UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT 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, 2006

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.)
6711 Columbia Gateway Drive, Suite 300 **Columbia, MD** (Address of principal executive offices)	**21046** (Zip Code)

Registrant's telephone number, including area code: **(443) 285-5400**

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 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**
Series J 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act☐ Yes ☒ No

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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ☐ Yes ☒ No

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately $1.7 billion, 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, 2006; 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 January 31, 2007, 46,081,833 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, 2006 are incorporated by reference into Parts I and II of this Form 10-K and portions of the proxy statement of the registrant for its 2007 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 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 and 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;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- governmental actions and initiatives; and
- environmental requirements.

For further information on factors that could affect the company and the statements contained herein, you should refer to the section below entitled "Item 1A. Risk Factors." We undertake no obligation to update or supplement forward-looking statements.

PART I

Item 1. Business

OUR COMPANY

General. We are a fully-integrated and self-managed real estate investment trust ("REIT") that focuses on the acquisition, development, ownership, management and leasing of primarily Class A suburban office properties in the Greater Washington, D.C. region and other select submarkets. We also have a core customer expansion strategy built on meeting, through acquisitions and development, the multi-location requirements of our strategic tenants. Our strategy is to operate in select, demographically strong submarkets where we can achieve critical mass, operating synergies and key competitive advantages, including attracting high quality tenants and securing acquisition and development opportunities. As of December 31, 2006, our investments in real estate included the following:

- 170 wholly owned operating properties in Maryland, Virginia, Colorado, Texas, Pennsylvania and New Jersey containing 15.1 million rentable square feet that were 92.8% occupied;
- 16 wholly owned office properties under construction or development that we estimate will total approximately 1.8 million square feet upon completion, and two wholly owned office properties totaling approximately 129,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 1,048 acres that were predominantly located near certain of our operating properties and that we believe are potentially developable into approximately 8.4 million square feet; and
- partial ownership interests, primarily through joint ventures, in the following:
  - 17 fully operational properties totaling approximately 727,000 square feet;
  - three properties under construction or development (including one not owned but under contract) that we estimate will total 324,000 square feet upon completion, and two properties totaling approximately 611,000 square feet that were mostly under redevelopment; and
  - land parcels totaling 279 acres that were predominantly located near certain of our operating properties and potentially developable into approximately 2.4 million square feet.

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 100% of Corporate Office Management, Inc. ("COMI") and owns, either directly or through COMI, 100% of the following entities that provide real estate services (collectively defined as the "Service Companies"): COPT Property Management Services, LLC ("CPM"), COPT Development and Construction Services, LLC ("CDC"), Corporate Development Services, LLC ("CDS") and COPT Environmental Systems, LLC ("CES")(formerly named Corporate Cooling and Controls, LLC). CPM manages most of our properties and also provides corporate facilities management for select third parties. CDS and CDC provide construction and development services primarily to us but also to third parties. CES provides heating and air conditioning installation, maintenance, repair and controls services to us and to third parties.

Interests in our Operating Partnership are in the form of common and preferred units. As of December 31, 2006, we owned approximately 83% of the outstanding common units and approximately 96% of the outstanding preferred units in our Operating Partnership. The remaining common and preferred units in our Operating Partnership were owned by third parties, which included certain of our Trustees.

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

Our executive offices are located at 6711 Columbia Gateway Drive, Suite 300, Columbia, Maryland 21046 and our telephone number is (443) 285-5400.

Corporate Office Properties Trust's Internet address is www.copt.com. We make available on our Internet website 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 Internet 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.

The Securities and Exchange Commission (the "SEC") maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. This Internet website can be accessed at www.sec.gov. The public may also read and copy paper filings that we have made with the SEC at the SEC's Public Reference Room. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

Significant 2006 Developments

During 2006, we:

- experienced increased revenues, operating expenses and operating income due primarily to the addition of properties through acquisition and construction activities;
- finished the period with occupancy for our wholly owned portfolio of properties at 92.8%;
- acquired six operating properties totaling 1.0 million square feet, a building to be redeveloped totaling 74,749 square feet and seven parcels of land that we believe can support up to 2.3 million developable square feet, for a total of $169.7 million;
- acquired 500 acres of the 591-acre former Fort Ritchie United States Army Base located in Cascade, Washington County, Maryland for a value of $5.6 million with an initial cash outlay of $2.5 million and expect to acquire the remaining 91 acres in 2007. The 591-acre parcel is anticipated to accommodate a total of 1.7 million square feet of office space and 673 residential units, including approximately 306,000 square feet of existing office space and 110 existing rentable residential units;
- had seven newly-constructed properties totaling 866,000 square feet become fully operational. We also had 68,196 square feet placed into service in one partially operational property;
- sold seven operating properties, including three from one of our non-core regions, a newly constructed property and a parcel of land for a total of $83.0 million, resulting in recognized gains before minority interest totaling $17.3 million;
- sold 2.0 million common shares to an underwriter at a net price of $41.31 per share, for net proceeds of $82.4 million;

- sold 3,390,000 Series J Cumulative Redeemable Preferred Shares of beneficial interest (the “Series J Preferred Shares”) at a price of $25 per share for net proceeds of $81.9 million;
- redeemed the Series E Cumulative Redeemable Preferred Shares of beneficial interest and the Series F Cumulative Redeemable Preferred Shares of beneficial interest for a redemption price of $25 per share, resulting in a total payment of $64.4 million. We recognized a $3.9 million decrease to net income available to common shareholders pertaining to the original issuance costs of these shares;
- issued a $200.0 million aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. The notes are redeemable by us on or after September 20, 2011. The notes also contain an exchange settlement feature, which provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares of beneficial interest (“common shares”) or a combination of cash and common shares at an initial exchange rate of 18.4162 shares per $1,000 principal amount of the notes; and
- borrowed $146.5 million under a 10-year mortgage payable requiring payments of interest only at a fixed rate of 5.43%.

Subsequent Events

On January 9 and 10, 2007, we completed a series of transactions that resulted in the acquisition of 56 operating properties totaling 2.4 million square feet and land parcels totaling 187 acres. We refer to this transaction as the Nottingham Acquisition. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor. We believe that the land parcels totaling 187 acres can support at least 2.0 million developable square feet. We completed the Nottingham acquisition for an aggregate cost of approximately $363.9 million. We financed the acquisition by issuing $26.6 million in Series K Preferred Shares of beneficial interest (the “Series K Preferred Shares”) to the seller, issuing $154.9 million in common shares to the seller at a deemed value of $49 per share, using $20.1 million from an escrow funded by proceeds from one of our property sales and using debt borrowings for the remainder.

Corporate Objectives and Strategies

Our primary objectives are to achieve sustainable long-term growth in results of operations and to maximize long-term shareholder value. We seek to achieve these objectives through focusing on the acquisition, development, ownership, management and leasing 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. While most of our properties are located in the Greater Washington, D.C. region, we expect to pursue selective expansion opportunities outside of that region, typically to meet the stated or anticipated needs of select strategic tenants.

Office Park Focus. We typically focus on owning and operating properties located in established suburban corporate office parks. We believe that the suburban office park environment generally attracts long-term, high-quality tenants 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 any given one-year or five-year period.

Defense Industry Focus. A high concentration of our revenues is generated from tenants in the United States defense industry (comprised of the United States Government and defense contractors). This industry is particularly interested in a number of 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 these current and prospective tenants, 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 also pursue acquisition opportunities for properties that meet the multi-location requirements of our strategic tenants. 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 located near 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 quality services is an integral part of our goal 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

Our financing policy is aimed at maintaining a flexible capital structure in order to facilitate consistent growth and performance in the face of differing market conditions in the most cost-effective way possible. Key components of our policy are set forth below:

- monitoring levels of debt relative to our overall capital structure;
- 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 debt and equity holders, including minority interest holders;
- monitoring the relationship of our total variable-rate debt to our total debt; this is important to us in limiting the amount of our debt that is subject to future increases in interest rates;
- monitoring 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 debt;
- pursuing opportunities to reduce financing costs by refinancing existing debt or redeeming existing preferred equity when we believe market conditions to be favorable;
- pursuing the issuance of common and preferred shares when we believe market conditions to be favorable; and
- using units in our Operating Partnership as an equity source to finance our investing activities; this strategy provides prospective property sellers the ability to defer taxable gains by receiving our partnership units in lieu of cash and reduces the need for us to access the equity and debt markets.

Debt

For information relating to future maturities of our debt, 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 and notes thereto, which is located in a separate section at the end of this report beginning on page F-1.

Industry Segments

We operate in one primary industry: suburban office real estate. At December 31, 2006, our suburban office real estate operations had nine primary geographical segments, as set forth below:

- Baltimore/Washington Corridor (defined as the Maryland counties of Howard and Anne Arundel);
- Northern Virginia (defined as Fairfax County, Virginia);
- Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George's and Frederick);
- St. Mary's & King George Counties (located in Maryland and Virginia, respectively);
- Suburban Baltimore, Maryland;
- Colorado Springs, Colorado;
- San Antonio, Texas;
- Northern/Central New Jersey (as of December 31, 2006, all of our properties in this segment were located in Central New Jersey); and
- Greater Philadelphia, Pennsylvania.

As of December 31, 2006, 124 of our properties were located in what is widely known as the Greater Washington, D.C. region, which includes the first four regions set forth above, and 23 were located in neighboring Suburban Baltimore. The core customer expansion strategy that we began implementing in 2004 led us into the next two regions set forth above: San Antonio, Texas and Colorado Springs, Colorado. The last two regions set forth above are considered non-core to the Company. For information relating to these geographic segments, you should refer to Note 16 to our Consolidated Financial Statements, which is included in a separate section at the end of this report beginning on page F-1.

Employees

As of December 31, 2006, we had 313 employees. 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 properties' owners may be willing to accept lower rents than are acceptable to us. In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes in economic factors and supply and demand of space. These factors may make it difficult for us to lease 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.

Item 1A. 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 our Consolidated Financial Statements and notes thereto for the year ended December 31, 2006, which are included in a separate section at the end of this report beginning on page F-1.

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 meeting 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.

In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes due in economic factors and supply and demand of space. These factors may make it difficult for us to lease existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meeting our short-term capital needs.

Adverse developments concerning some of our key tenants could have a negative impact on our revenue. As of December 31, 2006, 20 tenants accounted for 56.7% of the total annualized rental revenue of our wholly owned properties, excluding owner-occupied leasing activity, and five of these tenants accounted for 34.2% of that total. 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 in our portfolio of wholly owned properties as of December 31, 2006. 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 GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis. Information regarding our five largest tenants is set forth below:

Tenant		Annualized Rental Revenue at December 31, 2006 (in thousands)	Percentage of Total Annualized Rental Revenue of Wholly Owned Properties	Number of Leases
United States of America	$	47,584	16.3%	45
Booz Allen Hamilton, Inc.		20,145	6.9%	10
Northrop Grumman Corporation		12,375	4.2%	15
Computer Sciences Corporation (1)		11,076	3.8%	4
AT&T Corporation		8,693	3.0%	10

(1) Includes affiliated organizations and agencies and predecessor companies.

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, 2006, the United States defense industry (comprising the United States Government and defense contractors) accounted for approximately 54.4% of the total annualized rental revenue of our wholly owned properties. Most of the 16.3% of our total annualized rental revenue that we derived from leases with agencies of the United States Government as of December 31, 2006 is included in the 54.4% of our total annualized revenue from the United States 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 the space leased from us is focused on providing service to the United States Government's defense department, we classify the revenue we earn from the lease as United States defense industry revenue. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into industry groupings and if we did, the resulting groupings would be materially different.

We have become increasingly reliant on defense industry tenants in recent years due primarily to: (1) increased activity in that industry following the events of September 11, 2001; (2) the strong presence of the industry in a number of our submarkets; and (3) our strategy to form strategic alliances with certain of our tenants in the industry. The percentage of our total annualized rental revenue derived from the defense industry could continue to increase. A reduction in government spending for defense could affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that these tenants will renew their leases. In the case of the United States Government, a reduction in government spending could result in the early termination of leases. Such occurrences could have an adverse effect on our results of operations, financial condition, cash flows and ability to make distributions to our shareholders.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so. Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. 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.

Most of our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Greater Washington, D.C. region and neighboring suburban Baltimore. We may suffer economic harm in the event of a decline in the real estate market or general economic conditions in those regions. Most of our properties are located in the Mid-Atlantic region of the United States and as of December 31, 2006, our properties located in the Greater Washington, D.C. region and neighboring Suburban Baltimore accounted for a combined 87.6% of our total annualized rental revenue from wholly owned properties. 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 Greater Washington, D.C. region or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire for our properties, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant leaves, we can expect to experience a vacancy for some period of time, as well as higher capital costs than if a tenant renews. As a result, our financial performance and ability to make expected distributions to our shareholders could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms. Set forth below are the percentages of total annualized rental revenue from wholly owned properties as of December 31, 2006 that are subject to scheduled lease expirations in each of the next five years:

Year	Percentage
2007	12.4%
2008	9.9%
2009	16.0%
2010	14.0%
2011	8.3%

Most of the leases with our largest tenant, the United States Government, which account for 16.3% of our total annualized rental revenue in wholly owned properties at December 31, 2006, 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 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 successfully 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 of making unsuccessful acquisitions in new markets. In 2006, we completed acquisitions of properties in regions where we did not previously own properties. Moreover, we expect to continue to pursue selective acquisitions of properties in new regions. 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, construct and renovate properties, including some that are not fully pre-leased. When we develop, construct and renovate properties, we assume the risk that actual costs will exceed our budgets, that we will experience 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, 2006, we owned 17 fully operational properties and properties under construction, development, redevelopment or held for future development through joint ventures. We also continue to pursue new investments in real estate through joint ventures. Aside from our inability to unilaterally control

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the operations of joint ventures, our investments in joint ventures 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, 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 30, 2007. These policies include coverage for acts of terrorism. Future changes in the insurance industry's risk assessment approach and pricing structure 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. The majority of our properties were either collateralized or identified by us to support repayment on 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, 2006, our total outstanding debt was $1.5 billion and our debt to total assets (defined as (1) the sum of mortgage and other loans and exchangeable senior notes divided by (2) total assets) was 61.9%.

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 debt, our lenders could foreclose on our properties securing such debt and in some cases other properties and assets that we own.

Much of our debt is cross-collateralized, which means that separate groups of properties from our portfolio secure each of the underlying loans. More importantly, much of our debt is 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, 2006, 11.7% of our total debt had variable interest rates, including the effect of interest rate swaps. 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 debt in the future. As of December 31, 2006, our scheduled debt payments over the next five years, including maturities, were as follows:

Year	Amount (1) (in thousands)
2007	$ 140,950(2)
2008	375,208(3)
2009	61,791
2010	73,128
2011	108,854

(1) Represents principal maturities only and therefore excludes premiums and discounts.
(2) Includes maturities totaling $48.8 million that may be extended for a one-year period, subject to certain conditions.
(3) Includes maturities totaling $218.4 million that may be extended for a one-year period, subject to certain conditions.

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

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

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

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

In addition, we can make distributions to the holders of our common shares only after we make preferential distributions to holders of our preferred shares.

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 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. Resolutions adopted by our Board of Trustees and/or provisions of our bylaws exempt us from such laws, but our Board of Trustees can alter its resolutions or 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 at least 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 made changes to the tax laws and regulations that could make it less advantageous for investors to invest in REITs. The Jobs and Growth Tax Relief Reconciliation Act of 2003, or the 2003 Act, provides that generally for taxable years beginning after December 31, 2002 and before December 31, 2008, certain dividends received by domestic individual shareholders from certain C corporations are subject to a reduced rate of tax of up to 15%. Prior to this Act, such dividends received by domestic individual shareholders were generally subject to tax at ordinary income rates, which were as high as 38.6%. In general, the provisions of the Act do not benefit individual shareholders of REITs and could make an investment in a C corporation that is not a REIT more attractive than an investment in a REIT. We cannot predict the effects that this Act may have on the market price for our common or preferred shares.

The average daily trading volume of our common shares during the year ended December 31, 2006 was approximately 292,000 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.

Our ability to pay dividends may be limited, and we cannot assure you that we will be able to pay dividends regularly. Because we conduct substantially all of our operations through our operating partnership, our ability to pay dividends on any series of preferred shares will depend almost entirely on payments and dividends received on our interests in our operating partnership the payment of which depends in turn on our ability to operate profitably and generate cash flow from our operations. We cannot guarantee that we will be able to pay dividends on a regular quarterly basis in the future. Additionally, the terms of some of the debt to which our operating partnership is a party limit its ability to make some types of payments and other dividends to us. This in turn limits our ability to make some types of payments, including payment of dividends on common or preferred shares, unless we meet certain financial tests or such payments or dividends are required to maintain our qualification as a REIT. As a result, if we are unable to meet the applicable financial tests, we may not be able to pay dividends on our shares in one or more periods. Furthermore, any new shares of beneficial interest issued will substantially increase the cash required to continue to pay cash dividends at current levels. Any common or preferred shares of beneficial interest that may in the future be issued to finance acquisitions, upon exercise of options or otherwise, would have a similar effect.

Our ability to pay dividends is further limited by the requirements of Maryland law. Our ability to pay dividends on any series of preferred shares is further limited by the laws of Maryland. Under applicable Maryland law, a Maryland REIT may not make a distribution if, after giving effect to the distribution, the REIT would not be able to pay its debts as the debts become due in the usual course of business, or the REIT's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the REIT were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on any series of preferred shares if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any series of preferred shares then outstanding, if any, with preferences senior to those of any such series of preferred shares.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on any series of preferred shares. Our governing documents do not limit us from incurring additional indebtedness and other liabilities. As of December 31, 2006, we had $1.5 billion of consolidated indebtedness outstanding. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to any series of preferred shares if we incur additional indebtedness.

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 debt, 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, however, assure you 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, continue to create 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 is evolving 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 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 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 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table provides certain information about our wholly owned office properties as of December 31, 2006:

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)
Baltimore/Washington Corridor:						
2730 Hercules Road *Annapolis Junction, MD*	BWI Airport	1990	240,336	100.0%	$ 5,542,023	$ 23.06
304 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2005	162,498	100.0%	4,224,948	26.00
306 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2006	157,896	100.0%	4,250,583	26.92
2720 Technology Drive *Annapolis Junction, MD*	BWI Airport	2004	156,730	100.0%	6,749,960	43.07
2711 Technology Drive *Annapolis Junction, MD*	BWI Airport	2002	152,000	100.0%	4,202,190	27.65
318 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2005	125,681	100.0%	3,087,040	24.56
322 Sentinel Drive *Annapolis Junction, MD*	BWI Airport	2006	125,568	100.0%	3,076,416	24.50
140 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2003	119,904	100.0%	3,613,687	30.14
132 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2000	118,456	100.0%	3,151,297	26.60
2721 Technology Drive *Annapolis Junction, MD*	BWI Airport	2000	118,093	100.0%	3,267,719	27.67
2701 Technology Drive *Annapolis Junction, MD*	BWI Airport	2001	117,450	100.0%	3,422,674	29.14
1306 Concourse Drive *Linthicum, MD*	BWI Airport	1990	114,046	88.5%	2,314,869	22.93
870-880 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1981	105,151	100.0%	2,182,891	20.76

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)
2691 Technology Drive *Annapolis Junction, MD*	BWI Airport	2005	103,683	100.0%	2,669,837	25.75
1304 Concourse Drive *Linthicum, MD*	BWI Airport	2002	101,710	87.2%	2,426,594	27.37
900 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	97,261	100.0%	2,319,176	23.84
1199 Winterson Road *Linthicum, MD*	BWI Airport	1988	96,636	100.0%	2,405,980	24.90
920 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1982	96,566	100.0%	1,677,242	17.37
134 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1999	93,482	100.0%	2,331,220	24.94
133 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1997	87,401	100.0%	2,252,919	25.78
135 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1998	87,655	100.0%	2,423,269	27.65

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)
141 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	87,247	100.0%	2,219,909	25.44
1302 Concourse Drive *Linthicum, MD*	BWI Airport	1996	84,406	73.3%	1,512,699	24.47
7467 Ridge Road *Hanover, MD*	BWI Airport	1990	74,326	100.0%	1,692,921	22.78
7240 Parkway Drive *Hanover, MD*	BWI Airport	1985	73,972	81.0%	1,322,060	22.07
881 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1986	73,572	100.0%	1,655,370	22.50
1099 Winterson Road *Linthicum, MD*	BWI Airport	1988	70,569	25.0%	393,287	22.27
131 National Business Parkway *Annapolis Junction, MD*	BWI Airport	1990	69,039	100.0%	1,839,616	26.65
1190 Winterson Road *Linthicum, MD*	BWI Airport	1987	72,518	65.2%	1,168,337	24.72
849 International Drive *Linthicum, MD*	BWI Airport	1988	68,758	83.1%	1,377,662	24.10
911 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1985	68,296	100.0%	1,435,143	21.01
1201 Winterson Road *Linthicum, MD*	BWI Airport	1985	67,903	100.0%	1,037,500	15.28
999 Corporate Boulevard *Linthicum, MD*	BWI Airport	2000	67,455	100.0%	1,895,539	28.10
7318 Parkway Drive *Hanover, MD*	BWI Airport	1984	59,204	100.0%	992,846	16.77
891 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	58,454	97.4%	1,137,302	19.99
7320 Parkway Drive *Hanover, MD*	BWI Airport	1983	58,453	100.0%	894,836	15.31
901 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	57,593	100.0%	1,139,145	19.78
930 International Drive *Linthicum, MD*	BWI Airport	1986	57,409	96.3%	770,893	13.95
800 International Drive *Linthicum, MD*	BWI Airport	1988	57,379	100.0%	1,059,805	18.47
900 International Drive *Linthicum, MD*	BWI Airport	1986	57,140	100.0%	843,476	14.76
921 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	54,175	100.0%	1,197,136	22.10
939 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1983	53,031	92.3%	1,082,577	22.11
938 Elkridge Landing Road *Linthicum, MD*	BWI Airport	1984	52,988	100.0%	1,013,215	19.12
1340 Ashton Road *Hanover, MD*	BWI Airport	1989	46,400	100.0%	994,022	21.42
7321 Parkway Drive *Hanover, MD*	BWI Airport	1984	39,822	100.0%	705,036	17.70
1334 Ashton Road *Hanover, MD*	BWI Airport	1989	37,565	36.7%	250,720	18.18
1331 Ashton Road *Hanover, MD*	BWI Airport	1989	29,936	100.0%	524,215	17.51

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)
1350 Dorsey Road *Hanover, MD*	BWI Airport	1989	19,992	63.9%	230,064	18.02
1344 Ashton Road *Hanover, MD*	BWI Airport	1989	17,061	89.0%	402,157	26.49
1341 Ashton Road *Hanover, MD*	BWI Airport	1989	15,841	100.0%	292,600	18.47
1343 Ashton Road *Hanover, MD*	BWI Airport	1989	9,962	100.0%	194,828	19.56
114 National Business Parkway *Annapolis Junction, MD*	BWI Airport	2002	9,908	100.0%	204,656	20.66
1348 Ashton Road *Hanover, MD*	BWI Airport	1988	3,108	100.0%	77,808	25.03
7125 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1973/1999	611,379	97.1%	8,001,296	13.48
7200 Riverwood Drive *Columbia, MD*	Howard County Perimeter	1986	160,000	100.0%	3,318,967	20.74
Old Annapolis Road *Columbia, MD*	Howard County Perimeter	1974/1985	150,000	100.0%	5,179,500	34.53
7000 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	145,806	100.0%	1,494,512	10.25
6731 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2002	123,911	100.0%	3,451,323	27.85
6940 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	109,003	100.0%	2,482,662	22.78
6950 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1998	107,778	100.0%	2,262,921	21.00
7067 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2001	82,953	49.8%	931,578	22.57
6750 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	78,460	100.0%	1,921,927	24.50
6700 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	74,859	96.7%	1,647,318	22.76
6711 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2006	68,196	100.0%	1,915,030	28.08
8621 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2005/2006	86,032	76.4%	1,171,176	17.83
6740 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1992	61,957	100.0%	1,631,239	26.33
7015 Albert Einstein Drive *Columbia, MD*	Howard County Perimeter	1999	61,203	100.0%	874,756	14.29
8671 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	56,350	100.0%	1,053,777	18.70
6716 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1990	52,005	100.0%	1,165,296	22.41
8661 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	49,307	90.4%	760,168	17.06
7130 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1989	46,840	81.3%	634,881	16.68
7142 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1994	45,951	100.0%	636,578	13.85
9140 Guilford Road *Columbia, MD*	Howard County Perimeter	1983	41,704	86.4%	618,674	17.18

