability company

"Executive"

By: /s/ Randall M. Griffin
Randall M. Griffin,
CEO

/s/ Dwight S. Taylor
Dwight S. Taylor

CORPORATE OFFICE PROPERTIES TRUST
a Maryland estate investment trust

By: /s/ Randall M. Griffin
Randall M. Griffin
President and COO

Description of Compensation of Non-Employee Trustees

Each Trustee who is not also an officer and full-time employee of Corporate Office Properties Trust (the “Company”) receives the fees set forth in the table below until changed by the Board of Trustees:

Annual trustee fee	\$	22,000
Annual committee chairman fees		
Audit committee		7,500
Compensation committee		5,000
Investment committee		5,000
Nomination/corporate governance		2,500
Board meeting fees		1,000
Committee meeting fees		1,000

The members of the Board of Trustees are also eligible for reimbursement for travel and lodging expenses incurred in connection with attendance at Board and committee meetings. In addition, until changed by the Board of Trustees, all non-employee Trustees will receive an annual grant of 5,000 options to purchase the Company’s common shares of beneficial interest at an exercise price equal to the fair market value on the date of grant; this grant takes place on the day of the Company’s annual meeting of shareholders. These options vest 100% one year from the date of grant.

Description of annual cash incentive awards to executives

The Compensation Committee of the Board of Trustees (the “Compensation Committee”) of Corporate Office Properties Trust (the “Company”) considers the award of annual cash incentive awards designed to correlate executive compensation to the overall performance of the Company and to the performance of each executive’s specific business unit.

The Compensation Committee establishes target performance levels for the Company in general and for the business units specifically by using two REIT peer groups’ bonus information, along with a summary of the objectives for the Company and its business units. The Committee then establishes annual cash incentive award targets based on different thresholds of performance in meeting the performance levels.

The Committee uses the median bonus level for executive positions in the REIT peer groups as a guideline for determining a Company executive’s target bonus to be awarded if the Company and the executive’s business unit meet target performance levels. Each executive may generally earn up to an established maximum percentage of his or her annual salary if higher-than-target performance levels are achieved, and will generally receive less than the target bonus if the target performance levels are not met, although bonuses could not be paid at all if a defined minimum performance level is not met.

The measures used in defining overall Company performance objectives for determining bonuses are diluted funds from operations per share and diluted adjusted funds from operations per share (both of which are measurements used by equity REITs to evaluate financial performance). The measures used in defining business unit performance are tailored to apply to the nature of each business unit’s operations. The measures used in computing the bonus of the Chief Operating Officer include only overall Company performance measures. The measures used in computing the bonuses of the other executives include overall Company performance measures as well as measures applicable to each executive’s business unit.

The Compensation Committee has the discretion to award higher or lower annual cash incentive awards to executives relative to amounts computed in accordance with the methodology set forth above.

Selected Financial Data

The following table sets forth summary financial data as of and for each of the years ended December 31, 2000 through 2004. The table illustrates the significant growth our Company experienced over the periods reported. Most of this growth, particularly pertaining to revenues, operating income 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, in large part, 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)

	2004	2003	2002	2001	2000
Revenues					
Revenues from real estate operations	\$ 214,573	\$ 174,423	\$ 150,335	\$ 121,663	\$ 105,142
Construction contract and other service operations revenues (1)	28,903	31,740	4,677	4,901	—
Total revenues	243,476	206,163	155,012	126,564	105,142
Expenses					
Property operating	63,053	51,699	43,929	35,413	30,162
Depreciation and other amortization associated with real estate operations	51,904	37,122	30,859	20,405	16,513
Construction contract and other service operations expenses (1)	26,996	30,933	4,981	5,391	—
General and administrative expenses	10,938	7,893	6,697	5,289	4,867
Total operating expenses	152,891	127,647	86,466	66,498	51,542
Operating income	90,585	78,516	68,546	60,066	53,600
Interest expense	(44,263)	(41,079)	(39,065)	(32,297)	(29,786)
Amortization of deferred financing costs	(2,431)	(2,767)	(2,501)	(2,031)	(1,535)
Income from continuing operations before (loss) gain on sales of real estate, equity in loss of unconsolidated entities, income taxes and minority interests	43,891	34,670	26,980	25,738	22,279
(Loss) gain on sales of real estate, excluding discontinued operations (2)	(150)	472	2,564	1,618	107
Equity in loss of unconsolidated entities	(88)	(98)	(402)	(84)	(310)
Income tax (expense) benefit (1)	(795)	169	347	409	—
Income from continuing operations before minority interests	42,858	35,213	29,489	27,681	22,076
Minority interests in income from continuing operations (1)	(5,826)	(6,759)	(7,461)	(8,555)	(7,976)
Income from continuing operations	37,032	28,454	22,028	19,126	14,100
Income from discontinued operations, net of minority interests (3)	—	2,423	1,273	970	1,034
Cumulative effect of accounting change, net of minority interests (4)	—	—	—	(174)	—
Net income	37,032	30,877	23,301	19,922	15,134
Preferred share dividends	(16,329)	(12,003)	(10,134)	(6,857)	(3,802)
Repurchase of preferred units in excess of recorded book value (5)	—	(11,224)	—	—	—
Issuance costs associated with redeemed preferred shares (6)	(1,813)	—	—	—	—
Net income available to common shareholders	\$ 18,890	\$ 7,650	\$ 13,167	\$ 13,065	\$ 11,332
Basic earnings per common share					
Income before discontinued operations and cumulative effect of accounting change	\$ 0.57	\$ 0.20	\$ 0.53	\$ 0.61	\$ 0.55
Net income available to common shareholders	\$ 0.57	\$ 0.29	\$ 0.59	\$ 0.65	\$ 0.60
Diluted earnings per common share					
Income before discontinued operations and cumulative effect of accounting change	\$ 0.54	\$ 0.19	\$ 0.51	\$ 0.60	\$ 0.54
Net income available to common shareholders	\$ 0.54	\$ 0.27	\$ 0.56	\$ 0.63	\$ 0.59
Weighted average common shares outstanding – basic	33,173	26,659	22,472	20,099	18,818
Weighted average common shares outstanding – diluted	34,982	28,021	24,547	21,623	19,213

	2004	2003	2002	2001	2000
Balance Sheet Data (as of period end):					
Investment in real estate	\$ 1,544,501	\$ 1,189,258	\$ 1,042,955	\$ 923,700	\$ 751,587
Total assets	\$ 1,732,026	\$ 1,332,076	\$ 1,138,721	\$ 994,896	\$ 794,837
Mortgage and other loans payable	\$ 1,022,688	\$ 738,698	\$ 705,056	\$ 573,327	\$ 474,349
Total liabilities	\$ 1,111,224	\$ 801,899	\$ 749,338	\$ 626,193	\$ 495,549
Minority interests	\$ 98,878	\$ 79,796	\$ 100,886	\$ 104,782	\$ 105,560
Shareholders' equity	\$ 521,924	\$ 450,381	\$ 288,497	\$ 263,921	\$ 193,728
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	\$ 84,494	\$ 67,783	\$ 62,242	\$ 50,875	\$ 35,026
Investing activities	\$ (263,792)	\$ (172,949)	\$ (128,571)	\$ (155,741)	\$ (73,256)
Financing activities	\$ 183,638	\$ 108,656	\$ 65,680	\$ 106,525	\$ 40,835
Numerator for diluted EPS	\$ 18,911	\$ 7,650	\$ 13,711	\$ 13,573	\$ 11,332
Diluted funds from operations (7)	\$ 76,248	\$ 61,268	\$ 52,854	\$ 43,001	\$ 37,351
Diluted funds from operations per share (7)	\$ 1.74	\$ 1.56	\$ 1.44	\$ 1.28	\$ 1.16
Cash dividends declared per common share	\$ 0.98	\$ 0.91	\$ 0.86	\$ 0.82	\$ 0.78
Property Data (as of period end):					
Number of properties owned (8)	145	119	110	98	83
Total rentable square feet owned (in thousands) (8)	11,978	10,033	8,942	7,801	6,473

(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.

- (2) Reflects (loss) 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."
 - (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) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs of the Series B Preferred Shares of beneficial interest that was recognized upon redemption of the shares.
 - (7) For definitions of diluted funds from operations per share and 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."
 - (8) Amounts reported for December 31, 2004 include two properties totaling 213,261 rentable square feet held through two joint ventures. 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.
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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. We typically focus our operations geographically in select submarkets that are attractive to our tenant base and in which we believe we can establish a critical mass of square footage. At December 31, 2004, all of our properties were located in the Mid-Atlantic region of the United States, although in accordance with our strategy of focusing on submarkets that are attractive to our tenants, we may seek to expand our operations outside of that region. 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 145 as of December 31, 2004, 119 as of December 31, 2003 and 110 as of December 31, 2002. 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 in order to provide large numbers of investors with the ability to make investments into entities that own large scale commercial real estate. One of the unique aspects of a REIT is that the entity typically does not pay corporate income tax, provided that the entity distributes 100% of its REIT taxable income to its shareholders and meets a number of other strict requirements of the Internal Revenue Code of 1986, as amended (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 associated with our operating properties. We also have revenues and expenses associated with our service operations, although since the operating margins from these operations are small relative to the revenue and since the gross revenue and costs often bear little relationship to the level of activity, we use the net of such revenues and expenses to evaluate their performance.

The attributes we look for in selecting submarkets include, among others, (1) proximity to large demand drivers, (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 much of the same-class office space in a number of the submarkets in which we own properties. As of December 31, 2004, our primary 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) St. Mary's & King George Counties (located in Maryland and Virginia, respectively), (5) Greater Philadelphia, Pennsylvania, (6) Greater Harrisburg, Pennsylvania and (7) 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 from real estate operations and property operating expenses. However, since we experienced significant growth in revenues from real estate operations and property operating expenses between 2002 and 2004, our growth in number of properties makes such revenue and expense growth misleading. Therefore, we evaluate the changes in revenues from real estate operations 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 intent that the timing of such maturities 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 our tenants lease a significant portion or all of the space in individual properties, and in some cases these tenants lease space in a number of our properties. We also pursue select acquisition opportunities involving properties in which certain of our existing tenants either lease or wish to lease space. Through this strategy, our goal is to become a preferred landlord for such tenants. As a result of this strategy, a significant portion 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 intelligence and defense industry (comprised of the United States Government and intelligence 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 “Investing and financing activities during the year ended December 31, 2004.” 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. One coverage ratio on which our financing policy focuses is 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). Coverage ratios such as fixed charge coverage ratio 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.

During 2004, we:

- experienced increased revenues, operating expenses and operating income due primarily to the addition of properties through acquisition and construction activities;
- experienced increased revenue from Same-Office Properties of \$6.0 million, or 4%, and increased operating expenses from those properties of \$3.8 million, or 8%;
- finished the year with occupancy for our portfolio of properties at 94.0%;
- renewed 71.4% of the square footage under leases expiring during the year;
- acquired 22 office properties and seven land parcels for \$284.3 million; 50.3% of these acquisition costs represented properties located in Northern Virginia and 17 of these office properties represented our initial entry into the St. Mary’s and King George Counties region;
- placed into service three newly-constructed buildings totaling 300,691 square feet that were 90.3% leased at December 31, 2004;
- sold 5,033,600 common shares in registered underwritten public offerings for net proceeds of approximately \$115.4 million;
- redeemed our Series B Preferred Shares of beneficial interest (the “Series B Preferred Shares”) for a redemption price of \$31.3 million; and
- obtained a new \$300.0 million Revolving Credit Facility which replaced our previous facility.

In this section, we discuss our results of operations for 2004 and 2003 and our financial condition at December 31, 2004. This section includes discussions on, among other things:

- our results of operations and why various components of our Consolidated Statements of Operations changed from 2003 to 2004 and from 2002 to 2003;
- how we raised cash for acquisitions and other capital expenditures during 2004;
- our cash flows during 2004;
- 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 2000 through 2004.

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, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- governmental actions and initiatives; and

- environmental requirements.

We undertake no obligation to update or supplement forward-looking statements.

**Corporate Office Properties Trust and Subsidiaries
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,			
	2004	2003	Variance	% Change	2003	2002	Variance	% Change
Revenues								
Rental revenue	\$ 192,353	\$ 153,048	\$ 39,305	26%	\$ 153,048	\$ 134,421	\$ 18,627	14%
Tenant recoveries and other real estate operations revenue	22,220	21,375	845	4%	21,375	15,914	5,461	34%
Construction contract revenues	25,018	28,865	(3,847)	(13)%	28,865	826	28,039	3395%
Other service operations revenues	3,885	2,875	1,010	35%	2,875	3,851	(976)	(25)%
Total revenues	243,476	206,163	37,313	18%	206,163	155,012	51,151	33%
Expenses								
Property operating	63,053	51,699	11,354	22%	51,699	43,929	7,770	18%
Depreciation and other amortization associated with real estate operations	51,904	37,122	14,782	40%	37,122	30,859	6,263	20%
Construction contract expenses	23,733	27,483	(3,750)	(14)%	27,483	789	26,694	3383%
Other service operations expenses	3,263	3,450	(187)	(5)%	3,450	4,192	(742)	(18)%
General and administrative expense	10,938	7,893	3,045	39%	7,893	6,697	1,196	18%
Total operating expenses	152,891	127,647	25,244	20%	127,647	86,466	41,181	48%
Operating income	90,585	78,516	12,069	15%	78,516	68,546	9,970	15%
Interest expense	(44,263)	(41,079)	(3,184)	8%	(41,079)	(39,065)	(2,014)	5%
Amortization of deferred financing costs	(2,431)	(2,767)	336	(12)%	(2,767)	(2,501)	(266)	11%
(Loss) gain on sales of real estate, excluding discontinued operations	(150)	472	(622)	N/A	472	2,564	(2,092)	(82)%
Equity in loss of unconsolidated entities	(88)	(98)	10	(10)%	(98)	(402)	304	(76)%
Income tax (expense) benefit	(795)	169	(964)	N/A	169	347	(178)	(51)%
Income from continuing operations before minority interests	42,858	35,213	7,645	22%	35,213	29,489	5,724	19%
Minority interests in income from continuing operations	(5,826)	(6,759)	933	(14)%	(6,759)	(7,461)	702	(9)%
Income from discontinued operations, net	—	2,423	(2,423)	(100)%	2,423	1,273	1,150	90%
Net income	37,032	30,877	6,155	20%	30,877	23,301	7,576	33%
Preferred share dividends	(16,329)	(12,003)	(4,326)	36%	(12,003)	(10,134)	(1,869)	18%
Repurchase of preferred units in excess of recorded book value	—	(11,224)	11,224	(100)%	(11,224)	—	(11,224)	N/A
Issuance costs associated with redeemed preferred shares	(1,813)	—	(1,813)	N/A	—	—	—	N/A
Net income available to common shareholders	\$ 18,890	\$ 7,650	\$ 11,240	147%	\$ 7,650	\$ 13,167	\$ (5,517)	(42)%
Basic earnings per common share								
Income before discontinued operations	\$ 0.57	\$ 0.20	\$ 0.37	185%	\$ 0.20	\$ 0.53	\$ (0.33)	(62)%
Net income available to common shareholders	\$ 0.57	\$ 0.29	\$ 0.28	97%	\$ 0.29	\$ 0.59	\$ (0.30)	(51)%
Diluted earnings per common share								
Income before discontinued operations	\$ 0.54	\$ 0.19	\$ 0.35	184%	\$ 0.19	\$ 0.51	\$ (0.32)	(63)%
Net income available to common shareholders	\$ 0.54	\$ 0.27	\$ 0.27	100%	\$ 0.27	\$ 0.56	\$ (0.29)	(52)%

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 three years, the United States economy suffered from an economic slowdown that we believe had an adverse effect 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. In calendar year 2004, leasing activity in many of our regions increased and occupancy improved throughout the year. We expect the increased leasing activity trend in these regions to continue into 2005, which we expect will improve occupancy levels in those regions and in our properties. The table below sets forth certain occupancy and leasing information:

	December 31,		
	2004	2003	2002
Occupancy for portfolio of properties	94.0%	91.2%	93.0%
Average contractual annual rental rate per square foot(1)	\$ 20.32	\$ 20.06	\$ 18.87

(1) Includes estimated expense reimbursements.