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)
6708 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	39,203	100.0%	807,582	20.60
7065 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	38,560	100.0%	808,396	20.96
7138 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	38,225	100.0%	790,785	20.69
7063 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	36,936	49.1%	405,111	22.34
9160 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	37,034	100.0%	697,206	18.83
6760 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1991	36,440	100.0%	812,767	22.30

7150 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1991	35,812	100.0%	559,749	15.63
7061 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	29,604	100.0%	784,673	26.51
6724 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	28,420	85.6%	596,062	24.51
7175 Riverwood Drive *Columbia, MD*	Howard County Perimeter	1996	26,500	0.0%	—	—
7134 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	21,991	100.0%	384,130	17.47
9150 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	18,592	100.0%	352,422	18.96
9130 Guilford Drive *Columbia, MD*	Howard County Perimeter	1984	13,700	100.0%	251,066	18.33
2500 Riva Road *Annapolis, MD*	Annapolis	2000	155,000	100.0%	1,935,000	12.48
Subtotal/Weighted Average			**7,021,396**	**95.1%**	**$ 149,488,442**	**$ 22.39**
Suburban Maryland						
11800 Tech Road *Silver Spring, MD*	North Silver Spring	1969/1989	235,954	95.9%	$ 3,876,028	$ 17.14
400 Professional Drive *Gaithersburg, MD*	Gaithersburg	2000	129,311	100.0%	3,635,426	28.11
110 Thomas Johnson Drive *Frederick, MD*	Frederick	1987/1999	117,803	58.0%	1,372,932	20.08
15 West Gude Drive *Rockville, MD*	Rockville	1986	106,928	45.6%	1,037,559	21.28
45 West Gude Drive *Rockville, MD*	Rockville	1987	108,588	100.0%	2,099,772	19.34
Subtotal/Weighted Average			**698,584**	**83.2%**	**$ 12,021,717**	**$ 20.68**
Suburban Baltimore:						
11311 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1984/1994	211,931	69.3%	$ 3,519,464	$ 23.98
10150 York Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1985	180,374	86.7%	2,907,788	18.59
9690 Deereco Road *Timonium, MD*	Hunt Valley/Rte 83 Corridor	1988	134,175	96.3%	3,177,227	24.58
200 International Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1987	128,658	51.8%	1,585,356	23.78

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)
375 W. Padonia Road *Timonium, MD*	Hunt Valley/Rte 83 Corridor	1986	110,328	99.6%	1,790,075	16.28
226 Schilling Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1980	98,640	100.0%	2,163,034	21.93
201 International Circle *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1982	78,634	56.3%	1,003,594	22.67
11011 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1974	56,512	54.5%	500,386	16.25
11101 McCormick Road *Hunt Valley, MD*	Hunt Valley/Rte 83 Corridor	1976	24,232	88.4%	370,706	17.31
7210 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1972	83,435	100.0%	878,302	10.53
7152 Windsor Boulevard *Woodlawn, MD*	Baltimore County Westside	1986	57,855	100.0%	796,234	13.76
21 Governor's Court *Woodlawn, MD*	Baltimore County Westside	1981/1995	56,063	90.2%	825,221	16.32
7125 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	50,906	99.2%	895,623	17.74
7253 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	38,930	100.0%	468,348	12.03
7104 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	29,457	34.3%	162,684	16.11
17 Governor's Court *Woodlawn, MD*	Baltimore County Westside	1981	14,701	78.6%	215,206	18.61
15 Governor's Court *Woodlawn, MD*	Baltimore County Westside	1981	14,568	100.0%	210,470	14.45
7127 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	11,144	77.7%	162,773	18.80
7129 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	11,075	0.0%	—	—
7108 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	9,018	47.1%	79,395	18.71

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)
7102 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	8,879	100.0%	149,878	16.88
7106 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1988	8,820	100.0%	140,887	15.97
7131 Ambassador Road *Woodlawn, MD*	Baltimore County Westside	1985	7,453	45.3%	50,625	15.00
Subtotal/Weighted Average			**1,425,788**	**81.1%**	**$ 22,053,276**	**$ 19.08**
Blue Bell/Philadelphia:						
753 Jolly Road *Blue Bell, PA*	Blue Bell	1960/ 1992/1994	419,472	100.0%	$ 4,107,312	$ 9.79
785 Jolly Road *Blue Bell, PA*	Blue Bell	1970/1996	219,065	100.0%	2,466,483	11.26
760 Jolly Road *Blue Bell, PA*	Blue Bell	1974/1994	208,854	100.0%	3,007,959	14.40
751 Jolly Road *Blue Bell, PA*	Blue Bell	1966/1991	112,958	100.0%	1,106,042	9.79
Subtotal/Weighted Average			**960,349**	**100.0%**	**$ 10,687,796**	**$ 11.13**

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)
Northern/Central New Jersey:						
431 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1958/1998	171,200	100.0 %	$ 1,495,200	$ 8.73
429 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1966/1996	142,385	100.0 %	2,975,978	20.90
47 Commerce *Cranbury, NJ*	Exit 8A - Cranbury	1992/1998	41,398	100.0 %	547,649	13.23
437 Ridge Road *Dayton, NJ*	Exit 8A - Cranbury	1962/1996	30,000	100.0 %	656,040	21.87
8 Centre Drive *Monroe Township, NJ*	Exit 8A - Cranbury	1989	16,199	27.3 %	116,908	26.45
2 Centre Drive *Monroe Township, NJ*	Exit 8A - Cranbury	1989	16,132	100.0 %	509,310	31.57
Subtotal/Weighted Average			**417,314**	**97.2%**	**$ 6,301,085**	**$ 15.54**
Northern Virginia:						
15000 Conference Center Drive *Chantilly, VA*	Dulles South	1989	470,406	99.8 %	$ 10,638,945	$ 22.66
15010 Conference Center Drive *Chantilly, VA*	Dulles South	2006	223,610	34.7 %	1,941,275	25.00
15059 Conference Center Drive *Chantilly, VA*	Dulles South	2000	145,192	100.0 %	4,209,663	28.99
15049 Conference Center Drive *Chantilly, VA*	Dulles South	1997	145,053	100.0 %	4,028,823	27.77
14900 Conference Center Drive *Chantilly, VA*	Dulles South	1999	127,115	99.8 %	3,509,183	27.66
14280 Park Meadow Drive *Chantilly, VA*	Dulles South	1999	114,126	100.0 %	3,035,189	26.60
4851 Stonecroft Boulevard *Chantilly, VA*	Dulles South	2004	88,094	100.0 %	2,554,417	29.00
14850 Conference Center Drive *Chantilly, VA*	Dulles South	2000	69,711	100.0 %	2,079,071	29.82
14840 Conference Center Drive *Chantilly, VA*	Dulles South	2000	69,710	100.0 %	1,873,803	26.88
13200 Woodland Park Drive *Herndon, VA*	Herndon	2002	404,665	100.0 %	10,612,628	26.23
13454 Sunrise Valley Road *Herndon, VA*	Herndon	1998	112,597	100.0 %	2,565,909	22.79
13450 Sunrise Valley Road *Herndon, VA*	Herndon	1998	53,728	98.6 %	1,234,325	23.30
1751 Pinnacle Drive *McLean, VA*	Tysons Corner	1989/1995	260,469	71.7 %	5,711,748	30.58
1753 Pinnacle Drive *McLean, VA*	Tysons Corner	1976/2004	181,637	98.8 %	5,822,034	32.44
Subtotal/Weighted Average			**2,466,113**	**90.9%**	**$ 59,817,013**	**$ 26.68**
St. Mary's & King George Counties:						
22309 Exploration Drive *Lexington Park, MD*	St. Mary's County	1984/1997	98,860	100.0 %	$ 1,414,697	$ 14.31
46579 Expedition Drive *Lexington Park, MD*	St. Mary's County	2002	61,156	94.0 %	1,180,743	20.54

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)
22289 Exploration Drive *Lexington Park, MD*	St. Mary's County	2000	61,059	92.2 %	1,114,195	19.78
44425 Pecan Court *California, MD*	St. Mary's County	1997	59,055	84.9 %	1,043,006	20.79
22299 Exploration Drive *Lexington Park, MD*	St. Mary's County	1998	58,231	95.2 %	1,242,530	22.42
44408 Pecan Court *California, MD*	St. Mary's County	1986	50,532	100.0 %	568,517	11.25
23535 Cottonwood Parkway *California, MD*	St. Mary's County	1984	46,656	100.0 %	511,989	10.97
22300 Exploration Drive *Lexington Park, MD*	St. Mary's County	1997	44,830	100.0 %	657,640	14.67
44417 Pecan Court *California, MD*	St. Mary's County	1989	29,053	100.0 %	278,900	9.60
44414 Pecan Court *California, MD*	St. Mary's County	1986	25,444	100.0 %	236,463	9.29
44420 Pecan Court *California, MD*	St. Mary's County	1989	25,200	100.0 %	168,612	6.69
46591 Expedition Drive *Lexington Park, MD*	St. Mary's County	2005/2006	60,029	36.4 %	396,093	18.11
16480 Commerce Drive *Dahlgren, VA*	King George County	2000	70,728	100.0 %	1,029,240	14.55
16541 Commerce Drive *King George, VA*	King George County	1996	36,053	100.0 %	505,247	14.01
16539 Commerce Drive *King George, VA*	King George County	1990	32,076	100.0 %	499,498	15.57
16442 Commerce Drive *Dahlgren, VA*	King George County	2002	25,518	100.0 %	493,899	19.35
16501 Commerce Drive *Dahlgren, VA*	King George County	2002	22,860	71.7 %	363,588	22.18
16543 Commerce Drive *Dahlgren, VA*	King George County	2002	17,370	100.0 %	436,604	25.14
Subtotal/Weighted Average			**824,710**	**92.1 %**	**$ 12,141,461**	**$ 15.98**
San Antonio, Texas:						
8611 Military Drive *San Antonio, TX*	San Antonio	1982/1985	468,994	100.0 %	$ 7,094,245	$ 15.13
Subtotal/Weighted Average			**468,994**	**100.0 %**	**$ 7,094,245**	**$ 15.13**
Colorado Springs, Colorado:						
985 Space Center Drive *Colorado Springs, CO*	Colorado Springs East	1989	102,717	92.4 %	$ 1,973,908	$ 20.80
1670 North Newport Road *Colorado Springs, CO*	Colorado Springs East	1986/1987	67,500	100.0 %	1,298,977	19.24
745 Space Center Drive *Colorado Springs, CO*	Colorado Springs East	2006	50,000	100.0 %	1,256,500	25.13
1915 Aerotech Drive *Colorado Springs, CO*	Colorado Springs East	1985	37,946	92.5 %	593,193	16.89
1925 Aerotech Drive *Colorado Springs, CO*	Colorado Springs East	1985	37,946	100.0 %	650,843	17.15
980 Technology Court *Colorado Springs, CO*	Colorado Springs East	1995	33,190	100.0 %	505,211	15.22

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)
9950 Federal Drive *Colorado Springs, CO*	I-25 North Corridor	2001	66,222	83.6 %	643,434	11.63
9960 Federal Drive *Colorado Springs, CO*	I-25 North Corridor	2001	46,948	89.2 %	894,856	21.37
5775 Mark Dabling Boulevard *Colorado Springs, CO*	Colorado Springs Northwest	1984	109,678	100.0 %	1,534,754	13.99
5725 Mark Dabling Boulevard *Colorado Springs, CO*	Colorado Springs Northwest	1984	108,976	100.0 %	1,503,333	13.80
5755 Mark Dabling Boulevard *Colorado Springs, CO*	Colorado Springs Northwest	1989	105,788	72.6 %	1,303,224	16.97
Subtotal/Weighted Average			**766,911**	**92.7%**	**$ 12,158,233**	**$ 17.09**

Total/Weighted Average			15,050,159	92.8%	$ 291,763,268	$ 20.90

(1) This percentage is based upon all signed leases and tenants' occupancy as of December 31, 2006.
(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2006 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases. 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 GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.
(3) Annualized rental revenue per occupied square foot is the property's annualized rental revenue divided by that property's occupied square feet as of December 31, 2006.

The following table provides certain information about our office properties owned through joint ventures as of December 31, 2006:

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)
Suburban Maryland: (4)						
4230 Forbes Boulevard						
Prince Georges, MD	Lanham	2003	55,866	47.9 %	$ 444,732	$ 16.60
Total/Weighted Average			**55,866**	**47.9 %**	**$ 444,732**	**$ 16.60**
Northern Virginia: (5)						
2900 Towerview Road						
Herndon, VA	Route 28 South	1982	78,171	100.0 %	$ 1,023,336	$ 13.09
Total/Weighted Average			**78,171**	**100.0 %**	**$ 1,023,336**	**$ 13.09**
Greater Harrisburg: (6)						
2605 Interstate Drive						
Harrisburg, PA	East Shore	1990	79,456	100.0 %	$ 1,443,716	$ 18.17
6345 Flank Drive						
Harrisburg, PA	East Shore	1989	69,443	88.5 %	820,331	13.35
6340 Flank Drive						
Harrisburg, PA	East Shore	1988	68,200	100.0 %	785,559	11.52
2601 Market Place						
Harrisburg, PA	East Shore	1989	65,411	92.2 %	1,224,292	20.31
6400 Flank Drive						
Harrisburg, PA	East Shore	1992	52,439	83.2 %	627,220	14.38
6360 Flank Drive						
Harrisburg, PA	East Shore	1988	45,952	83.8 %	502,391	13.05
6385 Flank Drive						
Harrisburg, PA	East Shore	1995	32,921	19.2 %	128,666	20.36
6380 Flank Drive						
Harrisburg, PA	East Shore	1991	32,668	100.0 %	444,206	13.60
6405 Flank Drive						
Harrisburg, PA	East Shore	1991	32,000	100.0 %	393,198	12.29
95 Shannon Road						
Harrisburg, PA	East Shore	1999	21,976	100.0 %	360,826	16.42
75 Shannon Road						
Harrisburg, PA	East Shore	1999	20,887	100.0 %	406,916	19.48
6375 Flank Drive						
Harrisburg, PA	East Shore	2000	19,783	100.0 %	338,755	17.12
85 Shannon Road						
Harrisburg, PA	East Shore	1999	12,863	100.0 %	211,199	16.42
5035 Ritter Road						
Mechanicsburg, PA	West Shore	1988	56,556	100.0 %	888,003	15.70
5070 Ritter Road - Building A						
Mechanicsburg, PA	West Shore	1989	32,309	89.6 %	444,863	15.36
5070 Ritter Road - Building B						
Mechanicsburg, PA	West Shore	1989	28,347	100.0 %	404,737	14.28
Total/Weighted Average			**671,211**	**91.2%**	**$ 9,424,878**	**$ 15.40**

(1) This percentage is based upon all signed leases and tenants' occupancy as of December 31, 2006.

(2) Annualized rental revenue is the monthly contractual base rent as of December 31, 2006 multiplied by 12 plus the estimated annualized expense reimbursements under existing leases.
(3) Annualized rental revenue per occupied square foot is the property's annualized rental revenue divided by that property's occupied square feet as of December 31, 2006.
(4) Property is owned by a consolidated joint venture in which we owned a 50% interest as of December 31, 2006.
(5) Property is owned by a consolidated joint venture in which we owned a 92.5% interest as of December 31, 2006.
(6) Properties are owned by an unconsolidated joint venture in which we owned a 20% interest as of December 31, 2006.

Lease Expirations

The following table provides a summary schedule of the lease expirations for leases in place for our wholly owned properties as of December 31, 2006, assuming that none of the tenants exercise renewal options:

Year of Lease Expiration(1)	Number of Leases Expiring	Square Footage of Leases Expiring	Percentage of Total Occupied Square Feet	Annualized Rental Revenue of Expiring Leases (2) (in thousands)	Percentage of Total Annualized Rental Revenue Expiring (2)	Annualized Rental Revenue of Expiring Leases per Occupied Square Foot
2007	115	1,718,295	12.3%	$ 36,160	12.4%	$ 21.04
2008	108	1,383,469	9.9%	28,959	9.9%	20.93
2009	127	2,858,836	20.5%	46,734	16.0%	16.35
2010	96	1,813,686	13.0%	40,935	14.0%	22.57
2011	76	1,241,303	8.9%	24,129	8.3%	19.44
2012	28	1,041,043	7.5%	22,892	7.9%	21.99
2013	17	634,414	4.5%	15,837	5.4%	24.96
2014	14	588,443	4.2%	17,552	6.0%	29.83
2015	23	1,186,237	8.5%	27,136	9.3%	22.88
2016	14	476,509	3.4%	12,009	4.1%	25.20
2017	5	119,488	0.9%	2,666	0.9%	22.31
2018	3	328,944	2.4%	7,680	2.6%	23.35
2019	—	—	0.0%	—	0.0%	0.00
2020	—	—	0.0%	—	0.0%	0.00
2021	1	46,748	0.3%	987	0.3%	21.11
2022	—	—	0.0%	—	0.0%	0.00
2023	—	—	0.0%	—	0.0%	0.00
2024	—	—	0.0%	—	0.0%	0.00
2025	2	468,994	3.4%	7,094	2.5%	15.13
Other (3)	20	56,433	0.4%	993	0.4%	17.60
Total/Weighted Average	**649**	**13,962,842**	**100.0%**	**$ 291,763**	**100.0%**	**$ 20.90**

(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 assumed 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) Annualized rental revenue is the monthly contractual base rent as of December 31, 2006 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

Jim Lemon and Robin Biser, as plaintiffs, initiated a suit on May 12, 2005, in The United States District Court for the District of Columbia (Case No. 1:05CV00949), against The Secretary of the United States Army, PenMar Development Corporation ("PMDC") and the Company, as defendants, in connection with the then pending acquisition by the Company of the former army base known as Fort Ritchie located in Cascade, Maryland. The case was dismissed by the United States District Court on September 28, 2006, due to the plaintiffs' lack of standing. The plaintiffs have filed an appeal in the case in the United States Court of Appeals for the District of Columbia Circuit and that appeal is pending. The plaintiffs were unsuccessful in their request for an emergency injunction pending appeal. The Company acquired from PMDC fee simple title to 500 acres of the 591 acres comprising Fort Ritchie on October 5, 2006.

We are not currently involved in any other 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

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.

2005	Price Range Low	Price Range High	Dividends Per Share
First Quarter	$ 25.14	$ 29.30	$ 0.255
Second Quarter	$ 25.39	$ 29.78	$ 0.255
Third Quarter	$ 29.27	$ 35.68	$ 0.280
Fourth Quarter	$ 32.50	$ 37.15	$ 0.280

2006	Price Range Low	Price Range High	Dividends Per Share
First Quarter	$ 34.91	$ 46.12	$ 0.280
Second Quarter	$ 37.32	$ 45.74	$ 0.280
Third Quarter	$ 40.65	$ 47.54	$ 0.310
Fourth Quarter	$ 44.21	$ 51.45	$ 0.310

The number of holders of record of our common shares was 355 as of December 31, 2006.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.

Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended December 31, 2006, 66,566 of the Operating Partnership's common units were exchanged for 66,566 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

The following table sets forth summary financial data as of and for each of the years ended December 31, 2002 through 2006. 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
(in thousands, except per share data and number of properties)

	2006	2005	2004	2003	2002
Revenues					
Revenues from real estate operations (1)	$ 301,319	$ 242,073	$ 203,944	$ 164,053	$ 139,428
Construction contract and other service operations revenues	60,084	79,234	28,903	31,740	4,704
Total revenues	361,403	321,307	232,847	195,793	144,132
Expenses					
Property operating expenses (1)	94,504	72,253	58,982	47,564	40,186
Depreciation and other amortization associated with real estate operations (1)	78,712	61,049	49,289	34,599	28,452
Construction contract and other service operations expenses	57,345	77,287	26,996	30,933	5,008
General and administrative expenses	16,936	13,534	10,938	7,893	6,697
Total operating expenses	247,497	224,123	146,205	120,989	80,343
Operating income	113,906	97,184	86,642	74,804	63,789
Interest expense and amortization of deferred financing costs (1)	(74,225)	(57,101)	(44,568)	(41,487)	(38,991)
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	39,681	40,083	42,074	33,317	24,798
Equity in loss of unconsolidated entities	(92)	(88)	(88)	(98)	(402)
Income tax (expense) benefit	(887)	(668)	(795)	169	347
Income from continuing operations before minority interests	38,702	39,327	41,191	33,388	24,743
Minority interests in income from continuing operations (1)	(4,584)	(5,245)	(5,473)	(6,260)	(5,996)
Income from continuing operations	34,118	34,082	35,718	27,128	18,747
Income from discontinued operations, net of minority interests (1)(2)	14,377	4,681	1,427	3,413	2,778
Gain (loss) on sales of real estate, net (1)(3)	732	268	(113)	336	1,776
Net income	49,227	39,031	37,032	30,877	23,301
Preferred share dividends	(15,404)	(14,615)	(16,329)	(12,003)	(10,134)
Issuance costs associated with redeemed preferred shares (4)	(3,896)	—	(1,813)	—	—
Repurchase of preferred units in excess of recorded book value (5)	—	—	—	(11,224)	—
Net income available to common shareholders	$ 29,927	$ 24,416	$ 18,890	$ 7,650	$ 13,167
Basic earnings per common share					
Income from continuing operations	$ 0.37	$ 0.53	$ 0.53	$ 0.16	$ 0.46
Net income available to common shareholders	$ 0.72	$ 0.65	$ 0.57	$ 0.29	$ 0.59
Diluted earnings per common share					
Income from continuing operations	$ 0.36	$ 0.51	$ 0.50	$ 0.15	$ 0.44
Net income available to common shareholders	$ 0.69	$ 0.63	$ 0.54	$ 0.27	$ 0.56
Weighted average common shares outstanding – basic	41,463	37,371	33,173	26,659	22,472
Weighted average common shares outstanding – diluted	43,262	38,997	34,982	28,021	23,350

	2006	2005	2004	2003	2002
Balance Sheet Data (as of year end):					
Investment in real estate	$ 2,111,310	$ 1,888,106	$ 1,544,501	$ 1,189,258	$ 1,042,955
Total assets	$ 2,419,601	$ 2,129,759	$ 1,732,026	$ 1,332,076	$ 1,138,721
Debt	$ 1,498,537	$ 1,348,351	$ 1,022,688	$ 738,698	$ 705,056
Total liabilities	$ 1,629,111	$ 1,442,036	$ 1,111,224	$ 801,899	$ 749,338
Minority interests	$ 116,187	$ 105,210	$ 98,878	$ 79,796	$ 100,886
Shareholders' equity	$ 674,303	$ 582,513	$ 521,924	$ 450,381	$ 288,497
Other Financial Data (for the year ended):					
Cash flows provided by (used in):					
Operating activities	$ 113,151	$ 95,944	$ 84,494	$ 67,783	$ 62,242
Investing activities	$ (253,834)	$ (419,093)	$ (263,792)	$ (172,949)	$ (128,571)
Financing activities	$ 137,822	$ 320,112	$ 183,638	$ 108,656	$ 65,680
Numerator for diluted EPS	$ 29,927	$ 24,416	$ 18,911	$ 7,650	$ 13,711
Diluted funds from operations (6)	$ 98,937	$ 88,801	$ 76,248	$ 61,268	$ 52,854
Diluted funds from operations per share (6)	$ 1.91	$ 1.86	$ 1.74	$ 1.56	$ 1.44
Cash dividends declared per common share	$ 1.18	$ 1.07	$ 0.98	$ 0.91	$ 0.86
Property Data (as of year end):					
Number of properties owned (1)(7)	170	165	143	118	110
Total rentable square feet owned (1)(7)	15,050	13,708	11,765	9,876	8,942

(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 income derived from one operating real estate property that we sold in 2003, three operating real estate properties that we sold in 2005 and seven operating real estate properties we sold in 2006 (see Note 18 to our Consolidated Financial Statements).
(3) Reflects gain (loss) from sales of properties and unconsolidated real estate joint ventures not associated with discontinued operations.
(4) Reflects a decrease to net income available to common shareholders pertaining to the original issuance costs recognized upon the redemption of the Series E and Series F Preferred Shares of beneficial interest in 2006 and the Series B Preferred Shares of beneficial interest in 2004.
(5) Reflects a decrease to net income available to common shareholders representing the excess of the repurchase price of the Series C Preferred Units in our Operating Partnership over the sum of the recorded book value of the units and the accrued and unpaid return to the unitholder.
(6) For definitions of 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."
(7) Amounts reported reflect only wholly owned properties.