We were able to renew 71.4% of the square footage under leases expiring in 2004 and 75.7% of the square footage under leases expiring in 2003. The December 31, 2004 occupancy and leasing information reflected in the table above includes the effects of properties acquired during 2004; these properties were 92.4% occupied as of December 31, 2004. We believe that our leasing activities in many of the submarkets in which our properties are located have benefited from the expansion of the United States intelligence and defense industry since such submarkets are particularly attractive to that industry.

As we discussed above, we observed increased leasing activity in many of our submarkets in 2004. However, 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. Our exposure over the next year is reduced somewhat by the fact that only 9.8% of our annualized rental revenues from leases in place as of December 31, 2004 were from leases scheduled to expire by the end of 2005. Looking longer term, the weighted average lease term for leases in place as of December 31, 2004 was 4.9 years and 61.2% of our annualized rental revenues on leases in place as of December 31, 2004 were from leases scheduled to expire by the end of 2009, with no more than 17% scheduled to expire in any one calendar year between 2005 and 2009.

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.

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 report 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 2003 and 2004, our operating property acquisitions included nine buildings in Northern Virginia, 17 in St. Mary's and King George Counties (located in Maryland and Virginia, respectively), one each in the Baltimore/Washington Corridor and Suburban Maryland regions and one in Northern Baltimore County. We also placed into operations two buildings in the Baltimore/Washington Corridor and one building each in the Northern Virginia and Suburban Maryland regions. The table below sets forth the changes in the regional allocation of our portfolio annualized rental revenue occurring primarily as a result of these acquisition and development activities and changes in leasing activity:

Region	% of Portfolio Annualized Rental Revenue as of December 31,		
	2004	2003	2002
Baltimore/Washington Corridor	48.7%	53.6%	54.4%
Northern Virginia	22.9%	19.8%	11.3%
Northern/Central New Jersey	7.7%	9.5%	11.5%
St. Mary's and King George Counties	4.6%	N/A	N/A
Greater Philadelphia	4.5%	5.7%	6.5%
Harrisburg, Pennsylvania	3.8%	5.1%	6.2%
Suburban Maryland	3.8%	2.9%	6.1%
Other	4.0%	3.4%	4.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We expect that we will continue to focus much of our 2005 acquisition and development activities in the Northern Virginia and Baltimore/Washington Corridor regions. We also expect in 2005 that we will have an increased focus on acquisition and development opportunities outside of our existing regions, typically to meet the anticipated needs of our existing and future tenants.

Concentration of leases with certain tenants

We experienced changes in our tenant base during 2004 due to acquisitions and leasing activity. The following schedule lists our 20 largest tenants based on percentage of portfolio annualized rental revenue:

Tenant	Percentage of Portfolio Annualized Rental Revenue for 20 Largest Tenants as of December 31,	
	2004	2003
United States of America	13.1%	14.8%
Booz Allen Hamilton, Inc.	5.4%	2.6%
Computer Sciences Corporation (1)	5.2%	6.3%
AT&T Corporation (1)	4.2%	5.2%
Titan Corporation (1)	3.9%	1.3%

General Dynamics Corporation	3.7%	3.3%
Northrop Grumman Corporation	3.6%	2.5%
Unisys (2)	3.4%	4.4%
Wachovia Bank	2.3%	N/A
The Aerospace Corporation	2.2%	1.9%
The Boeing Company (1)	1.8%	2.1%
Ciena Corporation	1.4%	2.2%
VeriSign, Inc.	1.4%	5.1%
Commonwealth of Pennsylvania (1)	1.3%	1.5%
PricewaterhouseCoopers LLP	1.3%	N/A
Magellan Health Services, Inc.	1.1%	1.8%
Johns Hopkins University (1)	1.1%	1.3%
Merck & Co., Inc. (2)	1.0%	1.3%
Carefirst, Inc. and Subsidiaries (1)	1.0%	1.2%
BAE Systems	1.0%	N/A
USInternetworking, Inc.	N/A	1.1%
Comcast Corporation	N/A	1.0%
Omniplex World Services	N/A	0.9%
Subtotal of 20 largest tenants	59.4%	61.8%
All remaining tenants	40.6%	38.2%
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.

As noted above, 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 intelligence and defense industry increased each of the last three years. 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 intelligence 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 from United States Intelligence and Defense Industry of December 31,		
	2004	2003	2002
	Total Portfolio	46.8%	39.9%
Baltimore/Washington Corridor	63.4%	57.4%	45.4%
Northern Virginia	50.3%	45.5%	81.8%
St. Mary's and King George Counties	90.6%	N/A	N/A

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 intelligence and 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 2003 and 2004, Same-Office Properties would be properties owned and 100% operational from January 1, 2003 through December 31, 2004. For further discussion of the concept of "operational," you should refer to the section of Note 3 of the Consolidated Financial Statements entitled "Commercial Real Estate Properties."
- 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 that are not reported as discontinued operations. 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 2003 to 2004					Total Dollar Change
	Property Additions Dollar Change (1)	Same-Office Properties		Sold Properties Dollar Change (2)	Other Dollar Change (3)	
		Dollar Change	Percentage Change			
Revenues from real estate operations						
Rental revenue	\$ 34,400	\$ 5,994	4%	\$ (623)	\$ (466)	\$ 39,305
Tenant recoveries and other real estate operations revenue	1,402	26	0%	(89)	(494)	845
Total	\$ 35,802	\$ 6,020	4%	\$ (712)	\$ (960)	\$ 40,150

Property operating expenses	\$ 8,867	\$ 3,806	8%	\$ (320)	\$ (999)	\$ 11,354
Straight-line rental revenue adjustments included in rental revenue	\$ 5,633	\$ (1,882)	N/A	\$ (12)	\$ (1)	\$ 3,738
Amortization of origination value of leases on acquired properties included in rental revenue	\$ (1,131)	\$ 245	N/A	\$ —	\$ —	\$ (886)
Number of operating properties included in component category	35	109	N/A	1	N/A	145

(1) Includes 29 acquired properties and six newly-constructed properties.

(2) Includes sold operating properties that are not reported as discontinued operations.

(3) Includes, among other things, the effects of amounts eliminated in consolidation. Certain amounts eliminated in consolidation are attributable to the Property Additions and Same-Office Properties.

	Changes from 2002 to 2003					
	Property Additions Dollar Change (1)	Same-Office Properties Dollar Change	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 real estate operations 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 eight newly-constructed properties.

(2) 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 offset somewhat by property vacancies and the slow lease-up of newly-constructed buildings, conditions that we believe were attributable to the economic slowdown. The increase in rental revenue of the Property Additions from 2003 to 2004 includes \$5.3 million that was attributable to net revenue from the early termination of leases; most of this increase was attributable to one lease termination transaction. To explain further the concept of net revenue from the early termination of leases, 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).

Rental revenue reported herein included net revenue from the early termination of leases of \$9.9 million for 2004, \$4.7 million for 2003 and \$6.2 million for 2002. While early lease terminations are not unusual and can be unpredictable, we believe that the revenue we recognized from such terminations in 2004 was higher than we can expect to recognize in future years.

The increase in rental revenue from the Same-Office Properties from 2003 to 2004 was attributable primarily to an increase in occupancy and rental rates between the two periods, including \$2.8 million relating to one property.

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

- decrease of \$2.3 million in net revenue from the early termination of leases; and
- increase of \$965,000 in connection with three properties that experienced significant changes in occupancy between the two periods.

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 increase in the Same-Office Properties' property operating expenses from 2003 to 2004 included the following:

- increase of \$1.7 million, or 42.1%, in property labor costs due primarily to an increase in billable rates of repair and maintenance employees as well as higher than normal hours during the earlier portion of 2004 for projects undertaken at certain properties; \$609,000 of this increase was attributable to a building that was staffed with employees throughout 2004 but not staffed for most of 2003. Since the increase in billable rates of repairs and maintenance employees contributed to additional profit in our service operations prior to eliminations recorded in consolidation, a significant portion of the increase in our property labor costs was eliminated in consolidation;
- increase of \$819,000, or 12.8%, in cleaning expenses due primarily to cleaning costs required in the current period at properties that had increased occupancy over the prior period;
- increase of \$661,000, or 54.8%, in general administrative costs allocable to property operations due primarily to an increase in asset management and legal staffing over the prior period;
- increase of \$574,000, or 5.9%, in real estate taxes due primarily to an increase in the assessed value of many of our properties. This increasing trend was present across all of our regions. While we continue to monitor the reasonableness of the increase in the assessed value of our properties in determining whether appeals are necessary, we expect that this increasing trend will continue. We also expect that the rates used by state and local municipalities to assess real estate taxes on our properties may increase in the future in response to budgetary shortfalls in those municipalities;

- increase of \$410,000, or 17.7%, in heating and air conditioning repairs and maintenance, most of which was attributable to a project undertaken at one of our buildings; a tenant in this building was reimbursing us for these costs through its tenant recovery billings;
- decrease of \$1.2 million, or 49.2%, in snow removal due to higher snowfall in the prior period; and
- decrease of \$424,000, or 85.4%, in expense associated with doubtful or uncollectible receivables. Most of this decrease was attributable to a large expense associated with two tenants in the prior period coupled with much lower expense in the current period.

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.

Construction contract and other service revenues and expenses

	Changes from 2003 to 2004			Changes from 2002 to 2003		
	Construction contract dollar change	Other service operations dollar change	Total dollar change	Construction contract dollar change	Other service operations dollar change	Total dollar change
Service operations						
Revenues	\$ (3,847)	\$ 1,010	\$ (2,837)	\$ 28,039	\$ (976)	\$ 27,063
Expenses	(3,750)	(187)	(3,937)	26,694	(742)	25,952
Income from service operations	<u>\$ (97)</u>	<u>\$ 1,197</u>	<u>\$ 1,100</u>	<u>\$ 1,345</u>	<u>\$ (234)</u>	<u>\$ 1,111</u>

The increase in income from other service operations from 2003 to 2004 can be attributed primarily to a \$662,000 increase in income from the heating and air conditioning services and controls division. The improvement in income from the heating and air conditioning services and controls division was attributable primarily to increased time and materials billing activity from its service contract and controls product lines. Much of this activity was attributable to several large contracts; once these contracts are complete, additional contracts will need to be obtained to continue to maintain the activity level. As a result, there is a high level of uncertainty over whether the improvement in income from the division is a trend that will continue.

The increase in income from construction contracts from 2002 to 2003 reflects the significant increase in volume of services and the change in profit margins associated with certain of these contracts. The division's \$1.4 million gross profit included \$1.0 million 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.

Depreciation and amortization

Of the \$14.8 million increase in our depreciation and other amortization expense from 2003 to 2004, \$13.4 million was attributable to the Property Additions, which included \$3.2 million recorded in connection with one lease termination transaction. 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.

General and administrative expenses

General and administrative expenses increased \$3.0 million, or 39%, from 2003 to 2004. This increase included the following:

- an increase of \$1.7 million in compensation expense due primarily to additional employee positions, increased expenses associated with share based compensation and increased salaries for existing employees;
- an increase of \$641,000 in consulting expense which included, among other things, our Sarbanes-Oxley Section 404 preparation and increased external audit fees relating thereto;
- an increase of \$175,000 for marketing and investor relations activity due to an increase in such activity; and
- an increase of \$121,000 in trustees' and officers' insurance costs due to additional coverage and higher rates.

General and administrative expenses increased \$1.2 million, or 18%, from 2002 to 2003, which included an increase of \$709,000 associated with common share awards to employees due primarily to more of these awards vesting in 2003.

Interest expense and amortization of deferred financing costs

Our interest expense and amortization of deferred financing costs increased 6.5% from 2003 to 2004 due primarily to an 18% increase in our average outstanding debt balance resulting from our 2003 and 2004 acquisition and development activities, offset by the effects of (1) an increase in the amount of interest capitalized to construction and development projects due to increased construction and pre-construction activity and (2) a decrease in our weighted average interest rates from 5.9% to 5.7%. 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%. Interest rates available from lenders on fixed and variable-rate loans decreased from 2002 through early

2004. 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, 2004, 72.2% of our mortgage and other loans payable balance carried fixed interest rates and 94.9% of our fixed-rate loans were scheduled to mature after 2005; for a more comprehensive presentation of our fixed-rate loan maturities, please refer to the section entitled "Quantitative and Qualitative Disclosures About Market Risk."