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

You should refer to our Consolidated Financial Statements and the notes thereto and our 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 and 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;
- our ability to satisfy and operate effectively under federal income tax rules relating to real estate investment trusts and partnerships;
- governmental actions and initiatives; and
- environmental requirements.

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

Overview

We are a real estate investment trust ("REIT") that focuses on the acquisition, development, ownership, management and leasing of primarily Class A suburban office properties in select, demographically strong submarkets where we can achieve critical mass, operating synergies and key competitive advantages, including attracting high quality tenants and securing acquisition and development opportunities. We also have a core customer expansion strategy that is built on meeting, through acquisitions and development, the multi-location requirements of our strategic tenants. As of December 31, 2006, our investments in real estate included the following:

- 170 wholly owned operating properties in our portfolio totaling 15.1 million square feet;
- 16 wholly owned office properties under construction or development that we estimate will total approximately 1.8 million square feet upon completion, and two wholly owned office properties totaling approximately 129,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 1,048 acres that we believe are potentially developable into approximately 8.4 million square feet; and
- partial ownership interests in a number of other real estate projects in operations or under development or redevelopment.

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 unique aspect of a REIT is that the entity typically does not pay corporate income tax, provided that the entity distributes 100% of its 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 a minimum of only 90% of 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 relating to our real estate operations are derived from rents and property operating expense reimbursements earned from tenants leasing space in our properties. Most of our expenses relating to our real estate operations 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.

Of the 170 wholly owned operating properties in our portfolio, 157 were located in the Mid-Atlantic region of the United States. Our primary regions as of December 31, 2006 are set forth below:

- Baltimore/Washington Corridor (defined as the Maryland counties of Howard and Anne Arundel);
- Northern Virginia (defined as Fairfax County, Virginia);
- Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George’s and Frederick);
- St. Mary’s & King George Counties (located in Maryland and Virginia, respectively);
- Suburban Baltimore, Maryland;
- Colorado Springs, Colorado;
- San Antonio, Texas;
- Northern/Central New Jersey (as of December 31, 2006, all of our properties in this segment were located in Central New Jersey); and
- Greater Philadelphia, Pennsylvania.

As of December 31, 2006, 124 of our properties were located in what is widely known as the Greater Washington, D.C. region, which includes the first four regions set forth above, and 23 were located in neighboring Suburban Baltimore. The core customer expansion strategy that we began implementing in 2004 led us into the next two regions set forth above: Colorado Springs and San Antonio, Texas. The last two regions set forth above are considered non-core to the Company. We discuss further the geographic concentrations of our property ownership in the section below entitled “Concentration of Operations.”

Our strategy for operations and growth revolves around our goal to be the landlord of choice for select high quality tenants. As a result of this strategy, a large concentration of our revenue is derived from several large tenants. Our largest tenants are also heavily concentrated in the United States defense industry. Several noteworthy statistics that demonstrate our tenant and industry concentrations are set forth below:

	Percentage of Annualized Rental Revenue (1) of Wholly Owned Properties at December 31, 2006
Largest tenant, United States Government	16.3 %
Five largest tenants	34.2 %
Twenty largest tenants	56.7 %
Tenants in the United States defense industry	54.4 %

(1) Defined below in the section entitled “Concentration of Operations” in the subsection entitled “Geographic Concentration of Property Operations.”

We discuss further our lease concentrations in the section below entitled “Concentration of Operations.”

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 objective that the timing of such maturities not be highly concentrated in a given one-year or five-year period. The table below sets forth certain occupancy and leasing information as of or for the year ended December 31, 2006 for our portfolio of wholly owned properties:

Occupancy	92.8%
Renewal rate of square footage for scheduled lease expirations during year	55.4%
Average contractual annual rental rate per square foot (1)	$ 20.90
Weighted average lease term (in years) (2)	5.0

(1) Includes estimated expense reimbursements.
(2) See assumption relating to our United States Government leases in section entitled “Results of Operations” in the subsection entitled “Occupancy and Leasing.”

We discuss further in the section below entitled “Results of Operations” in the subsection entitled “Occupancy and Leasing.”

Achieving optimal performance from our properties is highly important to our Company. We evaluate the performance of our properties by focusing on changes in revenues from real estate operations (comprised of (1) rental revenue and (2) tenant recoveries and other real estate operations revenue) and property operating expenses. However, since we experienced significant growth in number of operating properties between 2004 and 2006, our growth in revenues from real estate operations and property operating expenses over that timeframe can be misleading. Therefore, we evaluate (1) changes in revenues from real estate operations and property operating expenses attributable to property additions separately from (2) the changes attributable to properties that were owned and operational throughout any two periods being compared, properties that we collectively refer to as the Same-Office Properties. During 2006, we:

- experienced significant growth from 2005 in revenues from real estate operations and property operating expenses due primarily to the addition of properties through acquisition and construction activities since January 1, 2005;
- had a $6.5 million, or 2.9%, increase in revenues from the Same-Office Properties compared to 2005 due primarily to increased rental revenue and operating expense reimbursements at such properties; and
- had a $4.7 million, or 6.8%, increase in property operating expenses from the Same-Office Properties compared to 2005 due in large part to increased utilities, real estate

taxes and repairs and maintenance expenses, partially offset by decreased snow removal expenses.

We discuss these changes further in the section below entitled "Results of Operations" in the subsection entitled "Revenues from Real Estate Operations and Property Operating Expenses."

In addition to owning real estate properties, 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 gross revenue and costs associated with these services generally bear little relationship to the level of our activity from these operations since a substantial portion of the costs are subcontracted costs that are reimbursed to us by the customer at no mark up. As a result, the operating margins from these operations are small relative to the revenue. We use the net of such revenues and expenses to evaluate the performance of our service operations. For 2006, the operating margins of our service operations increased $792,000 compared to 2005. These operations are discussed further in the section below entitled "Results of Operations" in the subsection entitled "Construction Contract and Other Service Revenue and Expenses."

Our 2006 net income available to common shareholders increased 22.6% and our diluted earnings per share increased 9.5% compared to 2005. We discuss significant factors contributing to these changes within subsections of the section below entitled "Results of Operations."

The investment portion of our growth strategy focuses primarily on two activities: acquisitions and development. These activities typically target suburban office properties in our existing geographic regions, neighboring regions or new regions meeting our investment criteria, but they may also target other properties as a result of our core customer expansion strategy. Since we take an opportunistic yet disciplined approach to our investment activities, the volume of these activities and allocation between acquisitions versus development naturally change from year to year. Highlights of our 2006 acquisition and development activities are set forth below:

· we acquired in our primary geographic regions set forth above six operating properties totaling 1.0 million square feet, a building to be redeveloped totaling 74,749 square feet and seven parcels of land that we believe can support up to 2.3 million developable square feet, for a total of $169.7 million;
· we acquired 500 acres of the 591-acre former Fort Ritchie United States Army Base located in Cascade, Washington County, Maryland for a value of $5.6 million with an initial cash outlay of $2.5 million and expect to acquire the remaining 91 acres in 2007. The 591-acre parcel is anticipated to accommodate a total of 1.7 million square feet of office

space and 673 residential units, including approximately 306,000 square feet of existing office space and 110 existing rentable residential units;
· we had seven newly-constructed properties totaling 866,000 square feet become fully operational. We also had 68,196 square feet placed into service in one partially operational property; and
· we had eight properties under construction (seven wholly owned), four properties under redevelopment (two wholly owned) and 11 properties under development (nine wholly owned) at December 31, 2006.

While we generally do not acquire properties with the intent of selling them, we do sell properties from time to time 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. During 2006, we sold seven operating properties, including three from one of our non-core regions, a newly constructed property and a parcel of land for a total of $83.0 million, resulting in recognized gains before minority interest totaling $17.3 million.

Our financing policy is aimed at maintaining a flexible capital structure in order to facilitate consistent growth and performance in the face of differing market conditions in the most cost-effective way possible. As part of this policy, we monitor (1) levels of debt relative to our overall capital structure; (2) the relationship of certain measures of earnings to certain financing cost requirements (coverage ratios); (3) the relationship of our total variable-rate debt to our total debt; and (4) the timing of our debt maturities to ensure that the maximum maturities of debt in any year do not exceed a defined percentage of total assets. We also pursue opportunities, when we believe market conditions to be favorable, to: (1) reduce financing costs by refinancing existing debt or redeeming existing preferred equity; (2) issue common and preferred shares of beneficial interest ("common shares" and "preferred shares"); and (3) issue equity units in our Operating Partnership. Highlights of our 2006 financing activities are set forth below:

· we sold 2.0 million common shares to an underwriter at a net price of $41.31 per share, for net proceeds of $82.4 million;
· we sold 3,390,000 Series J Cumulative Redeemable Preferred Shares (the "Series J Preferred Shares") at a price of $25 per share for net proceeds of $81.9 million;
· we redeemed the Series E Cumulative Redeemable Preferred Shares of beneficial interest (the "Series E Preferred Shares") and the Series F Cumulative Redeemable Preferred Shares of beneficial interest (the "Series F Preferred Shares") for a redemption price of $25 per share, resulting in a total payment of $64.4 million. We recognized a $3.9 million decrease to net income available to common shareholders pertaining to the original issuance costs of these shares;
· we issued a $200.0 million aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. The notes are redeemable by us on or after September 20, 2011. The notes also contain an exchange settlement feature, which provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares or a combination of cash and common shares at an initial exchange rate of 18.4162 shares per $1,000 principal amount of the notes; and
· we borrowed $146.5 million under a 10-year mortgage payable requiring payments of interest only at a fixed rate of 5.43%.

We discuss our 2006 investing and financing activities further in the section below entitled "Liquidity and Capital Resources," along with discussions of, among other things, the following:

· our cash flows;
· how we expect to generate cash for short and long-term capital needs;
· our off-balance sheet arrangements in place that are reasonably likely to affect our financial condition; and
· our commitments and contingencies.

On January 9 and 10, 2007, we completed a series of transactions that resulted in the acquisition of 56 operating properties totaling 2.4 million square feet and land parcels totaling 187 acres. We refer to this transaction as the Nottingham Acquisition. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor. We believe that the land parcels totaling 187 acres can support at least 2.0 million developable square feet. We completed the Nottingham acquisition for an aggregate cost of approximately $363.9 million. We financed the acquisition by issuing $26.6 million in Series K Cumulative Redeemable Convertible Preferred Shares of beneficial interest (the "Series K Preferred Shares") to the seller, issuing $154.9 million in common shares to the seller at a deemed value of $49 per share, using $20.1 million from an escrow funded by proceeds from one of our property sales and using debt borrowings for the remainder. We discuss this transaction further in the section

below entitled "Liquidity and Capital Resources," and the section entitled "Results of Operations" in the subsection entitled "Occupancy and Leasing."

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 2 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 2 to our Consolidated Financial Statements, including terms defined therein.

- When we acquire real estate properties, we allocate the acquisition to numerous tangible and intangible components. Most of the terms in this bullet section are defined in the section of Note 2 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 rates; (2) estimate 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 lease-up value, as-if vacant value and tenant relationship 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:
  - the 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; and
  - the 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, lease-up 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 lease-up 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 generally use three different accounting methods to report our investments in entities: the consolidation method, the equity method and the cost method (see Note 2 to our Consolidated Financial Statements). We generally use the consolidation method when we own most of the outstanding voting interests in an entity and can control its operations. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), we also consolidate certain entities when control of such entities can be achieved through means other than voting rights ("variable interest entities" or "VIEs") if we are deemed to be the primary beneficiary. Generally, FIN 46(R) applies when either (1) the equity investors (if any) lack one or more of the essential

characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. We generally use the equity method of accounting when we own an interest in an entity and can exert significant influence over, but cannot control, the entity's operations. In making these determinations, 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 flows. 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.
- We issue share options and restricted shares to many of our employees. Prior to January 1, 2006, very little expense was required to be recognized in our financial statements for share options under GAAP. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires 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 should then be recognized over the period during which the employee is required to provide service in exchange for the award (generally the vesting period). We compute the grant date fair value of share options using the Black-Scholes option-pricing model, which requires the following input assumptions: risk-free interest rate, expected life, expected volatility and expected dividend yield. SFAS 123(R) also requires that share-based compensation be computed based on awards that are ultimately expected to vest; as a result, future forfeitures of our share options and restricted shares are to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The input assumptions used under the Black-Scholes option-pricing model and the estimates used in deriving the forfeiture rates for share options and restricted shares are subjective and require a fair amount of judgment. As a result, these estimates and assumptions can affect the amount of expense that we recognize in our Consolidated Financial Statements for options and restricted shares.

Concentration of Operations

Geographic Concentration of Property Operations

During 2005 and 2006, we:

- increased our portfolio of wholly owned properties in the Baltimore/Washington Corridor, Northern Virginia, Suburban Baltimore and Suburban Maryland regions through acquisitions and newly constructed properties placed into service;
- made our initial entry into the San Antonio, Texas and Colorado Springs, Colorado regions through acquisitions in 2005 and further expanded our presence in Colorado Springs through additional acquisitions in 2006;
- sold 80% of the ownership interest in our Harrisburg portfolio by contributing it into a real estate joint venture in 2005;
- sold three wholly owned properties in Northern/Central New Jersey, two in Suburban Baltimore and two in Suburban Maryland in 2006; and
- sold three wholly owned properties in Northern/Central New Jersey and one in the Baltimore/Washington Corridor in 2005.

The table below sets forth the changes in the regional allocation of our annualized rental revenue occurring primarily as a result of these acquisition and development activities and changes in leasing activity:

Region	% of Annualized Rental Revenue of Wholly Owned Properties as of December 31,		
	2006	2005	2004
Baltimore/Washington Corridor	51.2%	47.8%	49.4%
Northern Virginia	20.5%	21.5%	23.2%
Suburban Baltimore	7.5%	10.1%	4.1%
St. Mary's and King George Counties	4.2%	4.3%	4.7%
Colorado Springs, Colorado	4.2%	1.7%	N/A
Suburban Maryland	4.1%	5.2%	3.6%
Greater Philadelphia	3.7%	4.0%	4.6%
San Antonio, Texas	2.4%	1.5%	N/A
Northern/Central New Jersey	2.2%	3.9%	6.5%
Greater Harrisburg	N/A	N/A	3.9%
	100.0%	100.0%	100.0%

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 as of a point in time. 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 GAAP does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis.

With the completion of the Nottingham Acquisition in January 2007, the percentage of annualized revenue derived from wholly owned properties in the Suburban Baltimore region increased to approximately twice what it was prior to the acquisition.

Concentration of Leases With Certain Tenants

We experienced changes in our tenant base during 2006 and 2005 due primarily to acquisitions, development and leasing activity. The following schedule lists our 20 largest tenants in our portfolio of wholly owned properties based on percentage of annualized rental revenue:

Tenant	Percentage of Annualized Rental Revenue of Wholly Owned Properties for 20 Largest Tenants as of December 31,		
	2006	2005	2004
United States Government	16.3%	15.2%	13.3%
Booz Allen Hamilton, Inc.	6.9%	5.0%	5.5%
Northrop Grumman Corporation	4.2%	4.5%	3.6%
Computer Sciences Corporation (1)	3.8%	4.1%	5.2%
AT&T Corporation (1)	3.0%	2.7%	4.2%
Unisys(2)	3.0%	3.1%	3.5%
L-3 Communications Holdings, Inc. (1)	3.0%	3.4%	3.9%
General Dynamics Corporation	2.4%	2.6%	3.8%
The Aerospace Corporation	2.1%	2.2%	2.3%
Wachovia Bank	2.1%	2.1%	2.3%
The Boeing Company (1)	1.4%	1.6%	1.8%
Ciena Corporation	1.2%	1.3%	1.4%
Science Applications International Corporation	1.1%	N/A	N/A
Lockheed Martin Corporation	1.0%	1.0%	N/A
Magellan Health Services, Inc.	1.0%	1.1%	1.2%
BAE Systems PLC	1.0%	N/A	1.0%
Merck & Co., Inc. (2)	0.8%	0.9%	1.1%
Wyle Laboratories, Inc.	0.8%	0.9%	N/A
Harris Corporation	0.8%	N/A	N/A
EDO Corporation	0.8%	N/A	N/A
VeriSign, Inc.	N/A	1.3%	1.4%
PricewaterhouseCoopers LLP	N/A	1.0%	1.3%
Johns Hopkins University (1)	N/A	1.0%	1.1%
Carefirst, Inc. and Subsidiaries (1)	N/A	0.9%	1.0%
Commonwealth of Pennsylvania (1)	N/A	N/A	1.3%
Subtotal of 20 largest tenants	56.7%	55.9%	60.2%
All remaining tenants	43.3%	44.1%	39.8%
Total	100.0%	100.0%	100.0%

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

One aspect of our strategy involves focusing on the formation of strategic alliances with certain of our tenants from the standpoint of fulfilling their real estate needs in multiple locations. This strategy influences not only our leasing activities but also our acquisition and construction activities. As a result, our revenue concentration with individual tenants could continue to grow over time as a result of this strategy.

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 total annualized rental revenue in our wholly owned properties derived from the United States defense industry increased in 2005 and 2006. One reason for this increase is the continuing expansion of the industry in the Greater Washington, D.C. region 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 or constructed in 2005 and 2006 have leases with the United States Government and defense contractors. The table below sets forth the percentage of annualized rental revenue in our portfolio of wholly owned properties derived from that industry and, by doing so, demonstrates our increasing concentration:

	% of Annualized Rental Revenue of Wholly Owned Properties from Defense Industry Tenants as of December 31,		
	2006	2005	2004
Total Portfolio	54.4%	49.7%	47.4%
Baltimore/Washington Corridor	66.7%	65.7%	63.4%
Northern Virginia	54.5%	50.4%	50.3%
Suburban Baltimore	9.8%	6.8%	N/A
Suburban Maryland	13.3%	2.2%	3.6%
St. Mary’s and King George Counties	89.8%	90.7%	90.6%
Colorado Springs	39.4%	74.1%	N/A
San Antonio	100.0%	100.0%	N/A

As noted above, one aspect of our strategy involves focusing on the formation of strategic alliances with certain of our tenants from the standpoint of fulfilling their real estate needs in multiple locations. Many of the tenants on which this strategy concentrates are in the United States defense industry. As a result of this strategy, our revenue concentration from that industry could continue to grow over time

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

Results of Operations

While reviewing this section, you should refer to the tables in the section entitled “Selected Financial Data.” You should also refer to the section below entitled “Liquidity and Capital Resources” for certain factors that could negatively affect various aspects of our operations.

Occupancy and Leasing

The table below sets forth leasing information pertaining to our portfolio of wholly owned operating properties:

	December 31,		
	2006	2005	2004
Occupancy rates at year end			
Total	92.8%	94.0%	94.3%
Baltimore/Washington Corridor	95.1%	96.2%	95.6%
Northern Virginia	90.9%	96.4%	94.5%
Suburban Baltimore	81.1%	84.7%	91.0%
Suburban Maryland	83.2%	79.8%	82.8%
St. Mary’s and King George Counties	92.1%	95.4%	96.9%
Greater Philadelphia	100.0%	100.0%	100.0%
Northern/Central New Jersey	97.2%	96.4%	92.7%
Colorado Springs, Colorado	92.8%	85.8%	N/A
San Antonio, Texas	100.0%	100.0%	N/A
Greater Harrisburg	N/A	N/A	85.4%
Renewal rate of square footage for scheduled lease expirations during year	55.4%	66.6%	71.4%
Average contractual annual rental rate per square foot at year end (1)	$ 20.90	$ 20.28	$ 20.32

(1) Includes estimated expense reimbursements.

As shown in the above table, our portfolio of wholly owned properties posted an occupancy rate of approximately 92.8% at December 31, 2006, down from a year end occupancy rate of approximately 94% in 2005 and 2004; this decrease reflects the adverse impact of two large building spaces in Northern Virginia that we have under leases scheduled to commence in early 2007. We believe that our occupancy rates have benefited in each of the last three years from the expansion of the United States defense industry in our largest submarkets. We also believe that these rates benefited from a national economic recovery in the real estate industry in 2005 and the stabilization that followed in 2006. In addition, our wholly owned property rates were impacted by our acquisition activity; acquisitions of wholly owned operating properties in 2006 positively impacted 2006 year end occupancy rates, with such properties carrying a weighted average occupancy rate of 95.1% at December 31, 2006, while 2005 acquisitions adversely affected 2005 year end occupancy rates, with such properties carrying a weighted average occupancy rate of 85.7% at December 31, 2005.

Our renewal rates of square footage for scheduled lease expirations decreased in each of the last two years; the 2006 rate in particular was low in comparison to the 2000 through 2005 calendar years, when the annual renewal rate ranged from 66% to 76% and averaged 70%. The 2006 renewal rate was adversely affected by large amounts of space that we knew were not going to be renewed when we acquired the properties, including 197,000 square feet in two properties; our renewal rates would have been in the low to mid 60% range without the effect of this space. While we believe that the ability for us to retain tenants at the rates that we did in the 2000 through 2005 period is a challenging task, particularly as we continue to grow, we believe that our strategy of positioning to be the landlord of choice for select high quality tenants will enable us to

outperform our competitors in tenant retention in the long run.

Our average contractual annual rent per square foot increased approximately 3.0% from December 31, 2005 to December 31, 2006 despite the fact that acquisitions completed during 2006 had rents per square foot at December 31, 2006 of $14.12, 32% below our wholly owned portfolio rate. The increase in this rate can be attributed primarily to the effect of new leases entered into at a higher rate during the year and scheduled increases that took place at leases remaining in place. The decrease in our average contractual annual rent per square foot from December 31, 2004 to December 31, 2005 was due primarily to our acquisition in 2005 of properties with rents per square foot that averaged $15.71 at December 31, 2005. The lower rent per square foot on acquisitions in 2006 and 2005 can be attributed primarily to the following: (1) lower rents in geographic areas where certain acquisitions took place; (2) lower costs for operating expenses and tenant improvements associated with underlying leases in certain acquisitions; and (3) lower rents associated with lower grade space in certain acquisitions.

We believe that there is a fair amount of uncertainty surrounding the outlook for leasing activity in 2007. Certain key economic indicators, including employment growth, seem to favor continued strength in our regions' real estate markets. However, the recent and scheduled addition of new square footage in our regions along with continued strong competition from existing properties in these regions present challenges to the Company's ability to meet our 2007 leasing objectives. As we discussed above, we believe that our occupancy rates have benefited from the expansion of the United States defense industry in our largest submarkets. Reporting by the Base Realignment and Closure Commission of the United States Congress favors continued expansion in the regions in which our properties are located. However, while we viewed this reporting as favorable for the Company's future leasing outlook, there is uncertainty, particularly in today's political environment, over the level of and timing of such expansion.

Despite any uncertainty regarding our 2007 leasing outlook, we believe that we are somewhat protected in the short run from a slow down in leasing activity since the weighted average lease term for our wholly owned properties at December 31, 2006 was five years. In addition, only 12.4% of our annualized rental revenues at December 31, 2006 were from leases scheduled to expire by the end of 2007. Looking longer term, 60.6% of our annualized rental revenues on leases in place as of December 31, 2006 were from leases scheduled to expire by the end of 2011, with no more than 16% scheduled to expire in any one calendar year between 2007 and 2011.

The Nottingham Acquisition will initially have an adverse effect on our leasing and occupancy measures. At December 31, 2006, the operating properties included in the transaction were approximately 86% occupied with average rents per square foot of approximately $17.00. In addition, approximately one-third of annualized rental revenue at these properties as of December 31, 2006 were from leases scheduled to expire by the end of 2007; we expect to renew a majority of the square footage scheduled to expire in 2007.

As noted above, 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.

The table below sets forth occupancy information pertaining to properties in which we have a partial ownership interest:

Geographic Region	Ownership Interest	Occupancy Rates at December 31, 2006	2005	2004
Suburban Maryland	50.0%	47.9%	47.9%	47.9%
Northern Virginia	92.5%	100.0%(1)	100.0%(1)	N/A
Greater Harrisburg	20.0%	91.2%	89.4%	N/A
Northern/Central New Jersey	20.0%	N/A(2)	80.9%	84.2%

(1) Excludes the effect of 62,000 unoccupied square feet undergoing redevelopment at year end.
(2) The property in this geographic region was sold in July 2006.

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 2005 and 2006, Same-Office Properties would be properties owned and 100% operational from January 1, 2005 through December 31, 2006. For further discussion of the concept of "operational," you should refer to the section of Note 2 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 set forth the components of our changes in revenues from real estate operations and property operating expenses from continuing operations (dollars in thousands):

	Changes from 2005 to 2006: Property Additions Dollar Change(1)	Same-Office Properties Dollar Change	Same-Office Properties Percentage Change	Sold Properties Dollar Change (2)	Other Dollar Change (3)	Total
Revenues from real estate operations						
Rental revenue	$ 51,649	$ 3,839	1.9%	$ (5,586)	$ (1,419)	$ 48,483
Tenant recoveries and other real estate operations revenue	8,232	2,698	9.9%	(1,025)	858	$ 10,763

Total	$ 59,881	$ 6,537	2.9%	$ (6,611)	$ (561)	$ 59,246
Property operating expenses	$ 20,022	$ 4,681	6.8%	$ (2,259)	$ (193)	$ 22,251
Straight-line rental revenue adjustments included in rental revenue	$ 5,194	$ (2,068)	N/A	$ (56)	$ (826)	$ 2,244
Amortization of deferred market rental revenue	$ 1,272	$ 27	N/A	$ —	$ (27)	$ 1,272
Number of operating properties included in component category	53	118	N/A	16	1	188

(1) Includes 43 acquired properties and ten newly-constructed properties.
(2) Includes sold 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 2004 to 2005					
	Property Additions	Same-Office Properties		Sold Properties	Other	
	Dollar Change (1)	Dollar Change	Percentage Change	Dollar Change (2)	Dollar Change (3)	Total
Revenues from real estate operations						
Rental revenue	$ 34,228	$ (1,678)	(1.1)%	$ (1,991)	$ (1,409)	$ 29,150
Tenant recoveries and other real estate operations revenue	4,088	4,332	22.5%	(257)	816	$ 8,979
Total	$ 38,316	$ 2,654	1.5%	$ (2,248)	$ (593)	$ 38,129
Property operating expenses	$ 9,954	$ 5,344	10.5%	$ (691)	$ (1,336)	$ 13,271
Straight-line rental revenue adjustments included in rental revenue	$ 2,968	$ (4,913)	N/A	$ 238	$ (4)	$ (1,711)
Amortization of deferred market rental revenue	$ 240	$ (451)	N/A	$ —	$ (294)	$ (505)
Number of operating properties included in component category	65	93	N/A	16	1	175

(1) Includes 58 acquired properties and seven newly-constructed properties.
(2) Includes sold 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.

The analysis set forth below in this section pertains to properties included in continuing operations.

As the tables above indicate, our total increase in revenues from real estate operations and property operating expenses from 2005 to 2006 and from 2004 to 2005 was attributable primarily to the Property Additions.

The real estate operations in 2005 and 2006 associated with our property additions were adversely affected somewhat by our 2005 acquisitions carrying occupancy rates that were lower than the average occupancy rate of our previously existing properties. Acquisitions in 2005 with particularly low occupancy rates upon acquisition included the following: (1) a 1.1 million square foot portfolio acquired in December 2005 that has had an occupancy rate averaging approximately 80% since its acquisition; (2) a 118,000 square foot property acquired in October 2005 that has been 58% occupied since its acquisition through the end of 2006; and (3) a 113,000 square foot property acquired in April 2005 that was 23% occupied from its acquisition until December 2005, when it became 100% operational. We occasionally acquire lower occupancy properties such as these for what we view to be the potential for particularly high rates of return on our investment in these properties if we are successful in stabilizing their operations.

With regard to changes in the Same-Office Properties' revenues from real estate operations:

- the increase in rental revenue from the Same-Office Properties from 2005 to 2006 included the following:
  - an increase of $2.6 million, or 1.4%, in rental revenue from the Same-Office Properties attributable primarily to changes in occupancy and rental rates between the two periods; and
  - an increase of $1.2 million, or 26.8%, in net revenue from the early termination of leases. To explain further the term 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.
- the change in rental revenue from the Same-Office Properties from 2004 to 2005 included the following:
  - a decrease of $6.4 million, or 66.2%, in net revenue from the early termination of leases, which was attributable primarily to two properties; and
  - an increase of $4.7 million, or 3.2%, attributable to changes in occupancy and rental rates between the two periods; and
- tenant recoveries and other revenue from the Same-Office Properties increased from 2005 to 2006 and from 2004 to 2005 due primarily to the increase in property operating expenses described below. While we do have some lease structures under which tenants pay for 100% of properties' operating expenses, our most prevalent lease structure is for tenants to pay for a portion of property operating expenses to the extent that such expenses exceed amounts established in their respective leases that are based on historical expense levels. As a result, while there is an inherent direct relationship between our tenant recoveries and property operating expenses, this relationship does not result in a dollar for dollar increase in tenant recoveries as property operating expenses increase.

With regard to changes in the Same-Office Properties' property operating expenses:

- the increase in the Same-Office Properties' property operating expenses from 2005 to 2006 included the following:
  - an increase of $2.0 million, or 13.3%, in utilities due primarily to (1) rate increases that we believe are the result of (a) increased oil prices and (b) energy deregulation in Maryland and (2) our assumption of responsibility for payment of utilities at certain properties due to changes in occupancy and lease structure;
  - an increase of $1.3 million, or 10.3%, in real estate taxes reflecting primarily an increase in the assessed value of many of our properties;
  - an increase of $651,000, or 8.5%, in repairs and maintenance labor due in large part to higher labor hour rates resulting from an increase in the underlying costs for labor. The higher labor rates were attributable in part to an inflationary trend but also to the increased need for us to employ individuals with specialized skills who command higher rates;

- an increase of $548,000, or 6.1%, in cleaning expenses due primarily to (1) increased rates for services at certain of our properties requiring specialized services and (2) our assumption of responsibility for payment of such costs at certain properties due to changes in occupancy and lease structures;
- an increase of $528,000, or 24.1%, in grounds maintenance due in large part to increased parking lot maintenance projects undertaken in the current period;
- an increase of $353,000, or 42.5%, in electric expense, $154,000 of which pertained to one property which had a large repair project take place; and
- a decrease of $1.6 million, or 69.1%, due to decreased snow removal expenses due to less snow and ice precipitation in 2006.

- the increase in the Same-Office Properties' property operating expenses from 2004 to 2005 included the following:

- an increase of $3.7 million, or 43.6%, in utilities due again primarily to (1) changes in occupancy and lease structures and (2) rate increases;
- an increase of $915,000, or 84.4%, in snow removal expense due to greater snow and ice precipitation in 2005; and
- an increase of $572,000, or 8.2%, in building cleaning expenses due primarily to our assumption of responsibility for payment of such costs at certain properties due to changes in occupancy and lease structure.

Construction Contract and Other Service Revenues and Expenses

The table below sets forth changes in our construction contract and other service revenues and expenses:

	Changes from 2005 to 2006			Changes from 2004 to 2005		
	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	$ (22,175)	$ 3,025	$ (19,150)	$ 49,339	$ 992	$ 50,331
Expenses	(22,573)	2,631	(19,942)	48,801	1,490	50,291
Income from service operations	$ 398	$ 394	$ 792	$ 538	$ (498)	$ 40

We use the net amount of service operations revenues over related expenses to evaluate performance. We believe that the changes in net amounts reflected above were not significant.

Construction contract revenues were significantly higher in 2005 compared to 2006 and 2004 due primarily to a large volume of activity for certain existing contracts in 2005. It is noteworthy that our revenue from construction contract activity is highly concentrated, with five contracts representing approximately 81% of our 2006 construction contract revenue and four contracts representing approximately 81% of our construction contract revenue in 2005.

Other service operations revenue increased 62.0% from 2005 to 2006 due primarily to a higher volume of work for heating and air conditioning controls and plumbing. Much of the revenue contributing to this increase was attributable to one client relationship. We do not expect revenue from other service operations to increase in the future and it may in fact decrease.

Depreciation and Amortization

Our increase in depreciation and other amortization expense from 2005 to 2006 was due primarily to a $19.7 million increase attributable to the Property Additions, offset in part by a $1.6 million decrease attributable to the absence of depreciation and amortization in 2006 on the Harrisburg portfolio due to its contribution into an unconsolidated real estate joint venture in September 2005.

Our increase in depreciation and other amortization expense from 2004 to 2005 was due primarily to a $9.7 million increase attributable to the Property Additions and a $2.1 million, or 4.9%, increase attributable to the Same Office Properties.

General and Administrative Expenses

General and administrative expenses increased as a percentage of operating income from 12.6% in 2004 to 13.9% in 2005 and to 14.9% in 2006. Much of this trend can be attributed to an increase in the size of our employee base in response to the continued growth of the Company. We expect this trend to continue in the next one to two years and perhaps longer until we determine that the Company's employee base and processes are positioned appropriately in anticipation of our future growth expectations.

The increase in general and administrative expense from 2005 to 2006 was attributable primarily to an increase of $2.5 million, or 21.5%, in compensation expense due to the increased number of employees, increased salaries and bonuses for existing employees and increased expense associated with employee stock options attributable to our adoption of SFAS 123(R) on January 1, 2006.

The increase in general and administrative expense from 2004 to 2005 was attributable primarily to an increase of $2.2 million, or 23.3%, in compensation expense due to the increased number of employees, increased expenses associated with employee restricted share grants and increased salaries and bonuses for existing employees.

Interest Expense and Amortization of Deferred Financing Costs

Our interest expense and amortization of deferred financing costs included in continuing operations increased $17.1 million, or 30.0%, from 2005 to 2006. This increase included the effects of the following:

- a 20.7% increase in our average outstanding debt balance, resulting primarily from our 2005 and 2006 acquisition and construction activities;
- an increase in our weighted average interest rates from 5.8% to 6.2%; and
- a partial offset attributable to a $4.7 million increase in interest capitalized to construction and development projects due to increased construction and development activity.

Our interest expense and amortization of deferred financing costs included in continuing operations increased $12.5 million, or 28.1%, from 2004 to 2005. This increase is due primarily to a 33.4% increase in our average outstanding debt balance resulting primarily from our 2004 and 2005 acquisition and construction activities, offset in part by a $4.8 million increase in interest capitalized to construction and development projects due to increased construction and development activity.

Interest expense and deferred financing costs as a percentage of net operating income increased from 51.4% in 2004 to 58.8% in 2005 and to 65.2% in 2006 due in large part to a higher proportion of our investing and financing activities having been funded by debt versus equity and the reasons discussed above for the changes in interest expense.

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

- borrowings under our Revolving Credit Facility;
- borrowings from new debt;
- issuances of common shares, 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.

Many factors go into our decisions regarding when to finance investing and financing activities using debt versus equity. We generally use long-term borrowing as attractive financing conditions arise and equity issuances as attractive equity market conditions arise. As a result, the change in the proportion of our investing and financing activities funded by debt versus equity described above is not a trend that necessarily should be expected to continue.

As of December 31, 2006, 93.1% of our fixed-rate debt was scheduled to mature after 2007. As of December 31, 2006, 11.7% of our total debt had variable interest rates, including the effect of interest rate swaps. For a more comprehensive presentation of our fixed-rate loan maturities, please refer to the section below entitled "Quantitative and Qualitative Disclosures About Market Risk."

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" includes primarily income before continuing 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 in an amount 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, 2006, we owned 95.6% of the outstanding preferred units and 82.8% of the outstanding common units. The percentage of the Operating Partnership owned by minority interests during the last three years decreased in the aggregate due primarily to the effect of the following transactions:

- the issuance of additional units to us as we issued new preferred shares and common shares during 2004 through 2006 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 redemption of the Series B Cumulative Redeemable Preferred Shares of beneficial interest (the "Series B Preferred Shares") in July 2004;
- our issuance of common units to third parties totaling 181,097 in 2006 and 232,655 in 2005 in connection with acquisitions;
- our issuance of the Series I Preferred Units to a third party in 2004 (as discussed in Note 2 to the Consolidated Financial Statements); and
- the redemption by us of the Series E and Series F Preferred Shares in 2006.

Our income allocated to minority interest holders of preferred units increased from 2004 to 2005 due to our issuance of the Series I Preferred Units in September 2004. Our income from continuing operations allocated to minority interest holders of common units decreased from 2004 to 2005 and from 2005 to 2006 due primarily to our increasing ownership of common units (from 75% at December 31, 2003 to 83% at December 31, 2006) and preferred units.

Income from Discontinued Operations

Our income from discontinued operations increased from 2005 to 2006 and from 2004 to 2005 due primarily to increased gain from sales of properties. 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

Preferred share dividends increased from 2005 to 2006 due to the additional dividends attributable to the newly issued Series J Preferred Shares exceeding the decrease in dividends attributable to the redemption of the Series E and Series F Preferred Shares. Preferred share dividends decreased from 2004 to 2005 due primarily to the redemption of the Series B Preferred Shares.

In 2006, we recognized a $3.9 million decrease to net income available to common shareholders pertaining to the original issuance costs incurred on the Series E and Series F Preferred Shares redeemed during the year. In 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 redeemed during the year.

Diluted earnings per common share

Diluted earnings per common share on net income available to common shareholders increased both from 2005 to 2006 and from 2004 to 2005 due to the effects of increases in net income available to common shareholders, attributable primarily to the reasons set forth above, offset somewhat by the higher numbers of common shares outstanding due to share issuances from 2004 to 2006.

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, 2006 totaled $7.9 million, a decrease of 26.5% from the balance as of December 31, 2005. The balance of cash and cash equivalents that we carried as of the end of each of the eight calendar quarters during the two years ended December 31, 2006 ranged from $5.7 million to $21.5 million and averaged $12.6 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 Consolidated Statements of Operations indicates that over the last three years, approximately 29% to 31% 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 debt, 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 $17.2 million, or 17.9%, from 2005 to 2006; 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 debt, dividends 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 revenue declines.
- 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 may 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 affected 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 these 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 our properties are primarily located in the Mid-Atlantic region of the United States, especially in the Greater Washington, D.C. region, and are also typically concentrated in office parks in which we own most of the properties, we do not have a broad geographic distribution of our properties. As a result, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Greater Washington, D.C. region 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.
- 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 have 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 property additions.
- Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 2007. 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, changes in the insurance industry could occur in the future that 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 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, 2006

In our primary geographic regions, we acquired six office properties totaling 1.0 million square feet, a building to be redeveloped totaling 74,749 square feet and seven parcels of land that we believe can support up to 2.3 million developable square feet for $169.7 million. These acquisitions were financed using the following:

- $93.4 million in borrowings under our Revolving Credit Facility;
- $37.5 million from an assumed mortgage loan;
- $7.5 million from the issuance of common units in the Operating Partnership;
- $2.4 million using an escrow funded by proceeds from one of our property sales discussed below; and

- cash reserves for the balance.

Highlights of these acquisitions include the following:

- we acquired a 611,379 square foot building and land parcels that we believe can support up to 1.4 million developable square feet in the Baltimore/Washington Corridor; and
- after making our initial entry in San Antonio, Texas and Colorado Springs in 2005, we added to our positions in each of these regions by acquiring land parcels in each of these regions and five operational properties totaling 400,000 square feet and a 74,749 redevelopment property in Colorado Springs.

We also acquired approximately 500 acres of the 591-acre former Fort Ritchie United States Army base located in Cascade, Washington County, Maryland for a value of $5.6 million using an initial cash outlay of $2.5 million, and expect to acquire the remaining 91 acres in 2007. The 591-acre parcel is anticipated to accommodate a total of 1.7 million square feet of office space and 673 residential units, including approximately 306,000 square feet of existing office space and 110 existing rentable residential units, with development expected to occur over a period of 10 to 15 years. In connection with the aggregate acquisition, we expect to initially make the following future cash payments to the seller: (1) $465,000 in 2007 in connection with the acquisition of the remaining 91 acres; and (2) an additional $2.0 million over the period from 2007 through 2009. We could incur an additional cash obligation to the seller after that of up to $4.0 million; this obligation is subject to reduction by an amount ranging between $750,000 and $4.0 million, with the amount of such reduction to be determined based on defined levels of (1) job creation resulting from the future development of the property and (2) future real estate taxes generated by the property. We are also obligated under the terms of the acquisition agreement to incur $7.5 million in development and construction costs for the property by 2011.

In addition, we acquired, using cash reserves, the following properties through joint venture structures:

- a land parcel located in the Baltimore/Washington Corridor, with a value upon our acquisition of approximately $4.6 million, through Commons Office 6-B, LLC, a 50% owned consolidated joint venture constructing an office property totaling approximately 44,000 square feet. Our initial cash investment in this joint venture was $1.6 million; and

- a 153-acre parcel of land located near the Indian Head Naval Surface War Center in Charles County, Maryland, with a value upon our acquisition of $2.9 million, through COPT-FD Indian Head, LLC, a 75% owned consolidated joint venture. Our initial cash investment in this joint venture was $2.2 million.

As part of our core customer expansion strategy, we also entered into lease agreements with Northrop Grumman Corporation to develop two data and call centers totaling 296,000 square feet. The terms of these lease agreements call for the land parcels on which the centers are being developed to be conveyed to us for no cash payment other than closing costs. One of these centers is located in Greater Richmond, Virginia and the other in Southwest Virginia. The land parcel in Greater Richmond, Virginia was conveyed to us in 2006 and we expect the land parcel in Southwest Virginia to be conveyed in 2007.

We had seven newly-constructed properties totaling 866,000 square feet become fully operational in 2006. These properties, which were 94.6% leased in the aggregate at December 31, 2006, were located in the following geographic regions: four properties totaling 532,000 square feet in the Baltimore/Washington Corridor; one property totaling 223,610 square feet in Northern Virginia; one property totaling 50,000 square feet in Colorado Springs; and one property totaling 60,029 square feet in St. Mary’s County, Maryland. Costs incurred on these properties through December 31, 2006 totaled $144.2 million, $30.6 million of which was incurred in 2006. We financed the 2006 costs using primarily borrowings under existing construction loan facilities and proceeds from our Revolving Credit Facility.

At December 31, 2006, we had construction activities underway on eight office properties totaling 831,000 rentable square feet that were 79.5% pre-leased, including 68,196 square feet already placed into service in a partially operational property. One of these properties is owned through a consolidated joint venture in which we have a 50% interest. Six of these properties totaling 535,000 square feet are located in our primary geographic regions, including four properties totaling 452,000 square feet in the Baltimore/Washington Corridor, and the other two properties totaling 296,000 square feet are the Northrop Grumman Corporation data and call centers in Virginia discussed above. Costs incurred on these properties through December 31, 2006 totaled approximately $194.0 million, of which approximately $79.1 million was incurred in 2006. We have construction loan facilities in place totaling $73.7 million to finance the construction of four of these properties; borrowings under these facilities totaled $52.4 million at December 31, 2006, $43.8 of which was borrowed in 2006. The remaining costs incurred in 2006 were funded using primarily borrowings from our Revolving Credit Facility and cash reserves.

The table below sets forth the major components of our additions to the line entitled “Total Commercial Real Estate Properties” on our Consolidated Balance Sheet for 2006 (in thousands):

Acquisitions	$ 166,416
Construction and development	132,565
Capital improvements on operating properties	20,767
Tenant improvements on operating properties	20,414(1)
	$ 340,162

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

We sold the following during 2006:

- seven operational properties totaling 531,000 square feet, a newly-constructed property and a land parcel for a total of $83.0 million, resulting in recognized gain of $17.3 million. The net proceeds from these sales after transaction costs totaled $80.4 million. We used $36.1 million of these proceeds to fund escrows to be applied towards future acquisitions and $4.8 million to repay a mortgage loan on a property and applied most of the balance to pay down our Revolving Credit Facility; and
- a 157,394 square foot property, which was owned by an unconsolidated real estate joint venture in which we had a 20% interest, for $27.0 million, resulting in a recognized gain to us of $563,000. The net proceeds to us from this transaction were approximately $1.5 million.

On September 18, 2006, the Operating Partnership issued a $200.0 million aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. Interest on the notes is payable on March 15 and September 15 of each year. The notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares or a combination of cash and our common shares at an exchange rate (subject to adjustment) of 18.4284 shares per $1,000 principal amount of the notes (exchange rate is as of December 31, 2006 and is equivalent to an

exchange price of $54.30 per common share). On or after September 20, 2011, the Operating Partnership may redeem the notes in cash in whole or in part. The holders of the notes have the right to require us to repurchase the notes in cash in whole or in part on each of September 15, 2011, September 15, 2016 and September 15, 2021, or in the event of a "fundamental change," as defined under the terms of the notes, for a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. Prior to September 11, 2011, subject to certain exceptions, if (1) a "fundamental change" occurs as a result of certain forms of transactions or series of transactions and (2) a holder elects to exchange its notes in connection with such "fundamental change," we will increase the applicable exchange rate for the notes surrendered for exchange by a number of additional shares of our common shares as a "make whole premium." The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. The Operating Partnership's obligations under the notes are fully and unconditionally guaranteed by us. We used the $195.7 million in net proceeds available after transaction costs from this issuance as follows:

- $134.0 million to pay down borrowings under our Revolving Credit Facility;
- $52.5 million to repay other debt; and
- applied the balance to cash reserves.

On December 28, 2006, we borrowed $146.5 million under a mortgage loan with a 10-year term at a fixed rate of 5.43%. We used the proceeds from this loan to pay down borrowings under our Revolving Credit Facility.

During 2006, we entered into three interest rate swaps to hedge the risk of changes in interest rates on certain of our one-month LIBOR-based variable rate borrowings until their respective maturities, information for which is set forth below (dollars in thousands):

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date
Interest rate swap	$ 50,000	5.0360%	3/28/2006	3/30/2009
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009

During 2006, we completed the following sales of equity:

- 2.0 million common shares in April 2006 to an underwriter at a net price of $41.31 per share for net proceeds of $82.4 million. We contributed the net proceeds to our Operating Partnership in exchange for 2.0 million common units. The proceeds were used primarily to pay down our Revolving Credit Facility.
- 3,390,000 Series J Preferred Shares on July 20, 2006 at a price of $25 per share for net proceeds of $81.9 million. These shares are nonvoting and redeemable for cash at $25 per share at our option on or after July 20, 2011. Holders of these shares are entitled to cumulative dividends, payable quarterly (as and if declared by the Board of Trustees). Dividends accrue from the date of issue at the annual rate of $1.90625 per share, which is equal to 7.625% of the $25.00 per share redemption price. We contributed the net proceeds from the sale to our Operating Partnership in exchange for 3,390,000 Series J Preferred Units. The Series J Preferred Units carry terms that are substantially the same as the Series J Preferred Shares. The Operating Partnership used most of the net proceeds to pay down our Revolving Credit Facility.

During 2006, we completed the following preferred share redemptions using borrowings under our Revolving Credit Facility:

- all of our outstanding Series E Preferred Shares, which had carried an annual dividend yield of 10.25%, for $28.8 million on July 15, 2006; and
- all of our outstanding Series F Preferred Shares, which had carried an annual dividend yield of 9.875%, for $35.6 million on October 15, 2006.

Analysis of Cash Flow Associated With Investing and Financing Activities

Our net cash flow used in investing activities decreased $166.5 million, or 39.6%, from 2005 to 2006. This decrease was due primarily to the following:

- a $217.8 million, or 43.6%, decrease in purchases of and additions to commercial real estate. This decrease is due primarily to a decrease in property acquisitions. We found the market for acquisitions to be extremely competitive in 2006, with potential target properties selling to our competitors at what we believed to be very aggressive prices; this contributed somewhat to the decrease in property acquisitions, although timing played a part as well since the Nottingham Acquisition, to which we had dedicated considerable time in 2006, closed in January 2007. 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; and
- a $49.9 million, or 50.8%, decrease in proceeds from sales of properties and unconsolidated real estate joint ventures and contributions of assets to an unconsolidated real estate joint venture. Since our real estate sales activity is driven by transactions unrelated to our core operations, our proceeds from sales of properties are subject to significant fluctuation from period to period and, therefore, we do not believe that the change described above is necessarily indicative of a trend. While we expect to reduce or eliminate our real estate investments in certain of our non-core markets in the future, we cannot predict when and if these dispositions will occur.