(Loss) gain on sales of real estate, excluding sales classified as discontinued operations

In 2004, we recognized a \$245,000 decrease to a gain recognized on a prior-year disposition of an investment in a real estate joint venture as a result in a change in the settlement negotiated between our joint venture partner and us. 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 all three years presented also includes amortized gain from a building sale that occurred in 2002.

We generally do not acquire properties with the intent of selling them. We generally attempt to sell a property when we believe that most of the earnings growth potential in that property has been realized or determine that the property no longer fits within our 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 in income from continuing operations" on our Consolidated Statements of Operations includes primarily income before minority interests and discontinued operations 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, 2004, we owned 95% of the outstanding preferred units and approximately 80% of the outstanding common units. Changes in the percentage of the Operating Partnership owned by minority interests during the last three years included the following:

- the issuance of additional units to us as we issued new preferred shares and common shares during 2002 through 2004 due to the fact that we receive preferred units and common units in the Operating Partnership each time we issue preferred shares and common shares;
- the exchange of common units for our common shares by certain minority interest holders of common units;
- our repurchase of the Series C Preferred Units from third parties in June 2003 (as discussed in the section below entitled "Adjustments to net income to arrive at net income available to common shareholders");
- the conversion of the Series D Preferred Shares of beneficial interest (the "Series D Preferred Shares")(as discussed in Note 11 to the Consolidated Financial Statements);
- our redemption of the Series B Preferred Shares in July 2004 (as discussed in Note 11 to the Consolidated Financial Statements); and
- our issuance of the Series I Preferred Units to a third party in September 2004 (as discussed in Note 3 to the Consolidated Financial Statements).

Our income allocated to minority interest holders of preferred units decreased due to our repurchase of the Series C Preferred Units, offset slightly by the issuance of the Series I 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; and
- increase due to an increase in the Operating Partnership's income from continuing operations before minority interests.

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 included 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. On February 11, 2004, the holder of our Series D Preferred Shares exercised its right to cause us to convert the shares into 1,196,800 common shares. Preferred share dividends increased due to the dividend requirements of the two new series of preferred shares issued in 2003. This increase was offset somewhat by the decrease caused by the redemption of the Series B Preferred Shares and conversion of the Series D Preferred Shares in 2004.

During 2004, we recognized a \$1.8 million decrease to net income available to common shareholders pertaining to the original issuance costs incurred on the Series B Preferred Shares. We redeemed these shares in July 2004 for a redemption price of \$31.3 million.

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.

Diluted earnings per common share

Diluted earnings per common share on net income available to common shareholders increased from 2003 to 2004 due primarily to the \$11.2 million decrease to net income available to common shareholders in 2003 representing the excess of the repurchase price of the Series C Preferred Units over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder. This increase was offset somewhat by the issuance costs associated with the redeemed Series B Preferred Shares and the increased common shares outstanding due to common share issuances in 2003 and 2004. 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.

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 may not be the only ones that we face.

Cash and cash equivalents

Our cash and cash equivalents balance as of December 31, 2004 totaled \$13.8 million, an increase of 46% from the balance as of December 31, 2003. 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, 2004 ranged from \$6.3 million to \$13.8 million and averaged \$10.0 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 acquisition and 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 (defined as the sum of (1) rental revenue and (2) tenant recoveries and other real estate operations revenue) 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 \$16.7 million, or 25%, from 2003 to 2004; this increase is attributable primarily to the additional cash flow from operations generated by our newly-acquired and newly-constructed properties. 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, interest expense, scheduled principal amortization of mortgage loans, 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 tenant improvement and leasing 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. 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 currently 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. While we may in the future pursue selective acquisitions outside of the Mid-Atlantic region, we expect to continue to have a geographic concentration in that region. 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 economic slowdown in the United States over the last three years 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 may affect us further as we attempt to lease vacant space and renew leases scheduled to expire on occupied space. As a result, 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 negatively 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 2005. 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 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, 2004

During 2004, we acquired 22 office properties totaling 1.6 million square feet and seven parcels of land for \$284.3 million. These acquisitions were financed using the following:

- \$160.3 million from borrowings of new and assumed mortgage loans;

- \$104.3 million in borrowings from our Revolving Credit Facility;
- \$8.8 million from preferred units in the Operating Partnership issued;
- \$4.0 million from common share sale proceeds; and
- cash reserves for the balance.

During 2004, we placed into service three newly-constructed buildings totaling 300,691 square feet. These buildings were 90.3% leased at December 31, 2004. Costs incurred on these properties through December 31, 2004 totaled \$54.9 million, \$32.3 million of which was incurred in 2004. We financed the 2004 costs using \$8.9 million in borrowings under construction loan facilities and most of the balance using borrowings under our Revolving Credit Facility.

At December 31, 2004, we had construction activities underway on seven office properties totaling 907,119 square feet that were 36.5% pre-leased. Costs incurred on these properties through December 31, 2004 totaled \$67.8 million, of which \$48.5 million were incurred in 2004. We have construction loan facilities in place totaling \$63.0 million to finance the construction of three of these properties; borrowings under these facilities totaled \$23.3 million at December 31, 2004. 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 2004 additions to investment in real estate, excluding additions related to the consolidation of real estate joint ventures in connection with our adoption of FIN 46(R), which is described below (in thousands):

Acquisitions (1)	\$ 260,023
Construction and development	93,401
Tenant improvements on operating properties (2)	14,067
Capital improvements on operating properties	10,349
	<u>\$ 377,840</u>

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

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

Our investment in unconsolidated real estate joint ventures decreased \$4.1 million due to our consolidation as of March 31, 2004 of Gateway 70 LLC, MOR Forbes 2 LLC and MOR Montpelier 3 LLC in conjunction with our adoption of Financial Accounting Standards Board's Interpretation No. 46(R), "Consolidation of Variable Interest

Entities" ("FIN 46(R)") for those joint venture investments. For additional information regarding our investments in unconsolidated real estate joint ventures, refer to the section below entitled "Off-Balance Sheet Arrangements" and Note 5 to our Consolidated Financial Statements.

On March 10, 2004, we obtained a new Revolving Credit Facility with a number of lenders led by Wachovia Bank, National Association. We used proceeds from our initial borrowing under this facility to (1) repay the \$27.8 million balance that was outstanding under our since-terminated Revolving Credit Facility with Bankers Trust Company and (2) refinance \$95.2 million in other mortgage loans.

During 2004, we borrowed \$307.7 million under mortgages and other loans, excluding our Revolving Credit Facility; the proceeds from these borrowings were used as follows:

- \$160.3 million to finance acquisitions;
- \$64.0 million to pay down our Revolving Credit Facility;
- \$43.5 million to refinance existing debt;
- \$28.9 million to finance construction activities; and
- the balance to fund cash reserves.

On April 23, 2004, we sold 2,750,000 common shares in a registered underwritten public offering at a net price of \$21.243 per share. We contributed the net proceeds totaling \$58.2 million to our Operating Partnership in exchange for 2,750,000 common units. We initially used the proceeds to pay down our Revolving Credit Facility. We re-borrowed most of the amount by which the Revolving Credit Facility was paid down to (1) prepay a \$26.0 million mortgage in June 2004 and (2) redeem for \$31.3 million our Series B Preferred Shares in July 2004.

On September 28, 2004, we sold 2,283,600 common shares in a registered underwritten public offering at a net price of \$25.10 per share. We contributed the net proceeds totaling \$57.2 million to our Operating Partnership in exchange for 2,283,600 common units. The proceeds were used 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 \$90.8 million from 2003 to 2004. This increase was due primarily to the following:

- \$55.1 million increase in purchases of and additions to commercial real estate; this increase is due primarily to an increase in property acquisitions. Our ability to locate and complete acquisitions is dependent on numerous variables and, as a result, is inherently subject to significant fluctuation from period to period. While we expect to continue to acquire properties in the future, we are unable to predict whether the increasing acquisition volume is a trend that will continue; and
- \$40.2 million decrease in proceeds from sales of properties. We generally do not acquire properties with the intent of selling them. We generally attempt to sell a property when we believe that most of the earnings growth potential in that property has been realized, or determine that the property no longer fits within our 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 are subject to material fluctuation from period to period and, therefore, we do not believe that the change described above is necessarily indicative of a trend.

Our cash flow provided by financing activities increased \$75.0 million from 2003 to 2004. This increase included the following:

- \$302.9 million increase in proceeds from mortgage and other loans payable; this increase is due primarily to the following:
 - borrowings under our new Revolving Credit Facility that were used to fund our loan refinancings and repayment of the since terminated Revolving Credit Facility with Bankers Trust Company and property acquisitions; and
 - borrowing under a \$115.0 million loan with Teachers Insurance and Annuity Association of America ("TIAA") that was used primarily to pay down the Revolving Credit Facility and refinance other existing debt.
- \$150.5 million increase in repayments of mortgage and other loans payable; this increase is attributable primarily to the additional repayments of existing loans using borrowings under our new Revolving Credit Facility and the new loan with TIAA described above;
- \$60.5 million decrease in common and preferred shares issuances completed;

- \$35.6 million in cash used to repurchase the Series C Preferred Units in the Operating Partnership in 2003; this occurred as a result of a specific transaction that will not recur on an ongoing basis;
- \$31.3 million in cash used to redeem the Series B Preferred Shares in 2004. We may use cash in the future to redeem outstanding series of preferred shares once they become redeemable. None of our preferred shares are redeemable before July 2006; and
- \$12.1 million increase in dividends and distributions paid due to (1) the increase of common and preferred shares outstanding following share issuances in the last nine months of 2003 and the first nine months of 2004, net of the decrease in preferred shares outstanding relating to the redemption of the Series B Preferred Shares and the conversion of the Series D Preferred Shares and (2) an increased dividend rate on common shares and common units.

Off-Balance Sheet arrangements

Some of our real estate investments are owned through joint ventures. We use joint ventures from time to time for reasons that 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 2004 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 2004, we were invested in three of these joint ventures; we accounted for these investments using the equity method of accounting until March 31, 2004, at which point we began to use the consolidation method of accounting in connection with our adoption of FIN 46(R) (see Note 2 to the Consolidated Financial Statements). These joint ventures enable us to make use of the expertise of our partner; 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 if defined events were to occur. The amount we would be required 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 \$2.1 million; however, since the determination of this amount is dependent on the operations of the office properties and none of these properties are both completed and occupied, this estimate is preliminary and could be materially different from the actual obligation.
- Construction joint ventures managed by us (the “Internally-Managed JV”). During 2004, we had one investment in an Internally-Managed JV until we acquired for \$4.9 million the interest of our joint venture partner on September 10, 2004. We accounted for this investment using the financing method of accounting until March 31, 2004, at which point we began to use the consolidation method of accounting in connection with our adoption of FIN 46(R) (see Note 2 to the Consolidated Financial Statements). Our partner in the project owned a majority of the joint venture and we served as the project manager. The primary purpose behind the use of the joint venture was to enable us to leverage most of the equity requirements and reduce the construction and development risk to us. We served as the sole guarantor for repayment of the construction loan for the project. We also earned construction, property management and guaranty fees from the joint venture. The Internally-Managed JV in which we invested during 2004 had 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 the existing construction loan, although no such additional investments were ultimately required.
- Operating joint ventures to which we contribute an office property to partially dispose of our interest (the “Disposition JV”). During 2004, we owned one investment in a Disposition JV to which we previously contributed an office property 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 for the period of time that such joint ventures were not consolidated (in thousands):

Category of Real Estate Joint Venture	Investment Balances at 12/31/04	Net cash outflow to Category in 2004	Loss from Category in 2004	Fees Earned from Category in 2004 (1)	Balance of Debt Guaranteed by Us at 12/31/2004 (2)	Obligation to Unilaterally Fund Additional Project Costs (if necessary)(3)
Externally-Managed JVs	\$ —	\$ (515)	\$ (88)	\$ —	\$ —	\$ —
Disposition JV	1,201	(146)	—	183	—	420
Internally-Managed JVs	—	—	—	36	—	—
	<u>\$ 1,201</u>	<u>\$ (661)</u>	<u>\$ (88)</u>	<u>\$ 219</u>	<u>\$ —</u>	<u>\$ 420</u>

(1) Fees earned by us for construction, asset management and property management services provided to joint ventures.

(2) Excludes debt guaranteed by us for an externally-managed JV that is accounted for using the consolidation method of accounting.

(3) 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. 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.

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

On April 26, 2004, we sold for \$9.6 million a land parcel in Columbia, Maryland and a land parcel in Linthicum, Maryland. We issued to the buyer a \$5.6 million mortgage loan bearing interest at 5.5% and a maturity date of July 2005; the balance of the acquisition was in the form of cash from the buyer. Upon completion of the sale, we entered into an agreement with the buyer to lease the land parcels for an aggregate monthly payment of \$10,000 from July 1, 2004 until April 30, 2005, at which time the rent reduces to \$1,000 per month until 2079. The buyer in this transaction had an option to contribute the two land parcels into our Operating Partnership between January 1, 2005 and February 28, 2005 in exchange for extinguishment of the \$5.6 million mortgage loan with us and \$4.0 million in common units in our Operating Partnership; the buyer in the transaction exercised its option in February 2005 and, as a result, the debt from us will be extinguished and it will receive 154,440 units in the Operating Partnership in March 2005. We accounted for this transaction using the financing method of accounting; as a result, the transaction was not recorded as a sale and the \$4.0 million in net proceeds received from the buyer is included in other liabilities on our consolidated balance sheet as of December 31, 2004.

We had no other material off-balance sheet arrangements during 2004.

Analysis of indebtedness

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 Revolving Credit Facility from the beginning of the periods reported herein until March 10, 2004 was with Bankers Trust Company. However, on March 10, 2004, we obtained a new Revolving Credit Facility with a group of lenders headed by Wachovia Bank, National Association. The maximum principal under the new Revolving Credit Facility with Wachovia Bank, National Association is \$300.0 million, with amounts available generally being computed based on 60% of the unencumbered asset pool value. Based on assets encumbered, the full \$300.0 million was available as of March 15, 2005, \$63.4 million of which was unused.

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, 2004, we were in compliance with these financial covenants.