Our cash flow provided by financing activities decreased $183.5 million, or 57.1%, from 2005 to 2006. This decrease included the following:

- a $181.9 million, or 31.3%, increase in repayments of mortgage and other loans payable. This increase is attributable primarily to our use of proceeds from additional equity offerings and the 3.5% Exchangeable Senior Notes to pay down these loans;
- $64.4 million in cash used to redeem our Series E and Series F Preferred Shares in 2006; and
- a $216.2 million, or 24.3%, decrease in proceeds from mortgage and other loans payable due to a larger volume of refinancing activity; offset in part by
- $200.0 million in proceeds from the 3.5% Exchangeable Senior Notes in 2006; and
- a $91.5 million, or 115.1%, increase in proceeds from the issuance of common and preferred shares.

Off-Balance Sheet Arrangements

During 2006, we owned investments in two unconsolidated joint ventures: Harrisburg Corporate Gateway Partners, L.P. and Route 46 Partners. We accounted for these joint venture investments using the equity method of accounting. These joint ventures were entered into in prior years to enable us to contribute office properties that were previously wholly owned by us into the joint ventures in order to partially dispose of our interests. We managed the joint ventures' property operations and any required construction projects and earned fees for these services. Both of these joint ventures have a two-member management committee that is responsible for making major decisions (as defined in the joint venture agreements), and we control one of the management committee positions in each case.

Route 46 Partners sold its property in July 2006, resulting in the dissolution of the joint venture and our recognition of a $563,000 gain. Upon its dissolution, our partner received a preferential distribution of cash flows for a defined return and once our partner received its defined return, we received the remainder.

For Harrisburg Corporate Gateway Partners, L.P., we and our partner receive returns in proportion to our investments. As part of our obligations under the joint venture,

we may be required to make unilateral payments to fund rent shortfalls on behalf of a tenant that was in bankruptcy at the time the joint venture was formed; our total unilateral commitment under this guaranty is approximately $306,000, although the tenant's account was current as of December 31, 2006. We also agreed to indemnify the partnership's lender for 80% of losses under standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation) during the period of time in which we manage the partnership's properties; we do not expect to incur any losses under these loan guarantees.

The table below sets forth certain additional information regarding these unconsolidated joint ventures (in thousands):

Investment Balance at 12/31/06 (1)	Net Cash Inflow in 2006	Income recognized from investment in 2006 (2)	Fees Earned from joint ventures in 2006 (3)	Obligation to Unilaterally Fund Additional Project Costs (if necessary) (4)
$(3,614)	$ 2,438	$ 471	$ 619	$ 306

(1) This amount represents distributions in excess of our investment in Harrisburg Corporate Gateway Partners, L.P. at December 31, 2006 due to our not recognizing gain on the contribution of properties into the joint venture. We did not recognize a gain on the contribution since we have contingent obligations, as described above, that may exceed our proportionate interest remaining in effect as long as we continue to manage the joint venture's properties.
(2) This amount includes a gain of $563 on the dissolution of Route 46 Partners.
(3) Fees earned by us for construction, asset management and property management services provided to unconsolidated joint ventures.
(4) Amounts reported in this column represent additional investments we could be required to fund on a unilateral basis, including the rent shortfall payments and lender indemnifications discussed above. We and our partner are also required to fund proportionally (based on our ownership percentage) additional amounts when needed. 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.

During 2006, we also owned investments in four joint ventures that we accounted for using the consolidation method of accounting. We use joint ventures such as these 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. Our consolidated and unconsolidated joint ventures are discussed in Note 5 to our Consolidated Financial Statements, and certain commitments and contingencies related to these joint ventures are discussed in Note 19.

We had no other material off-balance sheet arrangements during 2006.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2006 (in thousands):

	For the Years Ended December 31,				
	2007	2008 to 2009	2010 to 2011	Thereafter	Total
Contractual obligations (1)(2)					
Debt (3)	$ 140,950	$ 436,999	$ 181,982	$ 738,396	$ 1,498,327
Interest on debt (4)	76,500	112,284	87,654	204,327	480,765
Acquisitions of properties (5)	370,865	310	—	4,000	375,175
New construction and development contracts and obligations (6)(7)	77,595	—	—	—	77,595
Third-party construction and development contracts (7)(8)	59,597	—	—	—	59,597
Capital expenditures for operating properties (7)(9)	4,283	—	—	—	4,283
Operating leases (10)	2,615	1,028	268	—	3,911
Other purchase obligations (11)	2,334	4,545	4,482	9,714	21,075
Total contractual cash obligations	$ 734,739	$ 555,166	$ 274,386	$ 956,437	$ 2,520,728

(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 Note 19 to our Consolidated Financial Statements for further discussion of such amounts.
(3) Represents principal maturities only and therefore excludes a net premium of $210,000. Our loan maturities in 2007 include $48.8 million that may be extended until 2008, subject to certain conditions, and approximately $75.8 million that we expect to refinance; the balance of the 2007 maturities represent primarily scheduled principal amortization payments that we expect to pay using cash flow from operations.
(4) Represents interest costs for debt at December 31, 2006 for the terms of such debt. For variable rate debt, the amounts reflected above used December 31, 2006 interest rates on variable rate debt in computing interest costs for the terms of such debt. For construction loan facilities where the interest payments are not payable as incurred but, rather, are added to the balance of the loan during the construction period, the amounts reflected above assumed that such interest costs are paid monthly as incurred.

(5) Represents contractual obligations at December 31, 2006 to (1) complete the Nottingham Acquisition, which was completed in January 2007 as described below in "Investing and Financing Activities Subsequent to December 31, 2006"; (2) acquire a parcel of land located in Aberdeen, Maryland, which we expect to complete in 2007 using borrowings under the Revolving Credit Facility; and (3) complete the acquisition of the remaining 91 acres of the Fort Ritchie Project. A $4.0 million final payment on the Fort Ritchie acquisition 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 (1) defined levels of job creation resulting from the future development of the property taking place and (2) future real estate taxes generated by the property.
(6) 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.
(7) Because of the long-term nature of certain construction and development contracts, some of these costs will be incurred beyond 2007.
(8) 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.

(9) Represents contractual obligations pertaining to capital expenditures for our operating properties. We expect to finance all of these costs using cash flow from operations.

(10) We expect to pay these items using cash flow from operations.

(11) Primarily represents contractual obligations pertaining to managed-energy service contracts in place for certain of our operating properties. We expect to pay these items using cash flow from operations.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including leverage ratio, minimum net worth, minimum fixed charge coverage, minimum debt service and maximum secured indebtedness. As of December 31, 2006, we were in compliance with these financial covenants.

Investing and Financing Activities Subsequent to December 31, 2006

On January 9 and 10, 2007, we completed the Nottingham Acquisition, which resulted in the acquisition of 56 operating properties totaling 2.4 million square feet and land parcels totaling 187 acres. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor. We believe that the land parcels totaling 187 acres can support at least 2.0 million developable square feet. We completed the Nottingham Acquisition for an aggregate cost of approximately $363.9 million, including approximately $1.4 million in transaction costs. We financed the acquisition by (1) issuing $26.6 million in Series K Preferred Shares to the seller; (2) issuing $154.9 million in common shares to the seller, at a deemed value of $49 per share; (3) assuming existing mortgage loans totaling $38.0 million, with an average interest rate of approximately 6.0%; (4) assuming an existing mortgage loan totaling $10.3 million, which we repaid on January 11, 2007 using borrowings under our Revolving Credit Facility; (5) assuming an existing unsecured loan totaling $89.1 million, with a variable interest rate of LIBOR plus 1.15% to 1.55% depending on our leverage levels at different points in time; (6) using $20.1 million from an escrow funded by proceeds from one of our property sales; and (7) using borrowings under the Revolving Credit Facility for the balance.

We believe that the Nottingham Acquisition has the following strategic benefits:

· we become the largest owner of office properties in White Marsh, Maryland, a submarket located in the Baltimore/Washington Corridor, which we believe will be efficiently integrated into our operations in that region. White Marsh is also located off of Interstate 95, approximately 18 miles from Aberdeen Proving Ground, a United States Army Base; we believe that this proximity could potentially benefit certain of our existing and future tenants in the United States defense industry;
· it increases our critical mass of property holdings in the Baltimore/Washington Corridor and Suburban Baltimore;
· it adds future development capacity of approximately 2.0 million square feet in submarkets in which we have significant operating property holdings; and
· we were able to hire a number of individuals who were members of the selling parties' property management team.

The Series K Preferred Shares issued in the Nottingham Acquisition are valued at, and carry a liquidation preference equal to, $50 per share. The Series K Preferred Shares are nonvoting, redeemable for cash at $50 per share at our option on or after January 9, 2017, and are convertible, subject to certain conditions, into common shares on the basis of 0.8163 common shares for each preferred share, in accordance with the terms of the Articles Supplementary describing the Series K Preferred Shares. Holders of the Series K Preferred Shares are entitled to cumulative dividends, payable quarterly (as and if declared by our Board of Trustees). Dividends will accrue from the date of issue at the annual rate of $2.80 per share, which is equal to 5.6% of the $50 per share liquidation preference.

Other Future Cash Requirements for Investing and Financing Activities

As previously discussed, as of December 31, 2006, we had construction activities underway on eight office properties totaling 831,000 square feet that were 79.5% pre-leased (one of these properties is owned through a consolidated joint venture

in which we have a 50% interest). We estimate remaining costs to be incurred will total approximately $85.6 million upon completion of these properties; we expect to incur these costs primarily in 2007 and 2008. We have $21.3 million remaining to be borrowed under construction loan facilities totaling $73.7 million for four of these properties. We expect to fund the remaining portion of these costs using borrowings from new construction loan facilities and our Revolving Credit Facility.

As of December 31, 2006, we had development activities underway on 11 new office properties estimated to total 1.3 million square feet (we own a 50% interest in two of these properties). We estimate that costs for these properties will total approximately $258.2 million. As of December 31, 2006, costs incurred on these properties totaled $25.7 million and the balance is expected to be incurred from 2007 through 2009. We expect to fund most of these costs using borrowings from new construction loan facilities.

As of December 31, 2006, we had redevelopment activities underway on four properties totaling 740,000 square feet (two of these properties are owned through a consolidated joint venture in which we own a 92.5% interest). We estimate that remaining costs of the redevelopment activities will total approximately $48.3 million. We expect to fund most of these costs using borrowings under new construction loan facilities.

During 2007 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 debt, borrowings under our Revolving Credit Facility, proceeds from sales of existing properties and additional equity issuances of common and/or preferred shares or units.

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 as attractive financing conditions arise and equity issuances as attractive equity market conditions arise. The maximum principal amount on our Revolving Credit is $500.0 million (increased from $400.0 million in July 2006), with a right to further increase the maximum principal amount in the future to $600.0 million, subject to certain conditions. The facility has a scheduled maturity date in March 2008, with a one-year extension available, subject to certain conditions, and carries a fee of 0.125% to 0.25% on the amount of the credit facility that is unused. The borrowing capacity under this Revolving Credit Facility is generally computed based on 65% of the value of assets identified by us to support repayment of the loan. As of February 26, 2007, the borrowing capacity under the Revolving Credit Facility was $500.0 million, of which $234.0 million was available.

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 or encumbered for 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.

- In 2005 and 2006, we completed acquisitions of properties in regions where we did not previously own properties. Moreover, weexpect to continue to pursue selective acquisitions of properties in new regions. 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.
- 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 Changes

We implemented the following management changes effective on August 14, 2006:

- Roger A. Waesche, Jr., an Executive Vice President who had been our Chief Financial Officer since March 1999, was appointed Executive Vice President and Chief Operating Officer and, at the same time, ceased to serve as our Chief Financial Officer; and
- Stephen E. Riffee commenced service as our Executive Vice President and Chief Financial Officer.

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.

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 and are 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 ("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 other than common units in the Operating Partnership 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, discussed below. 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.

Diluted funds from operations per share ("Diluted FFO per share") is (1) Diluted FFO 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 other than common units in the Operating Partnership 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 above); management compensates for these limitations in essentially the same manner as described above for Diluted FFO.

Our Basic FFO, Diluted FFO and Diluted FFO per share for 2002 through 2006 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, (in thousands, except per share data)				
	2006	2005	2004	2003	2002
Net income	$ 49,227	$ 39,031	$ 37,032	$ 30,877	$ 23,301
Add: Real estate-related depreciation and amortization	78,631	62,850	51,371	36,681	30,832
Add: Depreciation and amortization on unconsolidated real estate entities	910	182	106	295	165
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(163)	(114)	(86)	—	—
Less: Gain on sales of real estate, excluding development portion (1)	(17,644)	(4,422)	(95)	(2,897)	(268)
Funds from operations ("FFO")	110,961	97,527	88,328	64,956	54,030
Add: Minority interests-common units in the Operating Partnership	7,276	5,889	5,659	6,712	5,800
Less: Preferred share dividends	(15,404)	(14,615)	(16,329)	(12,003)	(10,134)
Less: Issuance costs associated with redeemed preferred shares	(3,896)	—	(1,813)	—	—
Funds from Operations - basic ("Basic FFO")	98,937	88,801	75,845	59,665	49,696
Add: Preferred unit distributions	—	—	—	1,049	2,287
Add: Expense on dilutive share-based compensation	—	—	382	10	327
Add: Convertible preferred share dividends	—	—	21	544	544
Funds from Operations - diluted ("Diluted FFO")	$ 98,937	$ 88,801	$ 76,248	$ 61,268	$ 52,854
Weighted average common shares	41,463	37,371	33,173	26,659	22,472
Conversion of weighted average common units	8,511	8,702	8,726	8,932	9,282
Weighted average common shares/units - basic FFO	49,974	46,073	41,899	35,591	31,754
Dilutive effect of share-based compensation awards	1,799	1,626	1,896	1,405	1,262
Assumed conversion of weighted average convertible preferred units	—	—	—	1,101	2,421
Assumed conversion of weighted average convertible preferred shares	—	—	134	1,197	1,197
Weighted average common shares/units - diluted FFO	51,773	47,699	43,929	39,294	36,634
Diluted FFO per common share	$ 1.91	$ 1.86	$ 1.74	$ 1.56	$ 1.44
Numerator for diluted EPS	$ 29,927	$ 24,416	$ 18,911	$ 7,650	$ 13,167
Add: Minority interests-common units in the Operating Partnership	7,276	5,889	5,659	6,712	5,800
Add: Real estate-related depreciation and amortization	78,631	62,850	51,371	36,681	30,832
Add: Depreciation and amortization on unconsolidated real estate entities	910	182	106	295	165
Less: Depreciation and amortization allocable to minority interests in other consolidated entities	(163)	(114)	(86)	—	—
Less: Gain on sales of real estate, excluding development portion (1)	(17,644)	(4,422)	(95)	(2,897)	(268)
Add: Convertible preferred share dividends	—	—	—	544	544
Add: Preferred unit distributions	—	—	—	1,049	2,287
Add: Expense on dilutive share-based compensation	—	—	382	10	327
Add: Repurchase of Series C Preferred Units in excess of recorded book value	—	—	—	11,224	—
Diluted FFO	$ 98,937	$ 88,801	$ 76,248	$ 61,268	$ 52,854
Denominator for diluted EPS	43,262	38,997	34,982	28,021	23,350
Weighted average common units	8,511	8,702	8,726	8,932	9,282
Assumed conversion of weighted average convertible preferred shares	—	—	—	1,197	1,197
Assumed conversion of weighted average convertible preferred units	—	—	—	1,101	2,421
Dilutive effect of share-based compensation awards	—	—	221	43	384
Denominator for Diluted FFO per share	51,773	47,699	43,929	39,294	36,634

(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

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. 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. In addition, since our average lease life is approximately five years, we generally expect to be able to compensate for increased operating expenses through increased rental rates upon lease renewal or expiration.

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.

Recent Accounting Pronouncements

For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, you should refer to Note 2 to our Consolidated Financial Statements.

Item 7A. 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 debt carrying variable interest rate terms. Increases in interest rates can also result in increased interest expense when our debt 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, 2006, 93.1% of our fixed-rate debt was scheduled to mature after 2007. As of December 31, 2006, 7.2% of our total debt had variable interest rates, including the effect of interest rate swaps. As of December 31, 2006, the percentage of variable-rate debt, including the effect of interest rate swaps, relative to total assets was 11.4%.

The following table sets forth our long-term debt obligations by scheduled maturity and weighted average interest rates at December 31, 2006 (dollars in thousands):

	For the Years Ended December 31,						
	2007	2008	2009	2010	2011	Thereafter	Total
Long term debt:							
Fixed rate (1)	$83,818	$156,761	$61,791	$73,128	$108,854	$738,396	$1,222,748
Average interest rate	6.49%	6.42%	6.20%	5.98%	5.76%	7.27%	6.82%
Variable rate	$57,132	$218,447	$ —	$ —	$ —	$ —	$ 275,579
Average interest rate	7.20%	6.83%	—	—	—	—	7.05%

(1) Represents principal maturities only and therefore excludes net premiums of $210,000.

The fair market value of our debt was $1.50 billion at December 31, 2006 and $1.35 billion at December 31, 2005. If interest rates on our fixed-rate debt had been 1% lower, the fair value of this debt would have increased by $48.4 million at December 31, 2006 and $41.9 million at December 31, 2005.

We occasionally use derivative instruments such as interest rate swaps to further reduce our exposure to changes in interest rates. The following table sets forth information pertaining to our derivative contracts in place as of December 31, 2006 and 2005, and their respective fair values (dollars in thousands):

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at December 31, 2006	Fair Value at December 31, 2005
Interest rate swap	$ 50,000	5.0360%	3/28/2006	3/30/2009	$ (42)	N/A
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(133)	N/A
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(133)	N/A
					$ (308)	$ —

Based on our variable-rate debt balances, our interest expense would have increased by $3.2 million in 2006 and $3.6 million in 2005 if short-term interest rates were 1% higher. Interest expense in 2006 was less sensitive to a change in interest rates than 2005 due primarily to our having a lower average variable-rate debt balance in 2006.

Item 8. Financial Statements and Supplementary Data

The response to this item is included in a separate section at the end of this report beginning on page F-1.

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 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 December 31, 2006. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2006 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 (i) recorded, processed, summarized and reported within the time periods specified

in the SEC's rules and forms, and (ii) 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 ina separate section at the end of this report on page F-2.

(b) Report of Independent Registered Public Accounting Firm

The Report of Independent Registered Public Accounting Firmis included in a separate section at the end of this report beginning on page F-3.

(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, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; 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 2007 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**. See "Index to Consolidated Financial Statements" on page F-1 of this Form 10-K.

2. **Financial Statement Schedule.** See "Index to Consolidated Financial Statements" on page F-1 of this Form 10-K.

3. **See section below entitled "Exhibits."**

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

EXHIBIT NO.	DESCRIPTION
3.1.1	Amended and Restated Declaration of Trust of Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.1.2	Articles of 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).

EXHIBIT NO.	DESCRIPTION
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

EXHIBIT NO.	DESCRIPTION
	Current Report on Form 8-K on December 12, 2003 and incorporated herein by reference).
3.1.11	Articles Supplementary of Corporate Office Properties Trust relating to the Series J Cumulative Redeemable Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated July 19, 2006 and incorporated herein by reference).
3.1.12	Articles Supplementary of Corporate Office Properties Trust relating to the Series K Cumulative Redeemable Convertible Preferred Shares of Beneficial Interest (filed with the Company's Current Report on Form 8-K dated January 16, 2007 and incorporated herein by reference).
3.2	Bylaws of the Registrant (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.3	Form of certificate for the Registrant's Common Shares of Beneficial Interest, $0.01 par value per share (filed with the Registrant's Registration Statement on Form S-4 (Commission File No. 333-45649) and incorporated herein by reference).
3.4	Amended and Restated Registration Rights Agreement, dated March 16, 1998, for the benefit of certain shareholders of the Company (filed 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).
3.6	Registration Rights Agreement, dated September 18, 2006, among Corporate Office Properties, L.P., Corporate Office Properties Trust, Banc of America Securities LLC and J.P. Morgan Securities Inc. (filed with the Company's Current Report on Form 8-K dated September 22, 2006 and incorporated herein by reference).
4.1	Indenture, dated as of September 18, 2006, among Corporate Office Properties, L.P., as issuer, Corporate Office Properties Trust, as guarantor, and Wells Fargo Bank, National Association, as trustee (filed with the Company's Current Report on Form 8-K dated September 22, 2006 and incorporated herein by reference).
4.2	3.50% Exchangeable Senior Note due 2026 of Corporate Office Properties, L.P. (filed with the Company's Current Report on Form 8-K dated September 22, 2006 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).

EXHIBIT NO.	DESCRIPTION
10.1.4	Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated September 29, 2000 (filed with the Company's Post Effective Amendment No. 2 to Form S-3 dated November 1, 2000 (Registration Statement No. 333-71807) and incorporated herein by reference).
10.1.5	Fourth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership, dated November 27, 2000 (filed 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).

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).

EXHIBIT NO.	DESCRIPTION
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).
10.1.19	Eighteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated April 18, 2005 (filed with the Company's Form 8-K on April 22, 2005 and incorporated herein by reference).
10.1.20	Nineteenth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 8, 2005 (filed with the Company's Current Report on Form 8-K on July 14, 2005 and incorporated herein by reference).
10.1.21	Twentieth Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated June 29, 2006 (filed with the Company's Current Report on Form 8-K dated July 6, 2006 and incorporated herein by reference).
10.1.22	Twenty First Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated July 20, 2006 (filed with the Company's Current Report on Form 8-K dated July 26, 2006 and incorporated herein by reference).
10.1.23	Twenty-Second Amendment to Second Amended and Restated Limited Partnership Agreement of Corporate Office Properties, L.P., dated January 9, 2007 (filed with the Company's Current Report on Form 8-K dated January 16, 2007 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

EXHIBIT NO.	DESCRIPTION
	(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).
10.4*	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).
10.6.1*	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).
10.6.2*	Employment Agreement, dated July 13, 2005, between Corporate Office Properties, L.P. Corporate Office Properties Trust and Randall M. Griffin (filed with the Company's Current Report on Form 8-K on July 19, 2005 and incorporated herein by reference).

10.6.3*	Amendment to Employment Agreement, dated May 30, 2006, between Corporate Office Properties, L.P., Corporate Office Properties Trust, and Randall M. Griffin (filed with the Company's Current Report on Form 8-K dated June 1, 2006 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 on March 16, 2005 with the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).
10.7.3*	Second Amendment to Employment Agreement, dated May 30, 2006, between Corporate Office Properties, L.P., Corporate Office Properties Trust, and Roger A. Waesche, Jr. (filed with the Company's Current Report on Form 8-K dated June 1, 2006 and incorporated herein by reference).
10.7.4*	Third Amendment to Employment Agreement, dated July 31, 2006, between Corporate Office Properties, L.P., Corporate Office Properties Trust, and Roger A. Waesche, Jr. (filed with the Company's Current Report on Form 8-K dated August 1, 2006 and incorporated herein by reference).
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 on March 16, 2005 with the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).