Contractual obligations

The following table summarizes our contractual obligations as of December 31, 2004 (in thousands):

	For the Years Ended December 31,				Total
	2005	2006 to 2007	2008 to 2009	Thereafter	
Contractual obligations (1)(2)					
Mortgage loans payable (3)	\$ 60,026	\$ 428,139	\$ 215,772	\$ 317,182	\$ 1,021,119
Acquisitions of properties (4)	9,816	2,000	—	4,000	15,816
New construction and development contracts and obligations (5)(6)	54,711	—	—	—	54,711
Third-party construction and development contracts (6)(7)	56,723	—	—	—	56,723
Capital expenditures for operating properties (6)(8)	10,523	—	—	—	10,523
Operating leases (9)	1,006	897	191	837	2,931
Capital lease obligations (9)	18	—	—	—	18
Other purchase obligations (9)	687	1,045	835	1,822	4,389
Total contractual cash obligations	\$ 193,510	\$ 432,081	\$ 216,798	\$ 323,841	\$ 1,166,230

- (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) 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.
- (3) Represents principal maturities only and therefore excludes net premiums and discounts of \$1.6 million. Our loan maturities in 2005 include \$41.5 million that we expect to refinance; the balance of the 2005 maturities represent scheduled principal amortization payments that we expect to pay using cash flow from operations.
- (4) Represents contractual obligations at December 31, 2004 to purchase a land parcel in Linthicum, Maryland and a leasehold interest in a property located in Washington County, Maryland. We expect to acquire these properties in 2005 using borrowings under the Revolving Credit Facility. A \$4.0 million final payment of the acquisition cost of the leasehold interest included in the "Thereafter" column could be reduced by a range of \$750,000 to the full \$4.0 million; the amount of such decrease will be determined based on defined levels of job creation resulting from the future development of the property taking place.
- (5) Represents contractual obligations pertaining to new construction and development activities. We expect to finance these costs primarily using proceeds from our Revolving Credit Facility and construction loans.
- (6) Because of the long-term nature of certain construction and development contracts, some of these costs will be incurred beyond 2005.
- (7) 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.
- (8) Represents contractual obligations pertaining to capital expenditures for our operating properties. We expect to finance all of these costs using cash flow from operations.
- (9) We expect to pay these items using cash flow from operations.

Investing and financing activity subsequent to December 31, 2004

On January 27, 2005, we purchased a 19-acre land parcel located in Chantilly, Virginia adjacent to a property that we already own. The purchase price of \$7.1 million was financed using borrowings from our Revolving Credit Facility.

Other future cash requirements for investing and financing activities

As previously discussed, as of December 31, 2004, we had construction activities underway on seven office properties totaling 907,119 square feet that were 36.5% pre-leased. We estimate remaining costs to be incurred will total approximately \$89.8 million upon completion of these properties, most of which we expect to incur in 2005. We have \$39.7 million remaining to be borrowed under a \$63.0 million construction loan facility for three of the properties; we expect to fund most of the remaining costs for these activities using proceeds from new construction loan facilities.

As of December 31, 2004, we had pre-construction activities underway on four office properties estimated to total 536,607 square feet. We estimate that costs for these properties will total approximately \$99.2 million. As of December 31, 2004, costs incurred on these properties totaled \$18.9 million and the balance is expected to be incurred in 2005 and 2006. We expect to fund most of these costs using borrowings from new construction loan facilities.

During 2005 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 borrowings from new loans, borrowings under our Revolving Credit Facility and additional equity issuances of common and/or preferred shares.

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 many 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.
- We may from time to time pursue selective acquisitions outside of the Mid-Atlantic region, expanding into regions where we do not currently have properties. These acquisitions may entail risks in addition to those we have faced in past acquisitions, such as the risk that we do not correctly anticipate conditions or trends in a new region, and are therefore not able to operate the acquired property profitably. If this occurred, it could adversely affect our financial performance and our ability to make distributions to our shareholders.
- 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.
- Real estate investments can be 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 by agreements with the sellers of the properties 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

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.

Management change subsequent to December 31, 2004

On February 24, 2005, the following events took place:

- Clay W. Hamlin, III, our Chief Executive Officer, retired effective April 1, 2005. Mr. Hamlin will remain on the Board of Trustees, of which he was appointed Vice Chairman effective April 1, 2005. He will also enter into a three-year consulting agreement with us effective April 1, 2005 to assist with acquisitions and strategic initiatives; and
- Randall M. Griffin, our current President and Chief Operating Officer, was appointed to the position of President and Chief Executive Officer effective April 1, 2005. Mr. Griffin was also elected as a Class I Trustee of our Board of Trustees effective February 24, 2005. The terms of our Class I Trustees will expire upon the election of their successors at our next annual shareholder meeting, to be held on May 19, 2005 (the "2005 Annual Meeting"). Mr. Griffin was nominated to stand for re-election at that time.

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 that it will take to lease vacant space and estimated tenant improvement and 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 among 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 events or circumstances indicate that a property may be impaired, we perform an undiscounted cash flow analysis. We consider an asset to be impaired when its undiscounted expected future cash flows are less than its depreciated cost. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. We compute a real estate asset's undiscounted expected future cash flows and fair value using certain estimates and assumptions. As a result, these estimates and assumptions impact whether an impairment is deemed to have occurred and 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 management and investors as a supplemental measure of operating performance because, by excluding gains and losses related to sales of previously depreciated operating real estate properties and excluding real estate-related depreciation and amortization, FFO can help one compare our operating performance between periods. 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. We believe that net income is the most directly comparable GAAP measure to FFO.

Since FFO excludes certain items includable in net income, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non GAAP measures. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. 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.

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. Basic FFO has essentially the same limitations as FFO; management compensates for these limitations in essentially the same manner as described above for 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 FFO per share has most of the same limitations as Diluted FFO (described below); management compensates for these limitations in essentially the same manner as described below for Diluted FFO.

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 EPS is the most directly comparable GAAP measure to Diluted FFO. Since Diluted FFO excludes certain items includable in the numerator to diluted EPS, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non-GAAP measures. Diluted FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service. The Diluted FFO that we present may not be comparable to the Diluted FFO presented by other REITs.

Our Basic FFO, Diluted FFO per share and Diluted FFO for 2000 through 2004 and reconciliations of (1) net income to FFO, (2) the numerator for diluted EPS to diluted FFO and (3) the denominator for diluted EPS to the denominator for diluted FFO per share are set forth in the following table (dollars and shares in thousands, except per share data):

	For the Years Ended December 31,				
	(Dollars and shares in thousands, except per share data)				
	2004	2003	2002	2001	2000
Net income	\$ 37,032	\$ 30,877	\$ 23,301	\$ 19,922	\$ 15,134
Add: Real estate-related depreciation and amortization	51,371	36,681	30,832	20,558	16,887
Add: Depreciation and amortization on unconsolidated real estate entities	106	295	165	144	—
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(86)	—	—	—	—
Less: Gain on sales of real estate, excluding development and redevelopment portion (1)	(95)	(2,897)	(268)	(416)	(107)
Less: Issuance costs associated with redeemed preferred shares	(1,813)	—	—	—	—
Add: Cumulative effect of accounting change	—	—	—	263	—
FFO	86,515	64,956	54,030	40,471	31,914
Add: Minority interests-common units in the Operating Partnership	5,659	6,712	5,800	6,592	6,322
Less: Preferred share dividends	(16,329)	(12,003)	(10,134)	(6,857)	(3,802)
Basic FFO	75,845	59,665	49,696	40,206	34,434
Add: Preferred unit distributions	—	1,049	2,287	2,287	2,240
Add: Convertible preferred share dividends	21	544	544	508	677
Add: Restricted common share dividends	382	—	283	—	—
Expense associated with dilutive options	—	10	44	—	—
Diluted FFO	\$ 76,248	\$ 61,268	\$ 52,854	\$ 43,001	\$ 37,351
Weighted average common shares	33,173	26,659	22,472	20,099	18,818
Conversion of weighted average common units	8,726	8,932	9,282	9,437	9,652
Weighted average common shares/units - basic FFO	41,899	35,591	31,754	29,536	28,470
Assumed conversion of weighted average convertible preferred units	—	1,101	2,421	2,421	2,371
Assumed conversion of share options	1,675	1,405	936	406	164
Assumed conversion of weighted average convertible preferred shares	134	1,197	1,197	1,118	918
Assumed conversion of common unit warrants	—	—	—	—	231
Restricted common shares	221	—	326	—	—
Weighted average common shares/units - diluted FFO	43,929	39,294	36,634	33,481	32,154
Diluted FFO per share	\$ 1.74	\$ 1.56	\$ 1.44	\$ 1.28	\$ 1.16
Numerator for diluted EPS	\$ 18,911	\$ 7,650	\$ 13,711	\$ 13,573	\$ 11,332
Add: Minority interests-common units in the Operating Partnership	5,659	6,712	5,800	6,592	6,322
Add: Real estate-related depreciation and amortization	51,371	36,681	30,832	20,558	16,887
Add: Depreciation and amortization on unconsolidated real estate entities	106	295	165	144	—
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(86)	—	—	—	—
Less: Gain on sales of real estate, excluding development and redevelopment portion (1)	(95)	(2,897)	(268)	(416)	(107)
Add: Convertible preferred share dividends	—	544	—	—	677
Add: Preferred unit distributions	—	1,049	2,287	2,287	2,240
Add: Expense associated with dilutive options	—	10	44	—	—
Add: Restricted common share dividends	382	—	283	—	—
Add: Repurchase of Series C Preferred Units in excess of recorded book value	—	11,224	—	—	—
Add: Cumulative effect of accounting change	—	—	—	263	—
Diluted FFO	\$ 76,248	\$ 61,268	\$ 52,854	\$ 43,001	\$ 37,351
Denominator for diluted EPS	34,982	28,021	24,547	21,623	19,213
Weighted average common units	8,726	8,932	9,282	9,437	9,652
Assumed conversion of weighted average convertible preferred shares	—	1,197	—	—	918
Assumed conversion of weighted average convertible preferred units	—	1,101	2,421	2,421	2,371
Restricted common shares	221	—	326	—	—
Additional dilutive options	—	43	58	—	—
Denominator for Diluted FFO per share	43,929	39,294	36,634	33,481	32,154

(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.

Inflation

Our operations 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.

Our costs associated with constructing buildings and completing renovation and tenant improvement work increased due to higher cost of materials. We expect to recover a portion of these costs through higher tenant rents and reimbursements for tenant improvements. The additional costs that we do not recover increase depreciation expense as projects are completed and placed into service.

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, 2004, 72.2% of our mortgage and other loans payable balance carried fixed interest rates and 94.9% of our fixed-rate loans were scheduled to mature after 2005. As of December 31, 2004, the percentage of variable-rate loans relative to total assets was 16.4%.

The following table sets forth our long-term debt obligations, principal cash flows by scheduled maturity and weighted average interest rates at December 31, 2004 (dollars in thousands):

	For the Years Ended December 31,							Total
	2005	2006	2007 (1)	2008	2009	Thereafter		
Long term debt:								
Fixed rate (2)	\$ 37,418	\$ 78,904	\$ 87,803	\$ 155,003	\$ 60,769	\$ 317,182	\$ 737,079	
Average interest rate	6.26%	6.58%	6.63%	6.76%	6.16%	5.71%	6.14%	
Variable rate	\$ 22,608	\$ —	\$ 261,432	\$ —	\$ —	\$ —	\$ 284,040	
Average interest rate	4.13%	—	3.67%	—	—	—	4.00%	

(1) Includes maturities totaling \$261.4 million that may be extended for a one-year period, subject to certain conditions.

(2) Represents principal maturities only and therefore excludes net premiums and discounts of \$1.6 million.

The fair market value of our mortgage and other loans payable was \$1.04 billion at December 31, 2004 and \$771.4 million at December 31, 2003.

The following table sets forth information pertaining to our derivative contract in place as of December 31, 2004 and its fair value:

Nature of Derivative	Notional Amount (in millions)	One-Month LIBOR base	Effective Date	Expiration Date	Fair value on December 31, 2004 (in thousands)
Interest rate swap	\$ 50.0	2.308%	1/2/03	1/3/05	\$ —

Based on our variable-rate debt balances, our interest expense would have increased by \$2.0 million in 2004 and \$1.4 million in 2003 if short-term interest rates were 1% higher. Interest expense in 2004 was more sensitive to a change in interest rates than 2003 due to a higher average variable-rate debt balance in 2004.

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, 2004	December 31, 2003
Assets		
Investment in real estate:		
Operating properties, net	\$ 1,407,148	\$ 1,116,847
Projects under construction or development	136,152	67,149
Total commercial real estate properties, net	1,543,300	1,183,996
Investments in and advances to unconsolidated real estate joint ventures	1,201	5,262
Investment in real estate, net	1,544,501	1,189,258
Cash and cash equivalents	13,821	9,481
Restricted cash	12,617	11,030
Accounts receivable, net	16,771	13,047
Investments in and advances to other unconsolidated entities	1,621	1,621
Deferred rent receivable	26,282	17,903
Intangible assets on real estate acquisitions, net	67,560	55,692
Deferred charges, net	27,642	17,723
Prepaid and other assets	18,646	14,311
Furniture, fixtures and equipment, net	2,565	2,010
Total assets	\$ 1,732,026	\$ 1,332,076
Liabilities and shareholders' equity		
Liabilities:		
Mortgage and other loans payable	\$ 1,022,688	\$ 738,698
Accounts payable and accrued expenses	46,307	23,126
Rents received in advance and security deposits	12,781	10,112
Dividends and distributions payable	14,713	12,098
Deferred revenue associated with acquired operating leases	7,247	9,630
Fair value of derivatives	—	467
Other liabilities	7,488	7,768

Total liabilities	1,111,224	801,899
Minority interests:		
Common units in the Operating Partnership	88,355	79,796
Preferred units in the Operating Partnership	8,800	—
Other consolidated real estate joint ventures	1,723	—
Total minority interests	98,878	79,796
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Preferred Shares of beneficial interest (\$0.01 par value; 15,000,000 shares authorized) (Note 11)	67	85
Common Shares of beneficial interest (\$0.01 par value; 75,000,000 shares authorized, shares issued of 36,842,108 at December 31, 2004 and 29,397,267 at December 31, 2003)	368	294
Additional paid-in capital	578,228	492,886
Cumulative distributions in excess of net income	(51,358)	(38,483)
Value of unearned restricted common share grants	(5,381)	(4,107)
Accumulated other comprehensive loss	—	(294)
Total shareholders' equity	521,924	450,381
Total liabilities and shareholders' equity	\$ 1,732,026	\$ 1,332,076

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,		
	2004	2003	2002
Revenues			
Rental revenue	\$ 192,353	\$ 153,048	\$ 134,421
Tenant recoveries and other real estate operations revenue	22,220	21,375	15,914
Construction contract revenues	25,018	28,865	826
Other service operations revenues	3,885	2,875	3,851
Total revenues	243,476	206,163	155,012
Expenses			
Property operating	63,053	51,699	43,929
Depreciation and other amortization associated with real estate operations	51,904	37,122	30,859
Construction contract expenses	23,733	27,483	789
Other service operations expenses	3,263	3,450	4,192
General and administrative expenses	10,938	7,893	6,697
Total operating expenses	152,891	127,647	86,466
Operating income	90,585	78,516	68,546
Interest expense	(44,263)	(41,079)	(39,065)
Amortization of deferred financing costs	(2,431)	(2,767)	(2,501)
Income from continuing operations before (loss) gain on sales of real estate, equity in loss of unconsolidated entities, income taxes and minority interests	43,891	34,670	26,980
(Loss) gain on sales of real estate, excluding discontinued operations	(150)	472	2,564
Equity in loss of unconsolidated entities	(88)	(98)	(402)
Income tax (expense) benefit	(795)	169	347
Income from continuing operations before minority interests	42,858	35,213	29,489
Minority interests in income from continuing operations			
Common units in the Operating Partnership	(5,659)	(5,710)	(5,233)
Preferred units in the Operating Partnership	(179)	(1,049)	(2,287)
Other consolidated entities	12	—	59
Income from continuing operations	37,032	28,454	22,028
Income from discontinued operations, net of minority interests	—	2,423	1,273
Net income	37,032	30,877	23,301
Preferred share dividends	(16,329)	(12,003)	(10,134)
Repurchase of preferred units in excess of recorded book value	—	(11,224)	—
Issuance costs associated with redeemed preferred shares	(1,813)	—	—
Net income available to common shareholders	\$ 18,890	\$ 7,650	\$ 13,167
Basic earnings per common share			
Income before discontinued operations	\$ 0.57	\$ 0.20	\$ 0.53
Discontinued operations	—	0.09	0.06
Net income available to common shareholders	\$ 0.57	\$ 0.29	\$ 0.59
Diluted earnings per common share			
Income before discontinued operations	\$ 0.54	\$ 0.19	\$ 0.51
Discontinued operations	—	0.08	0.05
Net income available to common shareholders	\$ 0.54	\$ 0.27	\$ 0.56

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	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2001 (20,648,101 common shares outstanding)	43	206	283,949	(14,502)	(3,275)	(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	236	312,373	(21,067)	(2,739)	(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	\$ 294	\$ 492,886	\$ (38,483)	\$ (4,107)	\$ (294)	\$ 450,381
Conversion of common units to common shares (326,108 shares)	—	3	8,038	—	—	—	8,041
Common shares issued to the public (5,033,600 shares)	—	50	115,184	—	—	—	115,234
Common shares issued to employees (4,000 shares)	—	—	91	—	—	—	91
Series B preferred share redemption	(13)	—	(31,238)	—	—	—	(31,251)
Series D preferred share conversion	(5)	12	(7)	—	—	—	—
Increase in fair value of derivatives	—	—	—	—	—	294	294
Restricted common share grants issued (99,935 shares)	—	1	2,270	—	(2,271)	—	—
Value of earned restricted share grants	—	—	388	—	997	—	1,385
Exercise of share options (784,398 shares)	—	8	7,502	—	—	—	7,510
Expense associated with share options	—	—	519	—	—	—	519
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(19,360)	—	—	—	(19,360)
Permanent tax benefit on share-based compensation	—	—	1,955	—	—	—	1,955
Net income	—	—	—	37,032	—	—	37,032
Dividends	—	—	—	(49,907)	—	—	(49,907)
Balance at December 31, 2004 (36,842,108 common shares outstanding)	\$ 67	\$ 368	\$ 578,228	\$ (51,358)	\$ (5,381)	\$ —	\$ 521,924

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2004	2003	2002
Cash flows from operating activities			
Net income	\$ 37,032	\$ 30,877	\$ 23,301
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	5,826	7,761	8,028
Depreciation and other amortization	51,904	37,141	31,340
Amortization of deferred financing costs	2,431	2,799	2,501
Amortization of value of acquired operating leases to rental revenue	(931)	(1,817)	(2,342)
Equity in loss of unconsolidated entities	88	98	402
Loss (gain) on sales of real estate, including amounts in discontinued operations	150	(3,467)	(2,564)
Changes in operating assets and liabilities:			
Increase in deferred rent receivable	(8,372)	(4,670)	(2,327)
Increase in accounts receivable, restricted cash and prepaid and other assets	(11,438)	(11,144)	(1,904)
Increase in accounts payable, accrued expenses, rents received in advance and security deposits	5,850	9,278	4,721
Other	1,954	927	1,086
Net cash provided by operating activities	<u>84,494</u>	<u>67,783</u>	<u>62,242</u>
Cash flows from investing activities			
Purchases of and additions to commercial real estate properties	(251,982)	(196,888)	(133,553)
Proceeds from sales of properties	—	40,204	7,509
Investments in and advances to unconsolidated real estate joint ventures	(146)	(7,062)	2,089
Leasing costs paid	(11,024)	(2,861)	(5,974)
(Increase) decrease in advances to certain real estate joint ventures	(515)	(2,520)	2,583
Proceeds from sales of unconsolidated real estate joint ventures	—	—	2,283
Other	(125)	(3,822)	(3,508)
Net cash used in investing activities	<u>(263,792)</u>	<u>(172,949)</u>	<u>(128,571)</u>
Cash flows from financing activities			
Proceeds from mortgage and other loans payable	573,879	270,956	306,317
Repayments of mortgage and other loans payable	(421,621)	(271,146)	(210,628)
Deferred financing costs paid	(3,436)	(1,681)	(2,397)
Increase (decrease) in other liabilities associated with financing activities	4,000	4,000	(11,336)
Acquisition of partner interest in consolidated joint venture	(4,928)	—	—
Net proceeds from issuance of common shares	122,744	81,726	25,541
Net proceeds from issuance of preferred shares	—	101,507	—
Repurchase of preferred units	—	(35,591)	—
Redemption of preferred shares	(31,251)	—	—
Dividends paid	(47,551)	(34,719)	(28,997)
Distributions paid	(8,435)	(9,210)	(10,265)
Other	237	2,814	(2,555)
Net cash provided by financing activities	<u>183,638</u>	<u>108,656</u>	<u>65,680</u>
Net increase (decrease) in cash and cash equivalents	4,340	3,490	(649)
Cash and cash equivalents			
Beginning of year	9,481	5,991	6,640
End of period	<u>\$ 13,821</u>	<u>\$ 9,481</u>	<u>\$ 5,991</u>

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 on the ownership, management, leasing, acquisition and development of suburban office properties. We typically focus our operations geographically in select submarkets that are attractive to our tenant base and in which we believe we can establish a critical mass of square footage. At December 31, 2004, all of our properties were located in the Mid-Atlantic region of the United States, although in accordance with our strategy of focusing on submarkets that are attractive to our tenants, we may seek to expand our operations outside of this region. 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, 2004, our portfolio included 145 office properties, including two properties owned through joint ventures.

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,	
	2004	2003
Common Units	80 %	75 %
Series B Preferred Units	N/A	100 %
Series D Preferred Units	N/A	100 %
Series E Preferred Units	100 %	100 %
Series F Preferred Units	100 %	100 %
Series G Preferred Units	100 %	100 %

Series H Preferred Units	100 %	100 %
Series I Preferred Units	0 %	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

COMI owns 100% of these entities. 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 generally use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. Under the consolidation method of accounting, the accounts of the entity being consolidated are combined with our accounts. We eliminate balances and transactions between companies when we consolidate these accounts. For all of the periods presented, 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%).

Our approach to determining when the use of the consolidation method is appropriate recently changed with the Financial Accounting Standards Board (“FASB”) Interpretation No. 46(R), “Consolidation of Variable Interest Entities” (“FIN 46(R)"). FIN 46(R) 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”). FIN 46(R) then provides guidance in determining when an owner of a VIE should use the consolidation method in accounting for its investment in the VIE. We adopted FIN 46(R) immediately for all VIEs created subsequent to January 31, 2003 and effective March 31, 2004 for VIEs created prior to February 1, 2003. In connection with our adoption of FIN 46(R), we began to use the consolidation method of accounting effective March 31, 2004 for our investments in the following joint ventures: MOR Forbes 2 LLC, Gateway 70 LLC and MOR Montpelier 3 LLC, which were previously accounted for using the equity method of accounting, and NBP 220, LLC, which was previously accounted for using the financing method of accounting (see below for a discussion of the equity and financing methods). The effect of consolidating these joint ventures on our Consolidated Balance Sheet upon our adoption of FIN 46(R) on March 31, 2004 is set forth below.

Operating properties	\$	2,176
Projects under construction or development		17,959
Investments in and advances to unconsolidated real estate joint ventures		(3,957)
Restricted cash		10
Accounts receivable, net		145
Deferred rent receivable		7
Deferred charges, net		1,026
Prepaid and other assets		(3,263)
Mortgage and other loans payable		(10,171)
Accounts payable and accrued expenses		(2,737)
Rents received in advance and security deposits		(347)
Other liabilities		4,650
Minority interests-other consolidated real estate entities		(5,498)
	\$	—

Equity Method

We generally 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.

As discussed above, FIN 46(R) 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. As discussed above, FIN 46(R) 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

We allocate the costs of real estate acquisitions to the following components:

- 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 "lease-up 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").

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.

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 to be "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

When events or circumstances indicate that a property may be impaired, we perform an undiscounted cash flow analysis. We consider an asset to be impaired when its undiscounted expected future cash flows are less than its depreciated cost. When we determine that an asset is impaired, we utilize methods similar to those used by independent appraisers in estimating the fair value of the asset; this process requires us to make certain estimates and assumptions. We then recognize an impairment loss based on the excess of the carrying amount of the asset over its fair value. We have not recognized impairment losses on our real estate assets to date.

When we determine that a real estate asset is held for sale, we discontinue the recording of depreciation expense of the asset and estimate the sales price, net of selling costs; if we then determine that the estimated sales price, net of selling costs, is less than the net book value of the asset, we recognize an impairment loss equal to the difference and reduce the carrying amount of the asset.

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 \$490 at December 31, 2004 and \$548 at December 31, 2003.

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 not be probable. 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 cancel 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,		
	2004	2003	2002
United States Government	11%	10%	10%
AT&T Local Services (1)	6%	6%	6%
Computer Sciences Corporation	6%	6%	N/A
Booz Allen Hamilton, Inc.	5%	N/A	N/A
Unisys	N/A	5%	6%
Five largest tenants	33%	31%	28%

(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 49% of our total revenue from real estate operations in 2004, 55% in 2003 and 56% in 2002.

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
• Lease-up 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
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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 defer 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 defer 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.

When the costs of acquisitions exceed the fair value of tangible and identifiable intangible assets and liabilities, we record goodwill in connection such acquisitions. 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.

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.

We 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. We also do not own 100% of three consolidated real estate joint ventures. 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.

For a portion of 2003, the Operating Partnership had 1,016,662 Series C Preferred Units outstanding that we did not own. 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.

On September 23, 2004, we issued 352,000 Series I Preferred Units in the Operating Partnership to an unrelated party in connection with our acquisition of two properties in Northern Virginia. These units have a liquidation preference of \$25.00 per unit, plus any accrued and unpaid distributions of return thereon (as described below), and may be redeemed for cash by the Operating Partnership at our option any time after September 22, 2019. The owner of these units is entitled to a priority annual cumulative return equal to 7.5% of their liquidation preference through September 22, 2019; the annual cumulative preferred return increases for each subsequent five-year period, subject to certain maximum limits. These units are convertible into common units on the basis of 0.5 common units for each Series I Preferred Unit; the resulting common units would then be exchangeable for common shares in accordance with the terms of the Operating Partnership's agreement of limited partnership.

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,		
2004	2003	2002

Numerator:			
Numerator for basic EPS on net income available to common shareholders	\$ 18,890	\$ 7,650	\$ 13,167
Subtract: Income from discontinued operations, net	—	(2,423)	(1,273)
Numerator for basic EPS before discontinued operations	18,890	5,227	11,894
Add: Series D Preferred Share dividends	21	—	544
Numerator for diluted EPS before discontinued operations	18,911	5,227	12,438
Add: Income from discontinued operations, net	—	2,423	1,273
Numerator for diluted EPS on net income available to common shareholders	\$ 18,911	\$ 7,650	\$ 13,711
Denominator (all weighted averages):			
Denominator for basic EPS (common shares)	33,173	26,659	22,472
Assumed conversion of share options	1,675	1,362	878
Assumed conversion of Series D Preferred Shares	134	—	1,197
Denominator for diluted EPS	34,982	28,021	24,547
Basic EPS:			
Income before discontinued operations	\$ 0.57	\$ 0.20	\$ 0.53
Income from discontinued operations	—	0.09	0.06
Net income available to common shareholders	\$ 0.57	\$ 0.29	\$ 0.59
Diluted EPS:			
Income before discontinued operations	\$ 0.54	\$ 0.19	\$ 0.51
Income from discontinued operations	—	0.08	0.05
Net income available to common shareholders	\$ 0.54	\$ 0.27	\$ 0.56

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,		
	2004	2003	2002
Conversion of weighted average common units	8,726	8,932	9,282
Restricted common shares	221	166	326
Conversion of share options	5	47	62
Conversion of weighted average preferred units	48	1,101	2,421
Conversion of weighted average preferred shares	—	1,197	—

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, 2004, 4,250 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 CC&C 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,		
	2004	2003	2002
Increase in general and administrative expenses	\$ 1,579	\$ 1,020	\$ 411
Increase in losses from service operations	552	374	136

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,		
	2004	2003	2002
Net income, as reported	\$ 37,032	\$ 30,877	\$ 23,301
Add: Stock-based compensation expense, net of related tax effects and minority interests, included in the determination of net income	1,824	917	341
Less: Stock-based compensation expense determined under the fair value based method, net of related tax effects and minority interests	(1,500)	(835)	(847)
Net income, pro forma	\$ 37,356	\$ 30,959	\$ 22,795

Basic EPS on net income available to common shareholders, as reported	\$	0.57	\$	0.29	\$	0.59
Basic EPS on net income available to common shareholders, pro forma	\$	0.58	\$	0.29	\$	0.56
Diluted EPS on net income available to common shareholders, as reported	\$	0.54	\$	0.27	\$	0.56
Diluted EPS on net income available to common shareholders, pro forma	\$	0.55	\$	0.28	\$	0.54

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,		
	2004	2003	2002
Risk-free interest rate	3.15 %	3.05 %	4.09 %
Expected life-years	4.21	5.87	3.68
Expected volatility	22.89 %	23.97 %	24.46 %
Expected dividend yield	7.60 %	7.80 %	7.90 %

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment ("SFAS 123(R)"). The statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, focusing primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The statement will require us to measure the cost of employee services received in exchange for an award of equity instruments based generally on the fair value of the award on the grant date; such cost will be recognized over the period during which an employee is required to provide service in exchange for the award (generally the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. SFAS 123(R) will be effective for us in June 2005 and will apply to all awards granted after July 1, 2005 and to awards modified, repurchased or cancelled after that date. The statement will also require that we recognize compensation cost on or after July 1, 2005 for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the fair value of those awards on the date of grant. We are reviewing the provisions of SFAS 123(R) and assessing the impact it will have on us upon adoption.