EXHIBIT NO.	DESCRIPTION
10.9*	Employment Agreement, dated November 18, 2005, between Corporate Office Properties, L.P. Corporate Office Properties Trust and Karen M. Singer (filed with the Company's Current Report on Form 8-K on December 1, 2005 and incorporated herein by reference).
10.10*	Employment Agreement, dated July 31, 2006, between Corporate Office Properties, L.P., Corporate Office Properties Trust and Stephen E. Riffee (filed with the Company's Current Report on Form 8-K dated August 1, 2006 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 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

EXHIBIT NO.	DESCRIPTION
	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).
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	Amended and Restated Credit Agreement, dated June 24, 2005, among Corporate Office Properties, L.P.; Corporate Office Properties Trust; Wachovia Capital Markets, LLC; KeyBank National Association; Wachovia Bank, National Association; KeyBanc Capital Markets; Manufacturers and Traders Trust Company; Wells Fargo Bank, National Association; and Bank of America, N.A. (filed with the Company's Current Report on Form 8-K on June 30, 2005 and incorporated herein by reference).
10.26	Retirement and Consulting Agreement, dated April 12, 2005, between Corporate Office Properties, L.P. and Clay W. Hamlin, III (filed with the Company's Form 8-K on April 15, 2005 and incorporated herein by reference).
10.27	Corporate Office Properties Trust Supplemental Nonqualified Deferred Compensation Plan (filed with the Company's Registration Statement on Form S-8 (Commission File No. 333-87384) and incorporated herein by reference).
10.28	Common Stock Delivery Agreement, dated as of September 18, 2006, between Corporate Office Properties, L.P. and Corporate Office Properties Trust (filed with the Company's Current Report on Form 8-K dated September 22, 2006 and incorporated herein by reference).
10.29	Purchase Agreement and Agreement and Plan of Merger, dated December 21, 2006, by and among the Corporate Office Properties Trust; Corporate Office Properties, L.P.; W&M Business Trust; and Nottingham Village, Inc. (filed herewith).

EXHIBIT NO.	DESCRIPTION
10.30	Purchase and Sale Agreement of Ownership Interests, dated December 21, 2006, by and between Corporate Office Properties, L.P. and Nottingham Properties, Inc. (filed herewith).
10.31	Description of Compensation of Non-Employee Trustees (filed herewith).
10.32	Description of annual cash incentive awards to executives (filed herewith).
12.1	Statement regarding Computation of Earnings to Combined Fixed Charges and Preferred Share Dividends (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 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.)
32.2	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.)

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

(c) Not applicable.

SIGNATURES

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

CORPORATE OFFICE PROPERTIES TRUST

Date: March 1, 2007	By: /s/ Randall M. Griffin Randall M. Griffin President and Chief Executive Officer
Date: March 1, 2007	By: /s/ Stephen E. Riffee Stephen E. Riffee Executive Vice President and Chief Financial Officer

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

Signatures	Title	Date
/s/ Jay H . Shidler (Jay H. Shidler)	Chairman of the Board and Trustee	March 1, 2007
/s/ Clay W. Hamlin, III (Clay W. Hamlin, III)	Vice Chairman of the Board and Trustee	March 1, 2007
/s/ Randall M. Griffin (Randall M. Griffin)	President, Chief Executive Officer and Trustee	March 1, 2007
/s/ Stephen E. Riffee (Stephen E. Riffee)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
/s/ Colleen M. Crews (Colleen M. Crews)	Vice President and Controller (Principal Accounting Officer)	March 1, 2007
/s/ Thomas F. Brady (Thomas F. Brady)	Trustee	March 1, 2007
/s/ Robert L. Denton (Robert L. Denton)	Trustee	March 1, 2007
/s/ Steven D. Kesler (Steven D. Kesler)	Trustee	March 1, 2007
/s/ Kenneth S. Sweet, Jr. (Kenneth S. Sweet, Jr.)	Trustee	March 1, 2007
/s/ Kenneth D. Wethe (Kenneth D. Wethe)	Trustee	March 1, 2007

CORPORATE OFFICE PROPERTIES TRUST AND SUBSIDIARIES
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FINANCIAL STATEMENT SCHEDULE

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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, 2006. 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, 2006 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, 2006 based on the criteria in Internal Control-Integrated Framework issued by the COSO.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Dated: March 1, 2007

/s/ Randall M. Griffin	/s/ Stephen E. Riffee
Randall M. Griffin President and Chief Executive Officer	Stephen E. Riffee Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Corporate Office Properties Trust's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, 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 and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Corporate Office Properties Trust and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

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, 2006 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, 2006, 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 1, 2007

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

	December 31,	
	2006	2005
Assets		
Investment in real estate:		
Operating properties, net	$ 1,812,883	$ 1,631,038
Projects under construction or development	298,427	255,617
Total commercial real estate properties, net	2,111,310	1,886,655
Investments in and advances to unconsolidated real estate joint ventures	—	1,451
Investment in real estate, net	2,111,310	1,888,106
Cash and cash equivalents	7,923	10,784
Restricted cash	52,856	21,476
Accounts receivable, net	26,367	15,606
Deferred rent receivable	41,643	32,579
Intangible assets on real estate acquisitions, net	87,325	90,984
Deferred charges, net	43,710	35,046
Prepaid and other assets	48,467	35,178
Total assets	$ 2,419,601	$ 2,129,759
Liabilities and shareholders' equity		
Liabilities:		
Mortgage and other loans payable	$ 1,298,537	$ 1,348,351
3.5% Exchangeable Senior Notes	200,000	—
Accounts payable and accrued expenses	68,190	41,693
Rents received in advance and security deposits	20,237	14,774
Dividends and distributions payable	19,164	16,703
Deferred revenue associated with acquired operating leases	11,120	12,707
Distributions in excess of investment in unconsolidated real estate joint venture	3,614	3,081
Fair value of derivatives	308	—
Other liabilities	7,941	4,727
Total liabilities	1,629,111	1,442,036
Minority interests:		
Common units in the Operating Partnership	104,934	95,014
Preferred units in the Operating Partnership	8,800	8,800
Other consolidated real estate joint ventures	2,453	1,396
Total minority interests	116,187	105,210
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Preferred Shares of beneficial interest ($0.01 par value; shares authorized of 15,000,000, issued and outstanding of 7,590,000 at December 31, 2006 and 6,775,000 at December 31, 2005 (Note 11)	76	67
Common Shares of beneficial interest ($0.01 par value; 75,000,000 shares authorized, shares issued and outstanding of 42,897,639 at December 31, 2006 and 39,927,316 at December 31, 2005	429	399
Additional paid-in capital	758,032	657,339
Cumulative distributions in excess of net income	(83,541)	(67,697)
Value of unearned restricted common share grants	—	(7,113)
Accumulated other comprehensive loss	(693)	(482)
Total shareholders' equity	674,303	582,513
Total liabilities and shareholders' equity	$ 2,419,601	$ 2,129,759

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,		
	2006	2005	2004
Revenues			
Rental revenue	$ 260,493	$ 212,010	$ 182,860
Tenant recoveries and other real estate operations revenue	40,826	30,063	21,084
Construction contract revenues	52,182	74,357	25,018

Other service operations revenues	7,902	4,877	3,885
Total revenues	361,403	321,307	232,847
Expenses			
Property operating expenses	94,504	72,253	58,982
Depreciation and other amortization associated with real estate operations	78,712	61,049	49,289
Construction contract expenses	49,961	72,534	23,733
Other service operations expenses	7,384	4,753	3,263
General and administrative expenses	16,936	13,534	10,938
Total operating expenses	247,497	224,123	146,205
Operating income	113,906	97,184	86,642
Interest expense	(71,378)	(54,872)	(42,148)
Amortization of deferred financing costs	(2,847)	(2,229)	(2,420)
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	39,681	40,083	42,074
Equity in loss of unconsolidated entities	(92)	(88)	(88)
Income tax expense	(887)	(668)	(795)
Income from continuing operations before minority interests	38,702	39,327	41,191
Minority interests in income from continuing operations			
Common units in the Operating Partnership	(4,060)	(4,670)	(5,306)
Preferred units in the Operating Partnership	(660)	(660)	(179)
Other consolidated entities	136	85	12
Income from continuing operations	34,118	34,082	35,718
Income from discontinued operations, net of minority interests	14,377	4,681	1,427
Income before gain (loss) on sales of real estate	48,495	38,763	37,145
Gain (loss) on sales of real estate, net of minority interests	732	268	(113)
Net income	**49,227**	**39,031**	**37,032**
Preferred share dividends	(15,404)	(14,615)	(16,329)
Issuance costs associated with redeemed preferred shares	(3,896)	—	(1,813)
Net income available to common shareholders	**$ 29,927**	**$ 24,416**	**$ 18,890**
Basic earnings per common share			
Income from continuing operations	$ 0.37	$ 0.53	$ 0.53
Discontinued operations	0.35	0.12	0.04
Net income available to common shareholders	$ 0.72	$ 0.65	$ 0.57
Diluted earnings per common share			
Income from continuing operations	$ 0.36	$ 0.51	$ 0.50
Discontinued operations	0.33	0.12	0.04
Net income available to common shareholders	$ 0.69	$ 0.63	$ 0.54

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, 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 Shares 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)
Increase in tax benefit from 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
Conversion of common units to common shares (253,575 shares)	—	3	9,117	—	—	—	9,120
Common shares issued to the public (2,300,000 shares)	—	23	75,118	—	—	—	75,141
Decrease in fair value of derivatives	—	—	—	—	—	(482)	(482)
Restricted common share grants issued (130,975 shares)	—	1	3,480	—	(3,481)	—	—
Restricted common share cancellations (10,422 shares)	—	—	(205)	—	205	—	—
Value of earned restricted share grants	—	—	536	—	1,544	—	2,080
Exercise of share options (411,080 shares)	—	4	4,394	—	—	—	4,398
Expense associated with share options	—	—	93	—	—	—	93
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(12,888)	—	—	—	(12,888)
Decrease in tax benefit from share-based compensation	—	—	(534)	—	—	—	(534)
Net income	—	—	—	39,031	—	—	39,031
Dividends	—	—	—	(55,370)	—	—	(55,370)

Balance at December 31, 2005 (39,927,316 common shares outstanding)	67	399	657,339	(67,697)	(7,113)	(482)	582,513
Conversion of common units to common shares (245,793 shares)	—	3	11,075	—	—	—	11,078
Common shares issued to the public (2,000,000 shares)	—	20	82,413	—	—	—	82,433
Series J Preferred Shares issued to the public (3,390,000 shares)	34	—	81,823	—	—	—	81,857
Series E Preferred Shares redemption	(11)	—	(28,739)	—	—	—	(28,750)
Series F Preferred Shares redemption	(14)	—	(35,611)	—	—	—	(35,625)
Decrease in fair value of derivatives	—	—	—	—	—	(211)	(211)
Reversal of unearned restricted common share grants upon adoption of SFAS 123(R)	—	1	(5,169)	—	7,113	—	1,945
Exercise of share options (581,932 shares)	—	6	6,761	—	—	—	6,767
Expense associated with share-based compensation	—	—	3,833	—	—	—	3,833
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	—	—	(16,255)	—	—	—	(16,255)
Increase in tax benefit from share-based compensation	—	—	562	—	—	—	562
Net income	—	—	—	49,227	—	—	49,227
Dividends	—	—	—	(65,071)	—	—	(65,071)
Balance at December 31, 2006 (42,897,639 common shares outstanding)	$ 76	$ 429	$ 758,032	$ (83,541)	$ —	$ (693)	$ 674,303

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income	$ 49,227	$ 39,031	$ 37,032
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	7,800	6,464	5,826
Depreciation and other amortization	80,074	63,555	51,904
Amortization of deferred financing costs	2,981	2,240	2,431
Amortization of deferred market rental revenue	(1,904)	(426)	(931)
Equity in loss of unconsolidated entities	92	88	88
(Gain) loss on sales of real estate	(17,920)	(4,690)	150
Share-based compensation	3,833	2,173	1,904
Excess income tax benefits from share-based compensation	(562)	—	—
Changes in operating assets and liabilities:			
Increase in deferred rent receivable	(10,004)	(6,922)	(8,372)
(Increase) decrease in accounts receivable	(10,844)	1,165	(3,579)
Increase in restricted cash and prepaid and other assets	(7,098)	(14,260)	(7,859)
Increase in accounts payable, accrued expenses, and other liabilities	13,544	5,953	3,528
Increase in rents received in advance and security deposits	4,181	1,993	2,322
Other	(249)	(420)	50
Net cash provided by operating activities	113,151	95,944	84,494
Cash flows from investing activities			
Purchases of and additions to commercial real estate properties	(282,099)	(499,926)	(251,982)
Proceeds from sales of properties	46,704	29,467	—
Proceeds from sale of unconsolidated real estate joint venture	1,524	—	—
Proceeds from contribution of assets to unconsolidated real estate joint venture	—	68,633	—
Acquisition of partner interests in consolidated joint ventures	(5,250)	(1,208)	(4,928)
Investments in and advances from (to) unconsolidated entities	454	(130)	(146)
Distributions from unconsolidated entities	499	250	—
Leasing costs paid	(10,480)	(9,272)	(11,024)
Advances to certain real estate joint ventures	—	—	(515)
Decrease (increase) in restricted cash associated with investing activities	5,260	(5,620)	1,183
Purchases of furniture, fixtures and equipment	(8,109)	(2,434)	(1,308)
Other	(2,337)	(61)	—
Net cash used in investing activities	(253,834)	(420,301)	(268,720)
Cash flows from financing activities			
Proceeds from mortgage and other loans payable	673,176	889,399	573,879
Proceeds from 3.5% Exchangeable Senior Notes	200,000	—	—
Repayments of mortgage and other loans payable	(762,590)	(580,642)	(421,621)
Deferred financing costs paid	(6,605)	(4,307)	(3,436)
Increase in other liabilities associated with financing activities	—	—	4,000
Distributions paid to partners in consolidated joint ventures	(787)	—	—
Net proceeds from issuance of common shares	89,202	79,539	122,744
Net proceeds from issuance of preferred shares	81,857	—	—
Redemption of preferred shares	(64,375)	—	(31,251)
Dividends paid	(62,845)	(53,587)	(47,551)
Distributions paid	(10,422)	(9,677)	(8,435)
Excess income tax benefits from share-based compensation	562	—	—
Other	649	595	237
Net cash provided by financing activities	137,822	321,320	188,566
Net (decrease) increase in cash and cash equivalents	(2,861)	(3,037)	4,340
Cash and cash equivalents			

Beginning of period	10,784	13,821	9,481
End of period	$ 7,923	$ 10,784	$ 13,821

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") that focuses on the acquisition, development, ownership, management and leasing of primarily Class A suburban office properties in the Greater Washington, D.C. region and other select submarkets. We also have a core customer expansion strategy that is built on meeting, through acquisitions and development, the multi-location requirements of our strategic tenants. As of December 31, 2006, our investments in real estate included the following:

- 170 wholly owned operating properties in our portfolio totaling 15.1 million square feet;
- 16 wholly owned office properties under construction or development that we estimate will total approximately 1.8 million square feet upon completion and two wholly owned office properties totaling approximately 129,000 square feet that were under redevelopment;
- wholly owned land parcels totaling 1,048 acres that we believe are potentially developable into approximately 8.4 million square feet; and
- partial ownership interests in a number of other real estate projects in operations or under development or redevelopment.

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 as of December 31, 2006 and 2005 follows:

	December 31,	
	2006	2005
Common Units	83%	82%
Series E Preferred Units (1)	N/A	100%
Series F Preferred Units (1)	N/A	100%
Series G Preferred Units	100%	100%
Series H Preferred Units	100%	100%
Series I Preferred Units	0%	0%
Series J Preferred Units (2)	100%	N/A

(1) These preferred units were redeemed in 2006.
(2) These preferred units were issued in 2006.

Two of our trustees controlled, either directly or through ownership by other entities or family members, an additional 14% of the Operating Partnership's common units.

In addition to owning interests in real estate, the Operating Partnership also owns 100% of Corporate Office Management, Inc. ("COMI") and owns, either directly or through COMI, 100% of the consolidated subsidiaries that are set forth below (collectively defined as the "Service Companies"):

Entity Name	Type of Service Business
COPT Property Management Services, LLC ("CPM")	Real Estate Management
COPT Development & Construction Services, LLC ("CDC")	Construction and Development
Corporate Development Services, LLC ("CDS")	Construction and Development
COPT Environmental Systems, LLC ("CES") (1)	Heating and Air Conditioning

(1) Prior to 2007, CES's name was Corporate Cooling and Controls, LLC.

Most of the services that CPM provides are for us. CDC, CDS and CES provide services to us and to third parties.

2. Summary of Significant Accounting Policies

Basis of Presentation

We generally use three different accounting methods to report our investments in entities: the consolidation method, the equity method and the cost method. These methods are described below.

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. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), we also consolidate certain entities when control of such entities can be achieved through means other than voting rights ("variable interest entities" or "VIEs") if we are deemed to be the primary beneficiary. Generally, FIN 46(R) applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

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%).

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. FIN 46(R) affects our determination of when to use the equity method of accounting since we would generally use the equity method for VIEs of which we are not the primary beneficiary. Under the equity method, we report:

- our ownership interest in the entity's capital as an investment on our Consolidated Balance Sheets; and
- our percentage share of the earnings or losses from the entity in our Consolidated Statements of Operations.

Cost Method

We use the cost method of accounting when we own an interest in an entity and cannot exert significant influence over the entity's operations. Under the cost method, we report:

- the cost of our investment in the entity as an investment on our Consolidated Balance Sheets; and
- distributions to us of the entity's earnings in our Consolidated Statements of Operations.

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 include such items as depreciation, allocation of real estate acquisition costs and allowances for doubtful accounts. Actual results could differ from those estimates. 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 assets acquired and liabilities assumed based on the relative fair values at the date of acquisition pursuant to the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations." In estimating the fair value of the tangible and intangible assets acquired, we consider, among other things, information obtained about each property as a result of our due diligence, leasing activities and knowledge of the markets in which the properties are located. We utilize various valuation methods, such as estimated cash flow projections utilizing discount and capitalization rate assumptions and available market information. 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 terms 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.
- 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"). Our valuation of this component is affected by, among other things, our tenant lease renewal assumptions and evaluation of existing relationships with tenants.
- 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").

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

property becomes "operational," which occurs upon the earlier of when leases commence on space or one year after the cessation of major construction activities. When leases commence on portions of a newly-constructed property's space in the period prior

to one year from the cessation of major construction activities, we consider that property to be "partially operational." When a property is partially operational, we allocate the costs associated with the property between the portion that is operational and the portion under construction. We start depreciating newly-constructed properties as 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 will be 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 amounts of assets.

When we sell an operating property, or determine that an operating property is held for sale, and determine that we have no significant continuing involvement in such property, we classify the results of operations for such property as discontinued operations. Interest expense that is specifically identifiable to properties included in discontinued operations is used in the computation of interest expense attributable to discontinued operations. When properties included in the borrowing base to support lines of credit are classified as discontinued operations, we allocate a portion of such credit lines' interest expense to discontinued operations; we compute this allocation based on the percentage that the related properties represent of all properties included in the borrowing base to support such credit lines.

We expense property maintenance and repair costs when incurred.

Sales of Interests in Real Estate

We recognize gains from sales of interests in real estate using the full accrual method, provided that various criteria relating to the terms of sale and any subsequent involvement by us with the real estate sold are met. We recognize gains relating to transactions that do not meet the requirements of the full accrual method of accounting when the full accrual method of accounting criteria are met.

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 that we are not exposed to significant credit risk because our accounts are deposited with major financial institutions.

Accounts Receivable

Our accounts receivable are reported net of an allowance for bad debts of $252 at December 31, 2006 and $421 at December 31, 2005.

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 for space in a property is terminated early but the tenant continues to lease such 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, utilities and other property operating expenses.

We recognize fees for services provided by us once services are rendered, fees are determinable and collectibility is 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.

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	Related lease terms or estimated period of time that tenant will lease space in property
·	Deemed cost avoidance	Related lease terms
·	Tenant relationship value	Estimated period of time that tenant will lease space in property
·	Market concentration premium	40 years

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 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 with 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, interest rate cap and forward starting swap agreements in order to attempt to reduce the impact of such interest rate

changes. Interest rate differentials that arise under interest rate swap and interest rate cap contracts are recognized in interest expense over the life of the respective contracts. Interest rate differentials that arise under forward starting swaps are recognized in interest expense over the life of the respective loans for which such swaps are obtained. 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);
- interest expense 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 certain 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.

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: (1) 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 (2) the effect of dilutive potential common shares outstanding during the period attributable to share-based compensation using the treasury stock method; 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,		
	2006	2005	2004
Numerator:			
Income from continuing operations	$ 34,118	$ 34,082	$ 35,718
Add (less): Gain (loss) on sales of real estate, net	732	268	(113)
Less: Preferred share dividends	(15,404)	(14,615)	(16,329)
Less: Issuance costs associated with redeemed preferred shares	(3,896)	—	(1,813)
Numerator for basic EPS from continuing operations	15,550	19,735	17,463
Add: Convertible preferred share dividends	—	—	21
Numerator for diluted EPS from continuing operations	15,550	19,735	17,484
Add: Income from discontinued operations, net	14,377	4,681	1,427
Less: Convertible preferred share dividends	—	—	(21)
Numerator for basic EPS on net income available to common shareholders	29,927	24,416	18,890
Add: Convertible preferred share dividends	—	—	21
Numerator for diluted EPS on net income available to common shareholders	$ 29,927	$ 24,416	$ 18,911
Denominator (all weighted averages):			
Denominator for basic EPS (common shares)	41,463	37,371	33,173
Dilutive effect of share-based compensation awards	1,799	1,626	1,675
Assumed conversion of convertible preferred shares	—	—	134
Denominator for diluted EPS	43,262	38,997	34,982
Basic EPS:			
Income from continuing operations	$ 0.37	$ 0.53	$ 0.53
Income from discontinued operations	0.35	0.12	0.04
Net income available to common shareholders	$ 0.72	$ 0.65	$ 0.57
Diluted EPS			
Income from continuing operations	$ 0.36	$ 0.51	$ 0.50
Income from discontinued operations	0.33	0.12	0.04
Net income available to common shareholders	$ 0.69	$ 0.63	$ 0.54

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,		
	2006	2005	2004
Conversion of weighted average common units	8,511	8,702	8,726
Conversion of weighted average convertible preferred units	176	176	48
Share-based compensation awards	—	206	226

As discussed in Note 9, the Operating Partnership issued on September 18, 2006 a $200,000 aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. The notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares or a combination of cash and our common shares at an exchange rate of 18.4284 shares per $1,000 principal amount of the notes (exchange rate is as of December 31, 2006 and is equivalent to an exchange price of $54.30 per common share). The Exchangeable Senior Notes did not affect our diluted EPS reported above since the weighted average closing price of our common shares during the period over which the notes were outstanding was less than $54.30.

Share-Based Compensation

We have historically issued two forms of share-based compensation: share options and restricted shares. Prior to January 1, 2006, our general method for accounting for these forms of share-based compensation was as follows:

- Share options: These awards were accounted for using the intrinsic value method. Under this method, we recorded compensation expense only when the exercise price of a grant was less than the market price of our common shares on the option grant date; when this occurred, we recognized compensation expense equal to the difference between the exercise price and the grant-date market price over the service period to which the options related.
- Restricted shares: We computed compensation expense for restricted share grants based on the value of such grants, as determined by the value of our common shares on the applicable measurement date (generally the date of grant). We recognized compensation expense for such grants over the service periods to which the grants related based on the vesting schedules for such grants.

In December 2004, the Financial Accounting Standards Board ("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 requires 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 should then be recognized over the period during which the 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. In 2005, the FASB also issued several FASB Staff Positions that clarify certain aspects of SFAS 123(R). SFAS 123(R) became effective for us on January 1, 2006, applying to all awards granted after January 1, 2006 and to awards modified, repurchased

or cancelled after that date. We used the modified prospective application approach to adoption provided for under SFAS 123(R); under this approach, we recognized compensation cost on or after January 1, 2006 for the portion of outstanding awards for which the requisite service was not yet rendered, based on the fair value of those awards on the date of grant.

The primary effect of our adoption of SFAS 123(R) on our Consolidated Financial Statements is that beginning January 1, 2006 we are: (1) incurring higher expense associated with share options issued to employees relative to what we would have recognized under the intrinsic value method; (2) recognizing expenses associated with restricted common shares over the life of the grant using a straight line basis methodology over the service period; and (3) reporting the benefits of tax deductions in excess of recognized compensation costs as cash flow from financing activities (such benefits were previously reported as operating cash flows).