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, 2004 and 2003. 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 previously reported consolidated net income or shareholders' equity.

Recent Accounting Pronouncement

See the section in Note 2 entitled "Consolidation Method" for disclosure pertaining to FIN 46(R).

See the section above entitled "Stock-Based Compensation" for disclosure pertaining to SFAS 123(R).

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29" ("SFAS 153"). The Accounting Principles Board's Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29") is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. However, the guidance in APB 29 included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 will be effective for us for nonmonetary asset exchanges occurring after December 31, 2005. We are reviewing the provisions of SFAS 153 and assessing the impact it will have on us upon adoption.

4. Commercial Real Estate Properties

Operating properties consisted of the following:

	December 31,	
	2004	2003
Land	\$ 268,327	\$ 216,703
Buildings and improvements	1,280,537	1,003,214
	1,548,864	1,219,917
Less: accumulated depreciation	(141,716)	(103,070)
	\$ 1,407,148	\$ 1,116,847

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

	December 31,	
	2004	2003
Land	\$ 74,190	\$ 53,356
Construction in progress	61,962	13,793
	\$ 136,152	\$ 67,149

2004 Acquisitions

We acquired the following office properties in 2004:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
400 Professional Drive	Gaithersburg, MD	3/5/2004	1	129,030	\$ 23,196
Wildewood and Exploration/Expedition		3/24/2004, 5/5/2004 &			

Office Parks	St. Mary's County, MD	11/9/2004	11	560,106	66,274
10150 York Road	Hunt Valley, MD	4/15/2004	1	176,689	15,393
Pinnacle Towers	Tysons Corner, VA	9/23/2004	2	440,102	106,452
Corporate Pointe III	Chantilly, VA	9/29/2004	1	114,126	22,903
		12/21/04 &			
Dahlgren Properties	Dahlgren, VA	12/28/2004	6	204,605	27,230
				<u>1,624,658</u>	<u>\$ 261,448</u>

The table below sets forth the allocation of the acquisition costs of these properties:

	400 Professional Drive	Wildewood and Exploration/ Expedition	10150 York Road	Pinnacle Towers	Corporate Pointe III	Dahlgren Properties	Total
Land	\$ 3,673	\$ 11,599	\$ 2,700	\$ 18,566	\$ 3,511	\$ 4,888	\$ 44,937
Building and improvements	17,400	49,644	11,730	76,820	15,503	20,401	191,498
Intangible assets on real estate acquisitions	2,154	5,159	1,357	11,066	3,889	2,115	25,740
Total assets	23,227	66,402	15,787	106,452	22,903	27,404	262,175
Deferred revenue associated with acquired operating leases	(31)	(128)	(394)	—	—	(174)	(727)
Total acquisition cost	<u>\$ 23,196</u>	<u>\$ 66,274</u>	<u>\$ 15,393</u>	<u>\$ 106,452</u>	<u>\$ 22,903</u>	<u>\$ 27,230</u>	<u>\$ 261,448</u>

We also acquired the following during 2004:

- a parcel of land located in St. Mary's County, Maryland for \$1,905 on March 24, 2004 in connection with our acquisition of the Wildewood and Exploration/Expedition Office Parks;
- two adjacent parcels of land located in Chantilly, Virginia for \$4,011 on April 14, 2004. An operating building of ours is located on one of these parcels and a project we have under construction is located on the other parcel;
- a 5.3 acre parcel of land located in Herndon, Virginia that is adjacent to one of our office properties for \$9,614 on April 29, 2004;
- a property located in Blue Bell, Pennsylvania that is adjacent to an office park we own for \$401 on July 15, 2004;
- a 14.0 acre parcel of land located in Columbia, Maryland for \$6,386 on September 20, 2004; and
- an 18.8 acre parcel of land located in South Brunswick, New Jersey that is adjacent to an office park we own for \$512 on September 29, 2004 from a seller in which certain of our Trustees and officers own partnership interests. The terms of the land acquisition were determined as a result of arms-length negotiations and were approved by the Audit and Investment Committees of our Board of Trustees. 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.

2004 Construction/Development

During 2004, we fully placed into service a new building located in Annapolis Junction, Maryland, a new building located in Lanham, Maryland and a new building located in Chantilly, Virginia.

As of December 31, 2004, we had construction underway on five new buildings in the Baltimore/Washington Corridor, one in Chantilly, Virginia and one in St. Mary's County, Maryland. We also had development underway in three new buildings in Annapolis Junction, Maryland and one in Columbia, Maryland.

2004 Dispositions

On April 26, 2004, we sold a land parcel in Columbia, Maryland and a land parcel in Linthicum, Maryland for \$9,600. We issued to the buyer a \$5,600 mortgage loan bearing interest at 5.5% and a maturity date of July 2005; the balance of the acquisition was in the form of cash from the buyer. Upon completion of the sale, we entered into an agreement with the buyer to lease the land parcels for an aggregate monthly payment of \$10 beginning July 1, 2004 until April 30, 2005, at which time the rent reduces to \$1 per month until 2079. The buyer in this transaction had an option to contribute the two land parcels into our Operating Partnership between January 1, 2005 and February 28, 2005 in exchange for extinguishment of the \$5,600 mortgage loan with us and \$4,000 in common units in our Operating Partnership; the buyer in the transaction exercised its option in February 2005 and, as a result, the debt from us will be extinguished and it will receive 154,440 units in the Operating Partnership in March 2005. We accounted for this transaction using the financing method of accounting; as a result, the transaction was not recorded as a sale and the \$4,000 in net proceeds received from the buyer is included in other liabilities on our Consolidated Balance Sheet as of December 31, 2004.

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	27,036
Ridgeview	Chantilly, VA	7/25/2003	3	266,993	48,538
				<u>993,479</u>	<u>\$ 165,061</u>

The table below sets forth the allocation of the acquisition costs of these properties:

	2500 Riva Road	13200 Woodland Park Drive	Dulles Tech	Ridgeview	Total
Land	\$ 2,791	\$ 10,428	\$ 4,310	\$ 6,622	\$ 24,151
Building and improvements	12,145	49,475	17,777	31,427	110,824
Intangible assets on real estate acquisitions	3,102	11,546	4,949	10,489	30,086

Total acquisition cost	\$ 18,038	\$ 71,449	\$ 27,036	\$ 48,538	\$ 165,061
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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 arm's-length negotiations. In our 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 the beginning of the year became fully operational. This building is located in Columbia, 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. Since we had the option to acquire our joint venture partner's interest, we accounted for the transaction under the financing method of accounting (see Note 2). On September 10, 2004, we acquired the membership interest of our joint venture partner in NBP 220 for \$4,928.

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.

5. Investments in and Advances to Unconsolidated Real Estate Joint Ventures

Our investments in and advances to unconsolidated real estate joint ventures accounted for using the equity method of accounting included the following:

	Balance at December 31,		Date Acquired	Ownership	Nature of Activity	Total Assets at 12/31/04	Maximum Exposure to Loss (1)
	2004	2003					
Route 46 Partners, LLC	\$ 1,201	\$ 1,055	3/14/03	20%	Operating building (2)	\$ 23,003	\$ 1,621
Gateway 70 LLC	—	3,017	4/5/01	See Below	Developing land parcel (3)	N/A	N/A
MOR Forbes 2 LLC	—	735	12/24/02	See Below	Operating building (4)	N/A	N/A
MOR Montpelier 3 LLC	—	455	2/21/02	See Below	Developing land parcel (5)	N/A	N/A
	<u>\$ 1,201</u>	<u>\$ 5,262</u>				<u>\$ 23,003</u>	<u>\$ 1,621</u>

(1) Derived from the sum of our investment balance, loan guarantees (based on maximum loan balance) and maximum additional unilateral capital contributions and loans 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 Fairfield, New Jersey.

(3) This joint venture's property is located in Columbia, Maryland.

(4) This joint venture's property is located in Lanham, Maryland.

(5) This joint venture's property is located in Laurel, 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.

As discussed in Note 2, we adopted FIN 46(R) effective March 31, 2004 for VIEs created prior to February 1, 2003. Upon this adoption, we began using the consolidation method of accounting for the following joint ventures that had previously been accounted for using either the equity or financing methods of accounting:

	Date Acquired	Ownership % at 12/31/04	Nature of Activity	Total Assets at 12/31/04	Collateralized Assets at 12/31/04
NBP 220, LLC	1/31/03	100%	Operating building (1)	\$ 34,826	\$ 33,101
MOR Forbes 2 LLC	12/24/02	50%	Operating building (2)	4,637	4,154
Gateway 70 LLC	4/5/01	80%	Developing land parcel (3)	4,510	—
MOR Montpelier 3 LLC	2/21/02	50%	Developing land parcel (4)	947	—
				<u>\$ 44,920</u>	<u>\$ 37,255</u>

(1) This joint venture's property is located in Annapolis Junction, Maryland. Our ownership was 20% until we acquired the remaining interest on September 10, 2004. The building was placed into service in September 2004.

(2) This joint venture's property is located in Lanham, Maryland. The recently constructed building became 100% operational in August 2004.

(3) This joint venture's property is located in Columbia, Maryland.

(4) This joint venture's property is located in Laurel, Maryland.

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.

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 19. The following table sets forth a condensed balance sheet for our one unconsolidated real estate joint venture:

	December 31,	
	2004	2003
Commercial real estate property	\$ 21,567	\$ 30,594
Other assets	1,436	1,981
Total assets	\$ 23,003	\$ 32,575
Liabilities	\$ 14,727	\$ 18,687
Owners' equity	8,276	13,888
Total liabilities and owners' equity	\$ 23,003	\$ 32,575

The following table sets forth a condensed combined statement of operations for our one unconsolidated real estate joint venture for the year ended December 31, 2004:

Revenues	\$ 3,054
Property operating expenses	(1,461)
Interest expense	(847)
Depreciation and amortization expense	(514)
Net income	\$ 232

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,		Date Acquired	Ownership % at 12/31/04	Investment Accounting Method
	2004	2003			
TractManager, Inc. (1)	\$ 1,621	\$ 1,621	Various 2000	5%	Cost

(1) TractManager, Inc. developed an Internet-based contract imaging and management system which it sells to real estate owners and healthcare providers.

7. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	December 31,	
	2004	2003
Lease-up value	\$ 65,638	\$ 46,613
Lease to market value	9,595	7,819
Lease cost portion of deemed cost avoidance	8,700	5,294
Market concentration premium	1,333	1,333
Subtotal	85,266	61,059
Accumulated amortization	(17,706)	(5,367)
Intangible assets on real estate acquisitions, net	\$ 67,560	\$ 55,692

8. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2004	2003
Deferred leasing costs	\$ 33,302	\$ 20,712
Deferred financing costs	16,996	13,263
Goodwill	1,853	1,880
Deferred other	155	155
	52,306	36,010
Accumulated amortization	(24,664)	(18,287)
Deferred charges, net	\$ 27,642	\$ 17,723

9. Mortgage and Other Loans Payable

Mortgage and other loans payable consisted of the following:

	Maximum Amount Available at December 31, 2004	Carrying Value at December 31,		Stated Interest Rates	Scheduled Maturity Dates at December 31, 2004
		2004	2003		
Credit Facilities					
Wachovia Bank, N.A. Revolving Credit Facility	\$ 300,000	\$ 203,600	\$ —	LIBOR + 1.25% to 1.55% (1)	March 2007 (2)
Wachovia Bank, N.A. Line of Credit	N/A	—	18,900	LIBOR + 1.90%	N/A
Bankers Trust Revolving Credit Facility	N/A	—	12,775	LIBOR + 1.75%	N/A
	\$ 300,000	203,600	31,675		
Mortgage Loans					
Fixed rate mortgage loans (3)	N/A	737,380	547,174	0.00% — 9.48% (4)	2005 - 2025 (5)
Variable rate construction loan facilities	\$ 77,832	35,316	29,247	LIBOR + 1.55% to 2.20%	2005 - 2007 (2)
Other variable rate mortgage loans	N/A	45,124	129,236	LIBOR + 1.20% to 2.00%	2005 - 2007 (2)

Total variable rate mortgage loans		817,820	705,657		
Note payable					
Unsecured seller note	N/A	1,268	1,366	5.95%	May 2007
Total mortgages and other loans payable		\$ 1,022,688	\$ 738,698		

- (1) The LIBOR interest rate in effect on our LIBOR-based variable rate loans ranges from 2.36% to 2.42% at December 31, 2004 and from 1.12% to 1.17% at December 31, 2003.
- (2) At December 31, 2004, a total of \$261.4 million in loans scheduled to mature in 2007 that are included in these lines may be extended for a one-year period, subject to certain conditions.
- (3) Several of the fixed rate mortgages carry interest rates that were above or below market rates upon assumption and therefore are recorded at their fair value based on applicable effective interest rates. The carrying values of these loans reflect a net premium totaling \$1,569.
- (4) The weighted average interest rate on these loans is 6.15% at December 31, 2004 and 6.25% at December 31, 2003.
- (5) A loan with a balance of \$11.0 million at December 31, 2004 that matures in 2025 is subject to a call date of October 2010.