Prior to our adoption of SFAS 123(R), we provided disclosures in our financial statements for years prior to 2006 that summarized what our operating results would have been if we had elected to account for our share-based compensation under the fair value provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In computing the amounts that appeared in these disclosures, we accounted for forfeitures as they occurred. SFAS 123(R) requires that share-based compensation be computed based on awards that are ultimately expected to vest. As a result, future forfeitures of awards are to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. SFAS 123(R) also requires that companies make a one-time cumulative effect adjustment upon adoption of the standard to record the effect that estimated future forfeitures of outstanding awards would have on expenses previously recognized in the companies' financial statements; we did not record such a cumulative effect adjustment since we determined that the effect of pre-vesting forfeitures on our recorded expense has historically been negligible. The amounts included in our Consolidated Statements of Operations for share-based compensation in the twelve months ended December 31, 2006 reflected an estimate of pre-vesting forfeitures of approximately 5%.

In the disclosures that we provided in our financial statements for years prior to 2006 that summarized what our operating results would have been if we had elected to account for our share-based compensation under the fair value provisions of SFAS 123, we did not capitalize costs associated with share-based compensation. Effective upon our adoption of SFAS 123(R), we began capitalizing costs associated with share-based compensation attributable to employees engaged in construction and development activities.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the

additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123(R).

We compute the fair value of share options under SFAS 123(R) using the Black-Scholes option-pricing model. Under that model, the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected option life is based on our historical experience of employee exercise behavior. Expected volatility is based on historical volatility of our common shares. Expected dividend yield is based on the average historical dividend yield on our common shares over a period of time ending on the grant date of the options.

Fair Value of Financial Instruments

Our financial instruments include primarily notes receivable, debt and interest rate derivatives. The carrying or contract values of notes receivable approximated their fair values at December 31, 2006 and 2005. You should refer to Notes 9 and 10 for fair value of debt 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 above entitled "Stock-Based Compensation" for disclosure pertaining to SFAS 123(R).

In June 2005, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the Emerging Issues Task Force ("EITF") regarding EITF 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." The conclusion provided a framework for addressing the question of when a general partner, as defined in EITF 04-05, should consolidate a limited partnership. Under the consensus, a general partner is presumed to control a limited partnership (or similar entity) and should consolidate that entity unless the limited partners possess kick-out rights or other substantive participating rights as described in EITF 96-16, "Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights." This EITF was initially effective for all new limited partnerships formed and for existing limited partnerships for which the partnership agreements were modified after June 29, 2005, and, as of January 1, 2006, for existing limited partnership agreements. The EITF did not impact us in 2005. The adoption of this EITF in 2006 for existing limited partnership agreements did not have a material effect on our financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - - an interpretation of FASB Statement No. 109," ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the effect, if any, that implementing FIN 48 will have on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Statement does not require any new fair value measurements but does apply under other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the Statement relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier application encouraged. We do not expect that the adoption of this Statement will have a material effect on our financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), which addresses diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. There have historically been two widely

recognized methods for quantifying the effects of financial statement errors: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements on the balance sheet. Conversely, the iron-curtain method focuses primarily on the effect of correcting the period end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron-curtain and the roll-over methods. SAB 108 was effective for financial statements for fiscal years ending after November 15, 2006. Our adoption of SAB 108 did not have a material effect on our financial position, results of operations or cash flows.

3. Concentration of Rental Revenue

Major Tenants

The following table summarizes the percentage of our total rental revenue earned from (1) individual tenants that accounted for at least 5% of our total rental revenue and (2) the aggregate of the five tenants from which we recognized the most rental revenue in the respective years:

	For the Years Ended December 31,		
	2006	2005	2004
United States Government	13%	11%	11%
Booz Allen Hamilton, Inc.	7%	6%	5%
Computer Sciences Corporation	N/A	5%	6%
AT&T Local Services (1)	N/A	N/A	6%
Five largest tenants	32%	30%	33%

(1) Includes affiliated organizations and agencies.

Geographical Concentration

We derived large concentrations of our total revenue from real estate operations (defined as the sum of rental revenue and tenant recoveries and other real estate operations revenue) from certain geographic regions. The table below sets forth certain of these concentrations:

	Percentage of Total Rental Revenue from Real Estate Operations for the Years Ended December 31,		
	2006	2005	2004
Mid-Atlantic	95%	99%	100%
Greater Washington, D.C. (1)	78%	83%	79%
Baltimore/Washington Corridor	48%	49%	49%

(1) Comprised of our properties in the Baltimore/Washington Corridor (defined as the Maryland counties of Howard and Anne Arundel), Northern Virginia (defined as Fairfax County, Virginia), Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George's and Frederick) and St. Mary's and King George Counties (located in Maryland and Virginia, respectively).

Substantially all of our construction contract and service operations revenues were derived from operations in the Greater Washington, D.C. region.

4. Commercial Real Estate Properties

Operating properties consisted of the following:

	December 31,	
	2006	2005
Land	$ 343,098	$ 314,719
Buildings and improvements	1,689,359	1,491,254
	2,032,457	1,805,973
Less: accumulated depreciation	(219,574)	(174,935)
	$ 1,812,883	$ 1,631,038

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

	December 31,	
	2006	2005
Land	$ 153,436	$ 117,434
Construction in progress	144,991	138,183
	$ 298,427	$ 255,617

2006 Acquisitions

We acquired the following office properties in 2006:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
North Creek	Colorado Springs, CO	5/18/2006	3	324,549	$ 41,508

1915 & 1925 Aerotech Drive	Colorado Springs, CO	6/8/2006	2	75,892	8,378
7125 Columbia Gateway Drive	Columbia, MD (1)	6/29/2006	1	611,379	74,168
			6	1,011,820	$ 124,054

(1) Located in the Baltimore/Washington Corridor.

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

	North Creek	1915 & 1925 Aerotech Drive	7125 Columbia Gateway Drive	Total
Land, operating properties	$ 2,735	$ 1,113	$ 17,126	$ 20,974
Building and improvements	34,161	6,161	46,964	87,286
Intangible assets on real estate acquisitions	5,694	1,235	11,959	18,888
Total assets	42,590	8,509	76,049	127,148
Deferred revenue associated with acquired operating leases	(1,082)	(131)	(1,881)	(3,094)
Total acquisition cost	$ 41,508	$ 8,378	$ 74,168	$ 124,054

We also acquired the following properties in 2006:

· a property located in Colorado Springs, Colorado containing a 74,749 square foot building that will be redeveloped and a four-acre parcel of land that we believe can support approximately 30,000 developable square feet for $2,602 on January 19, 2006;
· a 31-acre parcel of land located in San Antonio, Texas that we believe can support approximately 375,000 developable square feet for $7,430 on January 20, 2006;
· a six-acre parcel of land located in Hanover, Maryland that we believe can support approximately 60,000 developable square feet for $2,141 on February 28, 2006 (Hanover, Maryland is located in the Baltimore/Washington Corridor);
· a 20-acre parcel of land located in Colorado Springs, Colorado that we believe can support approximately 300,000 developable square feet for $1,060 on April 21, 2006;
· a 13-acre parcel of land located in Colorado Springs, Colorado that we believe can support approximately 150,000 developable square feet for $2,263 on May 19, 2006;

· a 178-acre parcel of land located in Annapolis Junction, Maryland, located adjacent to the National Business Park, that we believe can support approximately 1.25 million developable square feet for $26,833 on June 29, 2006 (Annapolis Junction, Maryland is located in the Baltimore/Washington Corridor);
· a five-acre parcel of land located in Columbia, Maryland that we believe can support approximately 120,000 developable square feet for $3,361 on June 29, 2006;
· a 28-acre parcel of land located in Chesterfield, Virginia on September 15, 2006 that was acquired under the terms of a lease for a 193,000 square foot building that we are constructing on the property (Chesterfield, Virginia, which is located in Greater Richmond, Virginia, is included in our "other" business segment). The fair value of the land and closing costs associated with the title transfer totaled $1,303; and
· approximately 500 acres of the 591-acre former Fort Ritchie United States Army base located in Cascade, Washington County, Maryland for a value of $5,576 (Washington County, Maryland is included in our "other" business segment); we expect to acquire the remaining 91 acres in 2007. The 591-acre parcel is anticipated to accommodate a total of 1.7 million square feet of office space and 673 residential units, including approximately 306,000 square feet of existing office space and 110 existing rentable residential units.

In addition, we acquired the following properties through consolidated real estate joint ventures in 2006:

· a land parcel located in the Baltimore/Washington Corridor, with a value upon our acquisition of $4,564, on February 10, 2006 through Commons Office 6-B, LLC, a 50% owned consolidated joint venture constructing an office property totaling approximately 44,000 square feet; and
· a 153-acre parcel of land located near the Indian Head Naval Surface War Center in Charles County, Maryland, with a value upon our acquisition of $2,905, on October 23, 2006 through COPT-FD Indian Head, LLC, a 75% owned consolidated joint venture (Charles County, Maryland is included in our "other" business segment).

We describe these joint ventures further in Note 5.

2006 Construction and Development Activities

During 2006, we had seven properties totaling 866,000 square feet (four located in the Baltimore/Washington Corridor and one each in Northern Virginia, Colorado Springs, Colorado and St. Mary's County, Maryland) become fully operational and had one property in the Baltimore/Washington Corridor become partially operational due to 68,196 square feet being placed into service.

As of December 31, 2006, we had construction underway on four new buildings in the Baltimore/Washington Corridor (including the partially operational property discussed above and one property owned through a 50% joint venture) and one each in Suburban Baltimore, Colorado Springs, Colorado, Chesterfield, Virginia and Southwest Virginia. We also had development activities underway on five new buildings located in the Baltimore/Washington Corridor (including one owned through a joint venture), two each in Suburban Maryland and Colorado Springs, Colorado (one of which we own a 50% undivided interest) and one each in Suburban Baltimore and King George County, Virginia. In addition, we had redevelopment underway on two wholly owned existing buildings (one is located in the Baltimore/Washington Corridor and one in Colorado Springs) and two buildings owned by a joint venture (one is located in Northern Virginia and one in the Baltimore/Washington Corridor).

2006 Dispositions

We sold the following operating properties in 2006:

Project Name	Location	Date of Sale	Number of Buildings	Total Rentable Square Feet	Sale Price	Gain on Sale
Lakeview at the Greens	Laurel, Maryland (1)	2/6/2006	2	141,783	$ 17,000	$ 2,087
68 Culver Road	Dayton, New Jersey	3/8/2006	1	57,280	9,700	335
710 Route 46	Fairfield, New Jersey	7/26/2006	1	101,263	15,750	4,498
230 Schilling Circle	Hunt Valley, Maryland (2)	8/9/2006	1	107,348	13,795	951
7 Centre Drive	Monroe, New Jersey	8/30/2006	1	19,468	3,000	684
Brown's Wharf	Baltimore, Maryland	9/28/2006	1	104,203	20,300	8,476

7	531,345	$ 79,545	$ 17,031

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(1) Located in the Suburban Maryland region.
(2) Located in the Suburban Baltimore region.

We also sold the following in 2006:

- A newly constructed property in Columbia, Maryland for $2,530 on January 17, 2006. We recognized a gain of $111 on this sale; and
- A two-acre parcel of land located in Linthicum Heights, Maryland for $900 on September 7, 2006. We recognized a gain of $165 on this sale.

2005 Acquisitions

We acquired the following office properties in 2005:

Project Name	Location	Date of Acquisition	Number of Buildings	Total Rentable Square Feet	Initial Cost
8611 Military Drive	San Antonio, TX	3/30/2005	2	468,994	$ 30,845
Rockville Corporate Center	Rockville, MD (1)	4/7/2005	2	221,702	37,617
7175 Riverwood Drive	Columbia, MD (2)	7/27/2005	1	26,500	2,456
Gateway Crossing 95	Columbia, MD (2)	9/19/2005	5	188,819	26,060
Patriot Park I & II	Colorado Springs, CO	9/28/2005	2	135,907	17,949
1670 N. Newport Road	Colorado Springs, CO	9/30/2005	1	67,500	9,056
110 Thomas Johnson Drive	Frederick, MD (1)	10/21/2005	1	117,803	16,099
7015 Albert Einstein Drive	Columbia, MD (2)	12/1/2005	1	61,203	9,428
Interquest 3 & 4	Colorado Springs, CO	12/22/2005	2	113,170	11,443
Hunt Valley/Rutherford portfolios	Hunt Valley/Woodlawn, MD (3)	12/22/2005	21	1,106,866	123,988
			38	2,508,464	$ 284,941

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(1) Located in the Suburban Maryland region.
(2) Located in the Baltimore/Washington Corridor region.
(3) Located in the Suburban Baltimore region.

During 2005, we entered into a joint venture called COPT Opportunity Invest I, LLC in which we have a 92.5% ownership interest. This joint venture identifies and acquires properties to renovate into Class A office space and completes such renovations. We use the consolidation method of accounting to account for our investment in this entity. On December 20, 2005, we acquired the following properties through this joint venture:

- 2900 Towerview Road, located in Herndon, Virginia (which is in the Northern Virginia region), for an initial cost of $12,372. The property includes a 61,000 square foot office building with an attached 79,000 square foot warehouse building that the joint venture plans to convert to office space. The property also includes an additional 4-acre land parcel that can support the future development; and
- 7468 Candlewood Road, located in Columbia, Maryland (which is in the Baltimore/Washington Corridor), for an initial cost of $19,222. The property includes a 472,000 square foot warehouse building that the joint venture plans to convert into two office buildings totaling 325,000 square feet.

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

	8611 Military Drive	Rockville Corporate Center	7175 Riverwood Drive	Gateway Crossing 95	Patriot Park I & II	1670 N. Newport Road	110 Thomas Johnson Drive	7015 Albert Einstein Drive	9950 & 9960 Federal Drive	Hunt Valley/ Rutherford	2900 Towerview Road	7468 Candlewood Road	Total
Land, operating properties	$ 11,007	$ 6,222	$ 1,788	$ 5,533	$ 1,303	$ 851	$ 2,810	$ 2,054	$ 1,572	$ 18,715	$ 3,207	$ —	$ 55,062
Land, construction or development	—	—	—	—	—	—	—	—	—	—	1,261	5,598	6,859
Building and improvements	19,838	28,925	763	17,582	14,333	6,989	12,075	6,084	8,913	87,933	4,467	—	207,902
Construction in progress	—	—	—	—	—	—	—	—	—	—	3,526	13,624	17,150
Intangible assets on real estate acquisitions	—	4,004	113	3,317	2,358	1,216	1,214	1,290	1,678	20,527	1,412	—	37,129
Total assets	30,845	39,151	2,664	26,432	17,994	9,056	16,099	9,428	12,163	127,175	13,873	19,222	324,102
Deferred revenue associated with acquired operating leases	—	(1,534)	(208)	(372)	(45)	—	—	—	(720)	(3,187)	(1,501)	—	(7,567)
Total acquisition cost	$ 30,845	$ 37,617	$ 2,456	$ 26,060	$ 17,949	$ 9,056	$ 16,099	$ 9,428	$ 11,443	$ 123,988	$ 12,372	$ 19,222	$ 316,535

We also acquired the following in 2005:

- a 19-acre parcel of land located in Chantilly, Virginia that is adjacent to existing properties we own for $7,141 on January 27, 2005 (Chantilly, Virginia is located in the Northern Virginia region). We expect to develop this land parcel in the future;
- a 32-acre parcel of land located in Dahlgren, Virginia that is adjacent to one of our office properties for $1,227 on March 16, 2005 (Dahlgren, Virginia is located in the St. Mary's and King George Counties region). We expect to develop this land parcel in the future;
- a 16-acre parcel of land adjacent to 8611 Military Drive in San Antonio, Texas for $3,013 on March 30, 2005. We expect to operate this land parcel as part of the campus that includes 8611 Military Drive;
- a ten-acre parcel of land adjacent to the Rockville Corporate Center for $6,234 on April 7, 2005. We commenced development on a portion of this land parcel in 2006;
- a 27-acre parcel of land adjacent to 8611 Military Drive in San Antonio, Texas for $5,893 on June 14, 2005. We expect to develop this land parcel in the future;
- a two-acre parcel of land located in Linthicum, Maryland that is adjacent to one of our office properties for $735 on July 6, 2005;
- a 64-acre land parcel located in Colorado Springs, Colorado, five acres of which is undergoing construction of a 50,000 square foot, fully-leased building, for a purchase price of $9,408 on July 8, 2005. We expect to develop this land parcel in the future;

- a four-acre parcel of land located in Columbia, Maryland that is adjacent to 7175 Riverwood Drive for $1,367 on July 27, 2005. We commenced development on a portion of this land parcel in 2006;
- a 50% undivided interest in a 132-acre land parcel, subject to a cotenancy agreement, in Colorado Springs, Colorado for $10,757 on September 28, 2005. We commenced development on a portion of this land parcel in 2006; and
- a six-acre parcel of land located in Frederick, Maryland that is adjacent to 110 Thomas Johnson Drive for $1,092 on October 21, 2005. We commenced development on a portion of this land parcel in 2006.

In 2004, we sold a land parcel in Columbia, Maryland and a land parcel in Linthicum, Maryland for an aggregate of $9,600. We issued to the buyer a $5,600 mortgage loan; the balance of the acquisition was in the form of cash from the buyer. 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 common units in our Operating Partnership; the buyer exercised its option in February 2005 and, as a result, on April 18, 2005, the debt from us was essentially extinguished and the buyer received 142,776 common units in the Operating Partnership valued at $3,697. We accounted for the 2004 transaction using the financing method of accounting; as a result, the 2004 sale transaction was not recorded as a sale and the $4,000 in net proceeds received from the buyer was recorded as a liability prior to the contribution of the land parcels back into the Operating Partnership in April 2005.

2005 Construction and Pre-Construction Activities

During 2005, we placed into service two buildings located in Annapolis Junction, Maryland and one in Columbia, Maryland.

As of December 31, 2005, we had construction underway on six new buildings in the Baltimore/Washington Corridor, one in Northern Virginia, one in St. Mary's County, Maryland and one in Colorado Springs, Colorado. We also had pre-construction activities underway on four new buildings located in the Baltimore/Washington Corridor, one in King George County, Virginia, and one in Colorado Springs, Colorado. We had redevelopment underway on (1) one wholly owned existing building in the Baltimore/Washington Corridor and (2) two buildings owned by a joint venture (one is located in Northern Virginia and the other in the Baltimore/Washington Corridor).

2005 Dispositions

On June 10, 2005, we sold a four-acre parcel of land located in Columbia, Maryland for $2,571. We recognized a gain of $186 on this sale.

On August 31, 2005, we sold a newly constructed property in Columbia, Maryland for $4,794. We recognized a gain of $82 on this sale.

On September 8, 2005, we sold three office properties totaling 152,731 square feet located in the Northern Central New Jersey region for a total sale price of $22,458. We recognized a total gain of $4,324 on this sale.

On September 29, 2005, we contributed our portfolio of properties in Harrisburg, Pennsylvania, consisting of 16 office properties, one unimproved land parcel and an option to acquire a land parcel, into a real estate joint venture at a value of $73,000. In exchange for our contribution, we received $69,587 in cash (after closing costs and operating prorations) and a 20% interest in Harrisburg Corporate Gateway Partners, L.P. As part of this transaction, we entered into an agreement to manage the operations of the joint venture's properties for a five year term. We did not recognize a gain on this transaction since we have certain contingent obligations that may exceed our proportionate interest remaining in effect as long as we continue to manage the properties; these contingent obligations are described below in Note 19.

5. 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		Nature of	Total	Maximum
	2006	2005	Acquired	Ownership	Activity	Assets at 12/31/2006	Exposure to Loss (1)
Harrisburg Corporate Gateway Partners, L.P.	$(3,614)(2)	$(3,081)(2)	9/29/2005	20%	Operates 16 buildings(3)	$75,895	$—
Route 46 Partners	—	1,451(4)	3/14/2003	20%	Operates one building(5)	$—	N/A

(1) Derived from the sum of our investment balance and maximum additional unilateral capital contributions or loans required from us. Not reported above are additional amounts that we and our partner are required to fund when needed by this joint venture; these funding requirements are proportional to our respective ownership percentages. Also not reported above are additional unilateral contributions or loans from us, the amounts of which are uncertain, that would be due if certain contingent events occurred.

(2) The carrying amount of our investment in this joint venture is lower than our share of the equity in the joint venture by $5,072 at December 31, 2006 and $5,204 at December 31, 2005 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation. This difference will continue to exist to the extent the nature of our continuing involvement in the joint venture does not change.

(3) This joint venture's property is located in Greater Harrisburg, Pennsylvania.

(4) As discussed further below, the joint venture sold the property on July 26, 2006, after which the joint venture was dissolved. The carrying amount of our investment in this joint venture was lower than our share of the equity in the joint venture by $1,370 at December 31, 2005 due to our deferral of gain on the contribution by us of real estate into the joint venture upon its formation.

(5) This joint venture's property was located in Fairfield, New Jersey.

On July 26, 2006, Route 46 Partners sold its property for $27,000. After the sale, the joint venture was dissolved. We recognized a gain of $563 on the disposition of our joint venture interest.

A two-member management committee is responsible for making major decisions (as defined in the joint venture agreement) for Harrisburg Corporate Gateway Partners, L.P., and we control one of its management committee positions. We have additional commitments pertaining to our real estate joint venture that are disclosed in Note 19.

The following table sets forth a combined condensed balance sheet for our unconsolidated joint ventures:

	December 31,	
	2006	2005
Commercial real estate property	$ 72,688	$ 94,552

	2006	2005
Other assets	3,207	8,006
Total assets	$ 75,895	$ 102,558
Liabilities	$ 67,350	$ 82,550
Owners' equity	8,545	20,008
Total liabilities and owners' equity	$ 75,895	$ 102,558

The following table sets forth a combined condensed statement of operations for Harrisburg Corporate Gateway Partners, L.P. and Route 46 Partners:

	For the Years Ended December 31,		
	2006	2005	2004
Revenues	$ 11,521	$ 5,850	$ 3,054
Property operating expenses	(4,067)	(2,351)	(1,461)
Interest expense	(4,224)	(1,843)	(847)
Depreciation and amortization expense	(4,464)	(1,490)	(514)
Gain on sale	4,032	—	—
Net income	$ 2,798	$ 166	$ 232

The table above includes net income from Route 46 Partners of $3,501 for 2006, the year in which it was dissolved. Our joint venture partner in Route 46 Partners had preference in receiving distributions of cash flows for a defined return. We were not entitled to receive distributions for a defined return until our partner received its defined return. We did not recognize income from our investment in Route 46 Partners in 2004, 2005 and 2006 until the dissolution of the entity since the income earned by the entity in those periods did not exceed our partner's defined return until that point in time. Upon dissolution of the entity, we recognized income from our investment of $60, excluding the $563 gain on disposition of the joint venture interest discussed above.

As described in Note 4, we acquired the following interests in consolidated real estate joint ventures in 2005 and 2006:

- a 92.5% interest in COPT Opportunity Invest I, LLC. This joint venture identifies and acquires properties to renovate into Class A office space and complete such renovations. On December 20, 2005, we acquired two properties through this joint venture;

- a 50% interest in Commons Office 6-B, LLC. On February 10, 2006, this entity acquired a land parcel located in Hanover, Maryland, on which an office property totaling approximately 44,000 square feet is under construction; and

- a 75% interest in COPT—FD Indian Head, LLC. This entity acquired a 153-acre land parcel located near the Indian Head Naval Surface War Center in Charles County, Maryland on October 23, 2006

The table below sets forth information pertaining to our investments in consolidated joint ventures at December 31, 2006:

	Date Acquired	Ownership % at 12/31/2006	Nature of Activity	Total Assets at 12/31/2006	Collateralized Assets at 12/31/2006
COPT Opportunity Invest I, LLC	12/20/2005	92.5%	Redeveloping two properties (1)	$ 41,696	$ —
Commons Office 6-B, LLC	2/10/2006	50.0%	Developing land parcel (2)	7,287	7,287
MOR Forbes 2 LLC	12/24/2002	50.0%	Developing land parcel (3)	4,155	3,734
COPT-FD Indian Head, LLC	10/23/2006	75.0%	Developing land parcel (4)	2,969	—
				$ 56,107	$ 11,021

(1) This joint venture owns one property in the Northern Virginia region and one in the Baltimore/Washington Corridor region.
(2) This joint venture's property is located in Hanover, Maryland (located in the Baltimore/Washington Corridor region).
(3) This joint venture's property is located in Lanham, Maryland (located in the Suburban Maryland region).
(4) This joint venture's property is located in Charles County, Maryland (included in our "Other" business segment).