We have guaranteed the repayment of \$334.6 million of the mortgage and other loans set forth above as of December 31, 2004.

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, 2004, 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, 2004, we were in compliance with these financial covenants.

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

2005	\$ 60,026
2006	78,904
2007	349,235
2008	155,003
2009	60,769
Thereafter	317,182
Total	\$ 1,021,119 (1)

- (1) Represents principal maturities only and therefore excludes net premiums of \$1,569.

We estimate that the fair value of our mortgage and other loans was \$1,037,100 at December 31, 2004 and \$771,367 at December 31, 2003.

Weighted average borrowings under our secured revolving credit facility with Wachovia Bank, National Association totaled \$142,043 in 2004. The weighted average interest rate on this credit facility totaled 3.13% in 2004.

Weighted average borrowings under our secured revolving credit facility with Bankers Trust Company totaled \$3,607 in 2004 and \$88,636 in 2003. The weighted average interest rate on this credit facility totaled 3.01% in 2004 and 3.06% in 2003.

The amount available under our secured revolving credit facility with Wachovia Bank, National Association is generally computed based on 60% of the appraised value of properties pledged as collateral for this loan. As of December 31, 2004, the maximum amount available under this line of credit totaled \$300,000, of which \$96,400 was unused.

We capitalized interest costs of \$5,112 in 2004, \$2,846 in 2003, and \$3,091 in 2002.

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,	
					2004	2003
Interest rate swap	\$ 50.0	2.308%	1/2/2003	1/3/2005	\$ —	\$ (467)
Interest rate swap	50.0	1.520%	1/7/2003	1/2/2004	—	—
Total					\$ —	\$ (467)

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, 2004, 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,		
	2004	2003	2002
Increase (decrease) in fair value applied to AOCL (1) and minority interests	\$ 390	\$ 104	\$ 3,285
Increase (decrease) in fair value recognized as gain (2)	77	(77)	2

- (1) AOCL is defined in Note 3.
- (2) Represents hedge ineffectiveness and is included in interest expense on our Consolidated Statements of Operations.

11. Shareholders' Equity

Preferred Shares

Preferred shares of beneficial interest ("preferred shares") consisted of the following:

	December 31,	
	2004	2003
1,725,000 designated as Series B Cumulative Redeemable Preferred Shares of beneficial interest (no shares issued and outstanding at December 31, 2004 and 1,250,000 shares issued and outstanding with an aggregate liquidation preference of \$31,250 at December 31, 2003)	\$ —	\$ 13
544,000 designated as Series D Cumulative Convertible Redeemable Preferred Shares of beneficial interest (no shares issued and outstanding at December 31, 2004 and 544,000 shares issued and outstanding with an aggregate liquidation preference of \$13,600 at December 31, 2003)	—	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, 2004 and 2003)	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, 2004 and 2003)	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, 2004 and 2003)	22	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, 2004 and 2003)	20	20
Total preferred shares	\$ 67	\$ 85

Set forth below is a summary of additional information pertaining to 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 (2)	1,250,000	July 1999	10.000%	\$ 2.50000	N/A
Series D (3)	544,000	January 2001	4.000%	1.00000	N/A
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.
- (2) This series was redeemed in July 2004.
- (3) This series was converted in February 2004.

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.

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.

On February 11, 2004, the holder of the Series D Preferred Shares exercised its right to cause us to convert the shares into common shares on the basis of 2.2 common shares for each Series D Preferred Share, resulting in the issuance of 1,196,800 common shares.

On July 15, 2004, we redeemed the Series B Preferred Shares for a redemption price of \$31,250. At the completion of this transaction, we recognized a \$1,813 decrease to net income available to common shareholders pertaining to the original issuance costs we incurred on the 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 April 23, 2004, we sold 2,750,000 common shares in an underwritten public offering at a net price of \$21.243 per share. We contributed the net proceeds totaling approximately \$58,200 to our Operating Partnership in exchange for 2,750,000 common units.

On September 28, 2004, we sold 2,283,600 common shares in an underwritten public offering at a net price of \$25.10 per share. We contributed the net proceeds totaling approximately \$57,200 to our Operating Partnership in exchange for 2,283,600 common units.

Over the three years ended December 31, 2004, 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 326,108 in 2004, 119,533 in 2003 and 617,510 in 2002.

We issued common shares to certain employees totaling 99,935 in 2004 and 119,324 in 2003. All of these share issuances are subject to forfeiture restrictions that lapse annually throughout their respective terms as the employees remain employed by us. Forfeiture restrictions lapsed on common shares issued to employees in the amount of 113,478 in 2004, 49,073 in 2003 and 72,659 in 2002.

Over the three years ended December 31, 2004, we issued common shares in connection with the exercise of share options totaling 784,398 in 2004, 262,278 in 2003 and 255,692 in 2002.

The table below sets forth activity in the AOCL component of shareholders' equity:

	For the years ended December 31,		
	2004	2003	2002
Beginning balance	\$ (294)	\$ (349)	\$ (2,500)
Unrealized gain on interest rate swaps, net of minority interests	294	55	2,151
Ending balance	\$ —	\$ (294)	\$ (349)

The table below sets forth our comprehensive income

	For the years ended December 31,		
	2004	2003	2002
Net income	\$ 37,032	\$ 30,877	\$ 23,301
Unrealized gain on interest rate swaps, net of minority interests	294	55	2,151
Total comprehensive income	\$ 37,326	\$ 30,932	\$ 25,452

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, 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
Granted – 2004	290,450	\$15.93 - \$28.69	\$ 22.30
Forfeited – 2004	(20,994)	\$8.63 - \$25.05	\$ 17.81
Exercised – 2004	(784,398)	\$5.63 - \$17.25	\$ 9.57
Outstanding at December 31, 2004	2,687,084	\$5.38 - \$28.69	\$ 11.43
Available for future grant at December 31, 2004	1,067,861		
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
Exercisable at December 31, 2004	1,617,080	(2)	\$ 10.26

(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 \$14.30.

(2) 312,650 of these options had an exercise price ranging from \$5.38 to \$7.99, 704,238 had an exercise price ranging from \$8.00 to \$10.99 and 600,192 had an exercise price ranging from \$11.00 to \$18.08.

The weighted average remaining contractual life of the options at December 31, 2004 was approximately 6 years.

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

	For the Years Ended December 31,		
	2004	2003	2002
Weighted average grant-date fair value	\$ 2.18	\$ 1.34	\$ 1.13
Weighted average grant-date fair value-exercise price equals market price on grant-date	\$ 2.15	\$ 1.30	\$ 1.11
Weighted average grant-date fair value-exercise price exceeds market price on grant-date	\$ 1.65	\$ 1.16	\$ 1.01
Weighted average grant-date fair value-exercise price less than market price on grant-date	\$ 2.24	\$ 1.62	\$ 1.41

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,		
	2004	2003	2002
Rental revenue earned from Constellation	\$ —	\$ —	\$ 56

Interest income earned from unconsolidated real estate joint venture	\$	—	\$	—	\$	126
Other fee revenue earned from unconsolidated real estate joint ventures	\$	219	\$	351	\$	158

During the reporting periods, we acquired properties from Constellation. We also acquired a land parcel from a seller in which certain of our Trustees and officers own partnership interests. Both of these transactions 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, 2004 were as follows:

For the Years Ended December 31,	
2005	\$ 201,441
2006	180,096
2007	156,117
2008	131,887
2009	106,330
Thereafter	322,448
Total	\$ 1,098,319

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,		
	2004	2003	2002
Interest paid, net of capitalized interest	\$ 43,717	\$ 39,898	\$ 38,866
Supplemental schedule of non-cash investing and financing activities:			
Consolidation of real estate joint ventures in connection with adoption of FIN 46R:			
Operating properties	\$ 2,176	\$ —	\$ —
Projects under construction or development	17,959	—	—
Investments in and advances to unconsolidated real estate joint ventures	(3,957)	—	—
Restricted cash	10	—	—
Accounts receivable, net	145	—	—
Deferred rent receivable	7	—	—
Deferred charges, net	1,026	—	—
Prepaid and other assets	(3,263)	—	—
Mortgage and other loans payable	(10,171)	—	—
Accounts payable and accrued expenses	(2,737)	—	—
Rents received in advance and security deposits	(347)	—	—
Other liabilities	4,650	—	—
Minority interests-other consolidated real estate entities	(5,498)	—	—
Net adjustment	\$ —	\$ —	\$ —
Purchase/adjustment of commercial real estate properties by acquiring joint venture partner interests:			
Operating properties	\$ (83)	\$ 25,400	\$ —
Investments in and advances to unconsolidated real estate joint ventures	83	(10,634)	—
Accounts receivable, net	—	152	—
Deferred rent receivable	—	134	—
Deferred costs	—	1,902	—
Prepaid and other assets	—	68	—
Mortgage and other loans payable	—	(16,470)	—
Accounts payable and accrued expenses	—	(370)	—
Rents received in advance and security deposits	—	(120)	—
Other liabilities	—	(62)	—
Cash from purchase	\$ —	\$ —	\$ —
Debt assumed in connection with acquisitions	\$ 120,817	\$ 16,917	\$ 36,040
Notes receivable assumed upon sales of real estate	\$ —	\$ —	\$ 2,326
Investment in real estate joint venture obtained with disposition property	\$ —	\$ 2,300	\$ —
Increase (decrease) in accrued capital improvements and leasing costs	\$ 17,234	\$ 4,670	\$ (1,408)
Increase in other accruals associated with investment activities	\$ —	\$ 351	\$ —
Amortization of discounts and premiums on mortgage loan to commercial real estate properties	\$ 925	\$ 445	\$ —
Accretion of other liability to commercial real estate properties	\$ 147	\$ 503	\$ —
Increase (decrease) in fair value of derivatives applied to AOCL and minority interests	\$ 390	\$ (104)	\$ 3,285
Issuance of preferred units in the Operating Partnership in connection with acquisition of real estate	\$ 8,800	\$ —	\$ —
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	\$ 19,360	\$ 6,697	\$ 5,970
Dividends/distribution payable	\$ 14,713	\$ 12,098	\$ 9,794
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	\$ 8,041	\$ 2,066	\$ 8,623
Conversion of preferred shares adjusted to common shares and paid in capital	\$ 12	\$ —	\$ —
Issuance of restricted shares	\$ 2,271	\$ —	\$ —

16. Information by Business Segment

We have seven primary office property segments: Baltimore/Washington Corridor, Northern Virginia, Greater Philadelphia, St. Mary's & King George Counties, Northern/Central New Jersey, Suburban Maryland and Greater Harrisburg.

The table below reports segment financial information. The reportable segments include, when applicable, properties classified as discontinued operations because these properties are included in the measure of profit reviewed by management. Our segment entitled "Other" includes assets and operations not specifically associated with the other defined segments, including elimination entries required in consolidation. 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	St. Mary's & King George Counties	Northern/ Central New Jersey	Suburban Maryland	Greater Harrisburg	Other	Total
Year ended December 31, 2004									
Revenues	\$ 105,945	\$ 48,701	\$ 10,025	\$ 5,483	\$ 18,793	\$ 8,924	\$ 8,855	\$ 7,847	\$ 214,573
Property operating expenses	33,246	14,323	165	1,327	5,362	3,378	2,874	2,378	63,053
NOI	\$ 72,699	\$ 34,378	\$ 9,860	\$ 4,156	\$ 13,431	\$ 5,546	\$ 5,981	\$ 5,469	\$ 151,520
Commercial real estate property expenditures	\$ 110,313	\$ 148,400	\$ 1,176	\$ 90,214	\$ 2,063	\$ 27,460	\$ 509	\$ 17,815	\$ 397,950
Segment assets at December 31, 2004	\$ 773,602	\$ 421,434	\$ 101,042	\$ 96,413	\$ 85,110	\$ 70,152	\$ 68,126	\$ 116,147	\$ 1,732,026
Year ended December 31, 2003									
Revenues	\$ 95,796	\$ 30,398	\$ 10,025	\$ —	\$ 15,643	\$ 6,722	\$ 9,897	\$ 6,852	\$ 175,333
Property operating expenses	29,289	9,186	134	—	5,579	2,674	2,707	2,489	52,058
NOI	\$ 66,507	\$ 21,212	\$ 9,891	\$ —	\$ 10,064	\$ 4,048	\$ 7,190	\$ 4,363	\$ 123,275
Commercial real estate property expenditures	\$ 85,175	\$ 125,188	\$ 663	\$ —	\$ 675	\$ 1,015	\$ 502	\$ 1,519	\$ 214,737
Segment assets at December 31, 2003	\$ 683,030	\$ 263,524	\$ 102,219	\$ —	\$ 84,435	\$ 42,228	\$ 69,376	\$ 87,264	\$ 1,332,076
Year ended December 31, 2002									
Revenues	\$ 86,830	\$ 14,250	\$ 10,025	\$ —	\$ 18,991	\$ 7,994	\$ 9,553	\$ 6,661	\$ 154,304
Property operating expenses	24,723	5,463	151	—	6,925	3,193	2,562	2,270	45,287
NOI	\$ 62,107	\$ 8,787	\$ 9,874	\$ —	\$ 12,066	\$ 4,801	\$ 6,991	\$ 4,391	\$ 109,017
Commercial real estate property expenditures	\$ 80,863	\$ 46,977	\$ 563	\$ —	\$ 1,095	\$ 24,669	\$ 956	\$ 932	\$ 156,055
Segment assets at December 31, 2002	\$ 598,561	\$ 115,243	\$ 103,686	\$ —	\$ 106,928	\$ 59,738	\$ 70,431	\$ 84,134	\$ 1,138,721

The following table reconciles our segment revenues and property operating expenses to total revenues and operating expenses as reported on our Consolidated Statements of Operations:

	For the years ended December 31,		
	2004	2003	2002
Segment revenues	\$ 214,573	\$ 175,333	\$ 154,304
Construction contract revenues	25,018	28,865	826
Other service operations revenues	3,885	2,875	3,851
Less: revenues from discontinued real estate operations	—	(910)	(3,969)
Total revenues	\$ 243,476	\$ 206,163	\$ 155,012
Segment property operating expenses	\$ 63,053	\$ 52,058	\$ 45,287
Less: property expenses from discontinued real estate operations	—	(359)	(1,358)
Total property operating expenses	\$ 63,053	\$ 51,699	\$ 43,929

The following table reconciles our NOI for reportable segments to income from continuing operations as reported on our Consolidated Statements of Operations:

	For the years ended December 31,		
	2004	2003	2002
NOI for reportable segments	\$ 151,520	\$ 123,275	\$ 109,017
Construction contract revenues	25,018	28,865	826
Other service operations revenues	3,885	2,875	3,851
(Loss) gain on sales of real estate, excluding discontinued operations	(150)	472	2,564
Equity in loss of unconsolidated entities	(88)	(98)	(402)
Income tax (expense) benefit	(795)	169	347
Less:			
Depreciation and other amortization associated with real estate operations	(51,904)	(37,122)	(30,859)
Construction contract expenses	(23,733)	(27,483)	(789)
Other service operations expenses	(3,263)	(3,450)	(4,192)
General and administrative expenses	(10,938)	(7,893)	(6,697)
Interest expense	(44,263)	(41,079)	(39,065)
Amortization of deferred financing costs	(2,431)	(2,767)	(2,501)
Minority interests	(5,826)	(6,759)	(7,461)
NOI from discontinued operations	—	(551)	(2,611)
Income from continuing operations	\$ 37,032	\$ 28,454	\$ 22,028

We did not allocate (loss) 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 construction contract revenues, other service operations revenues, construction contract expenses, other service operations expenses, equity in loss of unconsolidated real estate joint ventures, general and administrative expense, income taxes 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 2004 and actual 2003 and 2002) and net income as reported on our Consolidated Statements of Operations are set forth below (unaudited):

	For the Years Ended December 31,		
	2004 (Estimated)	2003	2002
Net income	\$ 37,032	\$ 30,877	\$ 23,301
Adjustments:			
Rental revenue recognition	(5,936)	(4,297)	(62)
Compensation expense recognition	(10,268)	(1,194)	(171)
Operating expense recognition	(57)	(214)	51
Gain on sales of properties	150	(1,531)	(731)
Interest income	—	—	25
Losses from service operations	(1,971)	458	867
Income tax expense (benefit)	795	(169)	(347)
Income (loss) from cost method investments	—	116	(701)
Depreciation and amortization	11,818	1,232	(252)
Earnings from unconsolidated real estate joint ventures	65	(87)	(960)
Minority interests, gross	6,149	1,787	389
Other	(67)	103	26
Taxable income	<u>\$ 37,710</u>	<u>\$ 27,081</u>	<u>\$ 21,435</u>

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:

	For the Years Ended December 31,		
	2004	2003	2002
Ordinary income	67.4%	68.6%	59.5%
Return of capital	32.6%	27.6%	31.2%
Long term capital gain	0.0%	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 2002, 2003 and 2004 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 income (losses) before income taxes under GAAP of \$1,971 in 2004, (\$458) in 2003 and (\$910) in 2002. COMI recognized an income tax (expense) benefit on these losses of (\$795) in 2004, \$169 in 2003 and \$347 in 2002. COMI's provision for income tax consisted of the following:

	For the years ended December 31,		
	2004	2003	2002
Current			
Federal	\$ —	\$ —	\$ 182
State	—	—	39
	—	—	221
Deferred			
Federal	(654)	139	104
State	(141)	30	22
	(795)	169	126
Total	<u>\$ (795)</u>	<u>\$ 169</u>	<u>\$ 347</u>

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,		
	2004	2003	2002
Income taxes at U.S. statutory rate	35.0%	35.0%	35.0%
State and local, net of U.S. Federal tax benefit	4.6%	4.2%	4.4%
Other	0.7%	(2.6)%	(1.5)%
Effective tax rate	<u>40.3%</u>	<u>36.6%</u>	<u>37.9%</u>

Items contributing to temporary differences that lead to deferred taxes include net operating losses that are not deductible until future periods, depreciation and amortization, certain accrued compensation and compensation paid in the form of contributions to a deferred nonqualified compensation plan.

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 sold in March 2003. The table below sets forth the components of income from discontinued operations:

For the years ended December 31,	
2003	2002

Revenue from real estate operations	\$ 910	\$ 3,969
Expenses from real estate operations:		
Property operating expenses	359	1,358
Depreciation and amortization	19	481
Interest expense	100	291
Expenses from real estate operations	478	2,130
Earnings from real estate operations before gain on sale of real estate and minority interests	432	1,839
Gain on sale of real estate	2,995	—
Income from discontinued operations before minority interests	3,427	1,839
Minority interests in discontinued operations	(1,004)	(566)
Income from discontinued operations, net of minority interests	\$ 2,423	\$ 1,273

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.

Acquisitions

As of December 31, 2004, we were under contract to acquire a land parcel in Linthicum, Maryland for \$841.

As of December 31, 2004, we were also under contract to acquire a leasehold interest in a property in Washington County, Maryland for \$9,000, subject to potential future reductions ranging from \$750 to \$4,000; the amount of such decrease will be determined based on defined levels of job creation resulting from the future development of the property taking place. Upon completion of this acquisition, we will be obligated to incur \$7,500 in development and construction costs for the land parcel over approximately five years.

Joint Ventures

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 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. In addition, we agreed to unilaterally loan the joint venture an additional \$100 in the event that funds are needed by the entity.

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.

In the three consolidated real estate joint ventures that we owned as of December 31, 2004, we would be obligated to acquire the other members' interest in each of the joint ventures (20% in the case of one and 50% each in the case of two) 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 \$2,067; 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.

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, 2004 follow:

2005	\$ 616
2006	355
2007	71
2008	62
2009	11
	<u>\$ 1,115</u>

Land Leases

We are obligated under leases for two parcels of land, both of which are being held for future development (see the section above entitled "2004 Dispositions"). These leases provide for monthly rent through April 2079. Future minimum annual rental payments due under the terms of these leases as of December 31, 2004 follow:

2005	\$ 48
2006	12
2007	12
2008	12
2009	12
Thereafter	832
	<u>\$ 928</u>

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, 2004 follow:

2005	\$ 342
2006	275
2007	173
2008	85

2009	9
Thereafter	5
	<u>\$ 889</u>

20. Quarterly data (Unaudited)

	For the Year Ended December 31, 2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 56,623	\$ 59,962	\$ 60,563	\$ 66,328
Operating income	\$ 22,029	\$ 21,112	\$ 22,888	\$ 24,556
Income from continuing operations	\$ 8,993	\$ 8,843	\$ 9,750	\$ 9,446
Net income	\$ 8,993	\$ 8,843	\$ 9,750	\$ 9,446
Preferred share dividends	(4,456)	(4,435)	(3,784)	(3,654)
Issuance costs associated with redeemed preferred shares	—	—	(1,813)	—
Net income available to common shareholders	\$ 4,537	\$ 4,408	\$ 4,153	\$ 5,792
Basic earnings per share:				
Income before discontinued operations	\$ 0.15	\$ 0.13	\$ 0.12	\$ 0.16
Net income available to common shareholders	\$ 0.15	\$ 0.13	\$ 0.12	\$ 0.16
Diluted earnings per share:				
Income before discontinued operations	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.15
Net income available to common shareholders	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.15

	For the Year Ended December 31, 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 45,987	\$ 43,069	\$ 65,251	\$ 51,856
Operating income	\$ 17,791	\$ 18,701	\$ 21,716	\$ 20,308
Income from continuing operations	\$ 5,552	\$ 6,261	\$ 8,571	\$ 8,070
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 (loss) available to common shareholders	\$ 5,454	\$ (7,520)	\$ 5,425	\$ 4,291
Basic earnings per share:				
Income (loss) before discontinued operations	\$ 0.13	\$ (0.29)	\$ 0.19	\$ 0.15
Net (loss) income available to common shareholders	\$ 0.23	\$ (0.30)	\$ 0.19	\$ 0.15
Diluted earnings per share:				
Income (loss) before discontinued operations	\$ 0.12	\$ (0.29)	\$ 0.18	\$ 0.14
Net income (loss) available to common shareholders	\$ 0.22	\$ (0.30)	\$ 0.18	\$ 0.14

21. Pro Forma Financial Information (Unaudited)

We accounted for our 2003 and 2004 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, 2004.

We prepared our pro forma condensed consolidated financial information presented below as if all of our 2003 and 2004 acquisitions and dispositions of operating properties had occurred at the beginning of the respective periods. 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 at the beginning of the respective periods, nor does it purport to indicate our results of operations for future periods.

	For the years ended December 31,	
	2004	2003
	(unaudited)	(unaudited)
Pro forma total revenues	\$ 260,852	\$ 245,604
Pro forma net income	\$ 38,366	\$ 32,244
Pro forma net income available to common shareholders	\$ 20,224	\$ 9,017
Pro forma earnings per common share on net income available to common shareholders		
Basic	\$ 0.61	\$ 0.31
Diluted	\$ 0.58	\$ 0.30

22. Subsequent Events

On January 27, 2005, we purchased a 19-acre land parcel located in Chantilly, Virginia for a purchase price of \$7,100.

Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2004. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in

accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2004 based on the criteria in Internal Control-Integrated Framework issued by the COSO.

Our management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Dated: March 16, 2005

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

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Corporate Office Properties Trust

We have completed an integrated audit of Corporate Office Properties Trust’s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders’ equity and cash flows present fairly, in all material respects, the financial position of Corporate Office Properties Trust and its subsidiaries (the “Company”) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 2 to the consolidated financial statements, the Company changed the manner in which it accounts for the consolidation of variable interest entities as of March 1, 2004.

Internal control over financial reporting

Also, in our opinion, management’s assessment, included in the accompanying Management’s Report on Internal Control Over Financial Reporting that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management’s assessment and on the effectiveness of the Company’s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial

reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, Maryland
March 16, 2005

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		Dividends Per Share
	Low	High	
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

2004	Price Range		Dividends Per Share
	Low	High	
First Quarter	\$ 20.28	\$ 25.05	\$ 0.235
Second Quarter	19.00	25.10	\$ 0.235
Third Quarter	24.09	26.91	\$ 0.255
Fourth Quarter	25.70	29.37	\$ 0.255

The number of holders of record of our shares was 382 as of December 31, 2004. 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
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.
 Crown Point, L.L.C.
 Delaware Airport III, LLC
 Delaware Airport VIII, LLC
 Delaware Airport IX, LLC
 Great Mills I, L.L.C.
 Great Mills II, L.L.C.
 Great Mills III, L.L.C.
 Great Mills IV, L.L.C.
 Great Mills V, L.L.C.
 Sterling York, 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 XX Parking, LLC
 Airport Square XXI, LLC
 Airport Square Partners, 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
 COPT T-11, 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
 Enterprise Campus Developer, LLC
 Fourth Exploration, L.L.C.
 Fifth Exploration, L.L.C.
 Gateway 44, LLC
 Gateway 67, LLC
 Gateway 70, LLC
 Honeyland 108, LLC
 Jolly COPT I, LLC
 Jolly COPT II, LLC
 Lakeview at the Greens, LLC
 M Square NOAA, LLC
 MOR Forbes, LLC
 MOR Forbes 2, LLC
 MOR Montpelier 3, 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 140 Holdings, 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
NBP 302, LLC
NBP 304, LLC
NBP 306, LLC
NBP 318, LLC
NBP 320, LLC
NBP 322, LLC
Pecan Court, L.L.C.
Red Cedar Building, LLC
RIVA Trustee, LLC
Tech Park I, LLC
Tech Park II, LLC
Tech Park IV, LLC
Third Exploration, L.L.C.
2500 Riva Trust

67 Financing, LLC
6711 Gateway Funding, 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
8681 Robert Fulton Drive, LLC
9690 Deereco Road, LLC

New Jersey

COPT Princeton South, LLC
Cuaba Associates, L.L.C.
Princeton Executive, LLC
68 Culver, LLC
Route 46 Partners, L.L.C.

Pennsylvania

Bolivar Associates, LLC
Corporate Gateway General Partnership
COPT Gateway, LP
COPT Pennlyn, L.P.
Gateway Central Limited Partnership
6385 Flank Drive, LP

Virginia

COPT Chantilly, LLC
COPT Chantilly II, LLC
COPT Dahlgren, LLC
COPT Dahlgren I, LLC
COPT Dahlgren IV, LLC
COPT Greens I, LLC
COPT Greens II, LLC
COPT Greens III, LLC
COPT Park Meadow, LLC
COPT Ridgeview I, LLC
COPT Ridgeview II & III, LLC
COPT Stonecroft, LLC
COPT Sunrise, LLC
COPT Waterview I, LLC
COPT Waterview III, LLC
TRC Pinnacle Towers, L.L.C.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-59766, 333-36740, 333-60379, 333-85210 and No. 333-108785) and Form S-8 (No. 333-87384, No. 333-88711, No. 333-111736, No. 333-118096 and No. 333-118097) of Corporate Office Properties Trust of our report dated March 16, 2005 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting, 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 16, 2005 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers LLP

Baltimore, Maryland
March 16, 2005

CORPORATE OFFICE PROPERTIES TRUST

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 16, 2005/s/ Clay W. Hamlin, III
Clay W. Hamlin, III
Chief Executive Officer

CORPORATE OFFICE PROPERTIES TRUST

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 16, 2005/s/ Randall M. Griffin
Randall M. Griffin
President and Chief Operating Officer

CORPORATE OFFICE PROPERTIES TRUST

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 16, 2005/s/ Roger A. Waesche, Jr.
Roger A. Waesche, Jr.
Chief Financial Officer

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, 2004, 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 to 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 16, 2005

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, 2004, 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 to 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 16, 2005

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, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger A. Waesche, Jr., Chief Financial Officer of the Company, certify that to 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.
Chief Financial Officer

Date: March 16, 2005