Our commitments and contingencies pertaining to our real estate joint ventures are disclosed in Note 19.

6. Intangible Assets on Real Estate Acquisitions

Intangible assets on real estate acquisitions consisted of the following:

	December 31, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Lease-up value	$ 105,719	$ 38,279	$ 67,440	$ 92,812	$ 20,824	$ 71,988
Lease cost portion of deemed cost avoidance	12,880	5,819	7,061	11,054	3,991	7,063
Lease to market value	10,623	7,178	3,445	9,772	5,277	4,495
Tenant relationship value	9,371	1,178	8,193	6,349	130	6,219
Market concentration premium	1,333	147	1,186	1,333	114	1,219
	$ 139,926	$ 52,601	$ 87,325	$ 121,320	$ 30,336	$ 90,984

Amortization of the intangible asset categories set forth above totaled $20,675 in 2006, $12,525 in 2005 and $9,739 in 2004. The approximate weighted average amortization periods of the categories set forth below follow: lease-up value: 11 years; lease cost portion of deemed cost avoidance: six years; lease to market value: five years; tenant relationship value: nine years; and market concentration premium: 36 years. The approximate weighted average amortization period for all of the categories combined is ten years. Estimated amortization expense associated with the intangible asset categories set forth above for 2007 is $14.3 million, 2008 is $12.7 million, 2009 is $11.4 million, 2010 is $8.4 million and 2011 is $6.6 million.

7. Deferred Charges

Deferred charges consisted of the following:

December 31,

	2006	2005
Deferred leasing costs	$ 52,263	$ 42,752
Deferred financing costs	28,275	21,574
Goodwill	1,853	1,853
Deferred other	155	155
	82,546	66,334
Accumulated amortization	(38,836)	(31,288)
Deferred charges, net	$ 43,710	$ 35,046

8. Prepaid and Other Assets

Prepaid and other assets consisted of the following:

	December 31, 2006	December 31, 2005
Construction contract costs incurred in excess of billings	$ 18,324	$ 15,277
Furniture, fixtures and equipment	10,495	4,302
Prepaid expenses	9,059	7,007
Other assets	10,589	8,592
Prepaid and other assets	$ 48,467	$ 35,178

9. Debt

Our debt consisted of the following:

	Maximum Principal Amount Under Debt at December 31, 2006	Carrying Value at December 31, 2006	Carrying Value at December 31, 2005	Stated Interest Rates at December 31, 2006	Scheduled Maturity Dates at December 31, 2006
Mortgage and other loans payable:					
Revolving Credit Facility					
Wachovia Bank, N.A. Revolving Credit Facility	$ 500,000	$ 185,000	$ 273,000	LIBOR + 1.15% to 1.55%	March 2008 (1)
Mortgage Loans					
Fixed rate mortgage loans (2)	N/A	1,020,619	921,265	3.00% - 9.48% (3)	2007 - 2034 (4)
Variable rate construction loan facilities	72,207	56,079	70,238	LIBOR + 1.40% to 2.20%	2007 - 2008 (5)
Other variable rate mortgage loans	N/A	34,500	82,800	LIBOR + 1.20% to 1.50%	September 2007 (6)
Total mortgage loans		1,111,198	1,074,303		
Note payable					
Unsecured seller notes	N/A	2,339	1,048	0% - 5.95%	2007-2008
Total mortgage and other loans payable		1,298,537	1,348,351		
3.5% Exchangeable Senior Notes	N/A	200,000	—	3.50%	September 2026 (7)
Total debt		$ 1,498,537	$ 1,348,351		

(1) The Revolving Credit Facility may be extended for a one-year period, subject to certain conditions.

(2) 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 net premiums totaling $210 at December 31, 2006 and $1,391 at December 31, 2005.

(3) The weighted average interest rate on these loans was 5.6% at December 31, 2006.

(4) A loan with a balance of $4,893 at December 31, 2006 that matures in 2034 may be repaid in March 2014, subject to certain conditions.

(5) At December 31, 2006, $33,447 in loans scheduled to mature in 2008 may be extended for a one-year period, subject to certain conditions.

(6) At December 31, 2006, the $34,500 loan scheduled to mature in 2007 may be extended for a one-year period, subject to certain conditions.

(7) Refer to the paragraph below for descriptions of provisions for early redemption and repurchase of these notes.

On September 18, 2006, the Operating Partnership issued a $200,000 aggregate principal amount of 3.50% Exchangeable Senior Notes due 2026. Interest on the notes is payable on March 15 and September 15 of each year. The notes have an exchange settlement feature that provides that the notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the notes) and, with respect to any excess exchange value, may be exchangeable into (at our option) cash, our common shares or a combination of cash and our common shares at an exchange rate (subject to adjustment) of 18.4284 shares per $1,000 principal amount of the notes (exchange rate is as of December 31, 2006 and is equivalent to an exchange price of $54.30 per common share). On or after September 20, 2011, the Operating Partnership may redeem the notes in cash in whole or in part. The holders of the notes have the right to require us to repurchase the notes in cash in whole or in part on each of September 15, 2011, September 15, 2016 and September 15, 2021, or in the event of a "fundamental change," as defined under the terms of the notes, for a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. Prior to September 11, 2011, subject to certain exceptions, if (1) a "fundamental change" occurs as a result of certain forms of transactions or series of transactions and (2) a holder elects to exchange its notes in connection with such "fundamental

change," we will increase the applicable exchange rate for the notes surrendered for exchange by a number of additional shares of our common shares as a "make whole premium." The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. The Operating Partnership's obligations under the notes are fully and unconditionally guaranteed by us.

In the case of each of our mortgage loans, we have pledged certain of our real estate assets as collateral. As of December 31, 2006, a majority of our real estate properties were collateralized on loan obligations or, in the case of our Revolving Credit Facility with Wachovia Bank, National Association (the "Revolving Credit Facility"),

identified by us to support repayment of the loan. Certain of our debt instruments 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, 2006, we were in compliance with these financial covenants.

Our debt matures on the following schedule:

2007	$ 140,950
2008	375,208
2009	61,791
2010	73,128
2011	108,854
Thereafter	738,396
Total	$ 1,498,327(1)

(1) Represents principal maturities only and therefore excludes net premiums of $210.

We estimate that the fair value of our debt was $1,510,698 at December 31, 2006 and $1,345,789 at December 31, 2005.

Weighted average borrowings under our Revolving Credit Facility totaled $290,660 in 2006 and $272,267 in 2005. The weighted average interest rate on this credit facility was 6.42% in 2006 and 4.62% in 2005.

On June 24, 2005, we amended our Revolving Credit Facility. Under the amendment, the maximum principal amount was increased from $300,000 to $400,000, with a right to further increase the maximum principal amount in the future to $600,000, subject to certain conditions. In addition, the scheduled maturity date was extended for one year to March 2008, with a one-year extension available, subject to certain conditions. On July 3, 2006, we exercised our right to increase the borrowing capacity under our Revolving Credit Facility from $400,000 to $500,000. The borrowing capacity under the Revolving Credit Facility is generally computed based on 65% of the value of assets identified by us to support repayment of the loan. As of December 31, 2006, the maximum amount of borrowing capacity under this line of credit totaled $431,500, of which $245,500 was available.

We capitalized interest costs of $14,559 in 2006, $9,871 in 2005 and $5,112 in 2004.

10. Derivatives

The following table sets forth our derivative contracts and their respective fair values:

Nature of Derivative	Notional Amount	One-Month LIBOR base	Effective Date	Expiration Date	Fair Value at December 31, 2006	Fair Value at December 31, 2005
Interest rate swap	$ 50,000	5.0360%	3/28/2006	3/30/2009	$ (42)	N/A
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(133)	N/A
Interest rate swap	25,000	5.2320%	5/1/2006	5/1/2009	(133)	N/A
Forward starting swap	73,400	5.0244%	7/15/2005	N/A	N/A	N/A
					$ (308)	$ —

We designated these derivatives as cash flow hedges. The first three contracts set forth above hedge the risk of changes in interest rates on certain of our one-month LIBOR-based variable rate borrowings until their respective maturities. The last contract set forth above represents a forward starting swap into which we entered to lock in the 10-year LIBOR swap rate in contemplation of our obtaining a long-term, fixed rate financing later in 2005. We obtained this long-term financing in October 2005 and cash settled the swap at that time for a payment of $603. This payment represented the present value of the basis point differential between 5.0244% and the 10-year LIBOR swap rate at the time we cash settled the swap, plus accrued interest.

The table below sets forth our accounting application of changes in derivative fair values:

	For the Years Ended December 31, 2006	2005	2004
(Decrease) increase in fair value applied to AOCL(1) and minority interests	$ (308)	$ —	$ 390
Increase in fair value recognized as gain (2)	—	—	77

(1) AOCL is defined in Note 2.
(2) Included in interest expense on our Consolidated Statements of Operations.

The $603 discussed above that we paid to cash settle the forward-starting swap was recorded to AOCL and will be amortized into interest expense over the ten-year term of the loan it was hedging.

11. Shareholders' Equity

Preferred Shares

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

	December 31, 2006	2005
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)	$ —	$ 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)	—	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)	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)	20	20
3,390,000 designated as Series J Cumulative Redeemable Preferred Shares of beneficial interest (3,390,000 shares issued with an aggregate liquidation preference of $84,750)	34	—
Total preferred shares	$ 76	$ 67

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 E	1,150,000	April 2001	10.250%	2.56250	NA (2)
Series F	1,425,000	September 2001	9.875%	2.46875	NA (3)
Series G	2,200,000	August 2003	8.000%	2.00000	8/11/2008
Series H	2,000,000	December 2003	7.500%	1.87500	12/18/2008
Series J	3,390,000	July 2006	7.625%	1.90625	7/20/2011

(1) Yield computed based on $25 per share redemption price.
(2) All outstanding Series E Preferred Shares were redeemed on July 15, 2006.
(3) All outstanding Series F Preferred Shares were redeemed on October 15, 2006.

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 July 15, 2006, we redeemed all of the outstanding 10.25% Series E Cumulative Redeemable Preferred Shares of beneficial interest (the "Series E Preferred Shares") at a price of $25 per share, or $28,750. On October 15, 2006, we redeemed all of the outstanding Series F Cumulative Redeemable Preferred Shares of beneficial interest (the "Series F Preferred Shares") at a price of $25 per share, or $35,625. We recognized a $3,896 decrease to net income available to common shareholders pertaining to the original issuance costs incurred on the Series E and Series F Preferred Shares at the time of the redemption.

On July 20, 2006, we completed the sale of 3.39 million Series J Cumulative Redeemable Preferred Shares (the "Series J Preferred Shares") at a price of $25.00 per share. We contributed the net proceeds after offering costs totaling $81,857 to our Operating Partnership in exchange for 3.39 million Series J Preferred Units. The Series J Preferred Units carry terms that are substantially the same as the Series J Preferred Shares.

Common Shares

In September 2005, we sold 2.3 million common shares to an underwriter at a net price of $32.76 per share. We contributed the net proceeds after offering costs totaling $75,170 to our Operating Partnership in exchange for 2.3 million common units.

In April 2006, we sold 2.0 million common shares to an underwriter at a net price of $41.31 per share. We contributed the net proceeds after offering costs totaling $82,433 to our Operating Partnership in exchange for 2.0 million common units.

Over the three years ended December 31, 2006, 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 245,793 in 2006, 253,575 in 2005 and 326,108 in 2004.

See Note 12 for disclosure of common share activity pertaining to our share-based compensation plans.

Accumulated Other Comprehensive Loss

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

	For the Years Ended December 31, 2006	2005	2004
Beginning balance	$ (482)	$ —	$ (294)
Unrealized (loss) gain on derivatives, net of minority interests	(262)	(482)	294
Realized loss on derivatives, net of minority interests	51	—	—
Ending balance	$ (693)	$ (482)	$ —

The table below sets forth our comprehensive income:

	For the Years Ended December 31, 2006	2005	2004
Net income	$ 49,227	$ 39,031	$ 37,032
Unrealized (loss) gain on derivatives, net of minority interests	(262)	(482)	294

Realized loss on derivatives, net of minority interests	51	—	—
Total comprehensive income	$ 49,016	$ 38,549	$ 37,326

12. Share-based Compensation and Employee Benefit Plans

Share-based Compensation Plans

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. Shares for this plan are issued under a registration statement on Form S-8 that became effective upon filing with the Securities and Exchange Commission. As of December 31, 2006, there were no awards available for future grant under this plan.

In March 1998, we adopted a long-term incentive plan for our Trustees and employees. This plan provides for the award of options to acquire our common shares ("share options"), common shares subject to forfeiture restrictions ("restricted shares") 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, although they generally are three years. Options expire ten years after the date of grant. Restricted shares generally vest annually in the following increments: 16% upon the first anniversary following the date of grant, 18% upon the second anniversary, 20% upon the third anniversary, 22% upon the fourth anniversary and 24% upon the fifth anniversary. Shares for this plan are issued under a registration statement on Form S-8 that became effective upon filing with the Securities and Exchange Commission. As of December 31, 2006, we had 711,844 awards available for future grant under this plan.

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	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
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/Expired – 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		
Granted – 2005	521,588	$ 25.52 - $36.08	$ 28.38		
Forfeited/Expired – 2005	(87,665)	$ 10.00 - $34.89	$ 23.60		
Exercised – 2005	(411,080)	$ 5.38 - $25.05	$ 10.70		
Outstanding at December 31, 2005	2,709,927	$ 5.63 - $36.08	$ 14.41		
Granted – 2006	503,800	$ 36.24 - $50.59	$ 42.84		
Forfeited/Expired – 2006	(68,107)	$ 13.60 - $47.79	$ 33.43		
Exercised – 2006	(589,101)	$ 5.63 - $34.26	$ 11.49		
Outstanding at December 31, 2006	2,556,519	$ 7.38 - $50.59	$ 20.18	6	$ 77,447
Exercisable at December 31, 2004	1,617,080	(1)	$ 10.26		
Exercisable at December 31, 2005	2,054,919	(2)	$ 10.58		
Exercisable at December 31, 2006	1,753,428	(3)	$ 12.65	4	$ 66,318
Options expected to vest	762,936	$ 20.34 - $50.59	$ 36.61	9	$ 10,573

(1) 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.
(2) 486,250 of these options had an exercise price ranging from $5.63 to $7.99; 854,027 had an exercise price ranging from $8.00 to $10.99; 590,104 had an exercise price ranging from $11.00 to $16.99; and 124,538 had an exercise price ranging from $17.00 to $28.69.
(3) 234,082 of these options had an exercise price ranging from $7.38 to $7.99, 754,068 had an exercise price ranging from $8.00 to $10.99, 456,732 had an exercise price ranging from $11.00 to $16.99, 198,241 had an exercise price ranging from $17.00 to $25.99 and 110,305 had an exercise price range of $26.00 to $36.08.

The total intrinsic value of options exercised was $19,748 in 2006, $8,366 in 2005 and $11,578 in 2004.

We received proceeds from the exercise of share options of $6,767 in 2006, $4,398 in 2005 and $7,510 in 2004.

We computed share-based compensation expense under the fair value method using the Black-Scholes option-pricing model; the weight average assumptions we used in that model are set forth below:

	For the Years Ended December 31, 2006	2005	2004
Weighted average fair value of grants on grant date	$ 8.99	$ 2.82	$ 2.18
Risk-free interest rate	4.91%(1)	3.97%	3.15%
Expected life-years	6.82	6.00	4.21
Expected volatility	23.69%(2)	22.70%	22.89%
Expected dividend yield	3.82%(3)	6.90%	7.60%

(1) Ranged from 4.38% to 5.30%.
(2) Ranged from 22.37% to 25.11%.
(3) Ranged from 3.36% to 4.25%.

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

	For the Years Ended December 31,		
	2006	2005	2004
Weighted average grant-date fair value	$ 8.99	$ 2.82	$ 2.18
Weighted average grant-date fair value-exercise price equals market price on grant-date	$ 8.99	$ 2.83	$ 2.15
Weighted average grant-date fair value-exercise price exceeds market price on grant-date	N/A	$ 2.51	$ 1.65
Weighted average grant-date fair value-exercise price less than market price on grant-date	N/A	N/A	$ 2.24

The weighted average grant date fair value of option issuances increased significantly in 2006 over previous years due in large part to a large decrease in the weighted average dividend yield assumption from 2006 to 2005. We derive our dividend yield assumption from the average historical dividend yield on our common shares over a period of time ending on the grant date of options. Prior to 2006, we used a longer historical timeframe for purposes of estimating our dividend yield assumption. In response to the trading price for our common shares having increased significantly in recent years, which has had a decreasing effect on our dividend yield, we concluded that the use of a shorter historical timeframe for estimating the dividend yield assumption was appropriate.

The following table summarizes restricted share transactions under the plans described above for 2006:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	395,609	$ 19.88
Granted	163,420	$ 42.65
Forfeited	(20,822)	$ 23.67
Vested	(124,517)	$ 17.16
Unvested at December 31, 2006	413,690	$ 29.51
Restricted shares expected to vest	395,662	

The total fair value of restricted shares that vested during the year ended December 31, 2006 was $5,319.

We realized a windfall tax benefit of $562 in 2006 on options exercised and restricted shares vested by employees of our subsidiaries that are subject to income tax.

The table below sets forth information relating to expenses from share-based compensation included in our Consolidated Statements of Operations for 2006:

	For the Year Ended December 31, 2006
Increase in general and administrative expenses	$ 2,659
Increase in construction contract and other service operations expenses	964
Share-based compensation expense	3,623
Income taxes	(107)
Minority interests	(617)
Net share-based compensation expense	$ 2,899
Net share-based compensation expense per share	
Basic	$ 0.07
Diluted	$ 0.07

We also capitalized share-based compensation costs of approximately $212 in 2006.

As of December 31, 2006, there was $3,769 of unrecognized compensation cost related to nonvested options that is expected to be recognized over a weighted average period of approximately two years. As of December 31, 2006, there was $8,571 of unrecognized compensation cost related to unvested restricted shares that is expected to be recognized over a weighted average period of approximately three years.

Disclosure for Periods Prior to 2006, Including Pro Forma Financial Information Under SFAS 123

Expenses from share-based compensation reflected in our Consolidated Statements of Operations for the year ended December 31, 2005 and 2004 were as follows:

	For the Years Ended December 31,	
	2005	2004
Increase in general and administrative expenses	$ 1,903	$ 1,579
Increase in construction contract and other service operations expenses	230	552

The following table summarizes our operating results for the twelve months ended December 31, 2005 and 2004 as if we elected to account for our share-based compensation under the fair value provisions of SFAS 123 in those periods:

	For the Years Ended December 31,	
	2005	2004
Net income, as reported	$ 39,031	$ 37,032

		2005		2004
Add: Share-based compensation expense, net of related tax effects and minority interests, included in the determination of net income		1,670		1,824
Less: Share-based compensation expense determined under the fair value based method, net of related tax effects and minority interests		(1,671)		(1,500)
Net income, pro forma	$	39,030	$	37,356
Basic EPS on net income available to common shareholders, as reported	$	0.65	$	0.57
Basic EPS on net income available to common shareholders, pro forma	$	0.65	$	0.58
Diluted EPS on net income available to common shareholders, as reported	$	0.63	$	0.54
Diluted EPS on net income available to common shareholders, pro forma	$	0.63	$	0.55

401(k) Plan

We have a 401(k) defined contribution plan covering substantially all of our employees that permits participants to defer up to a maximum of 15% of their compensation. We match a participant's contribution in an amount equal to 50% of the participant's elective deferral for the plan year up to a maximum of 6% of a participant's annual compensation. Employees' contributions are fully vested and our matching contributions vest in annual one-third increments. Once an employee has been with us for three years, all matching contributions are fully vested. We fund all contributions with cash. Our matching contributions under the plan totaled approximately $538 in 2006, $396 in 2005 and $323 in 2004. The 401(k) plan is fully funded at December 31, 2006.

Deferred Compensation Plan

We have a non-qualified elective deferred compensation plan for certain members of our management team that permits participants to defer up to 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. We match the participant's contribution in an amount equal to 50% of the participant's elective deferral for the plan year up to a maximum of 6% of a participant's annual compensation after deducting contributions, if any, made under our 401(k) plan. Deferred compensation related to an employee contribution is charged to expense and is fully vested. Deferred compensation related to the Company's matching contribution is charged to expense and vests in

annual one-third increments. Once an employee has been with us for three years, all matching contributions are fully vested. The balance of the plan, which was fully funded, totaled $5,195 at December 31, 2006 and $4,166 at December 31, 2005, and is included in the accompanying Consolidated Balance Sheets.

13. Related Party Transactions

We earned fees from unconsolidated joint ventures totaling $619 in 2006, $326 in 2005 and $219 in 2004. These fees were for property management, construction and leasing services performed.

14. Operating Leases

We lease our properties to tenants under operating leases with various expiration dates extending to the year 2025. Gross minimum future rentals on noncancelable leases in our consolidated properties at December 31, 2006 were as follows:

For the Years Ended December 31,	
2007	$ 243,062
2008	211,470
2009	193,638
2010	155,790
2011	123,461
Thereafter	445,738
Total	$ 1,373,159

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,		
	2006	2005	2004
Interest paid, net of capitalized interest	$ 68,617	$ 57,100	$ 43,717
Income taxes paid	$ 54	$ —	$ —
Supplemental schedule of non-cash investing and financing activities:			
Consolidation of real estate joint ventures in connection with adoption of FASB Interpretation FIN 46(R), "Consolidation of Variable Interest Entities":			
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	$ —	$ —	$ —
Adjustment to purchase of commercial real estate properties by acquiring joint venture interests:			
Operating properties	$ —	$ —	$ (83)
Investments in and advances to unconsolidated real estate joint ventures	—	—	83
Net adjustment	$ —	$ —	$ —
Debt assumed in connection with acquisitions	$ 39,011	$ 17,347	$ 120,817
Property acquired through lease arrangement included in rents received in advance and security deposits	$ 1,282	$ —	$ —
Proceeds from sales of properties invested in restricted cash account	$ 33,730	$ —	$ —
Increase (decrease) in accrued capital improvements and leasing costs	$ 18,181	$ (9,349)	$ 17,234
Amortization of discounts and premiums on mortgage loans to commercial real estate properties	$ 196	$ 273	$ 925
Accretion of other liability to commercial real estate properties	$ —	$ —	$ 147
(Decrease) increase in fair value of derivatives applied to AOCL and minority interests	$ (308)	$ —	$ 390
Issuance of common units in the Operating Partnership in connection with contribution of properties accounted for under the financing method of accounting	$ —	$ 3,687	$ —
Issuance of common units in the Operating Partnership in connection with acquisition of properties	$ 7,497	$ 2,647	$ —
Issuance of preferred units in the Operating Partnership in connection with acquisition of properties	$ —	$ —	$ 8,800
Adjustments to minority interests resulting from changes in ownership of Operating Partnership by COPT	$ 16,255	$ 12,888	$ 19,360
Dividends/distribution payable	$ 19,164	$ 16,703	$ 14,713
Decrease in minority interests and increase in shareholders' equity in connection with the conversion of common units into common shares	$ 11,078	$ 9,120	$ 8,041
Conversion of preferred shares adjusted to common shares and paid in capital	$ —	$ —	$ 12
Issuance of restricted shares	$ —	$ 3,276	$ 2,271

16. Information by Business Segment

As of December 31, 2006, we had nine primary office property segments: Baltimore/Washington Corridor; Northern Virginia; Suburban Baltimore; Colorado Springs, Colorado; Suburban Maryland; Greater Philadelphia; St. Mary's and King George Counties; San Antonio, Texas; and Northern/Central New Jersey. We also had an office property segment in Greater Harrisburg, Pennsylvania prior to the contribution of our properties in that region into a real estate joint venture in exchange for cash and a 20% interest in such joint venture on September 29, 2005.

The table below reports segment financial information. Our segment entitled "Other" includes assets and operations not specifically associated with the other defined segments, including corporate assets, investments in unconsolidated entities and 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	Suburban Baltimore	Colorado Springs	Suburban Maryland	Greater Philadelphia	St. Mary's & King George Counties	San Antonio	Northern/ Central New Jersey	Greater Harrisburg	Other	Total
Year Ended December 31, 2006												
Revenues	$ 147,648	$ 63,515	$ 28,570	$ 9,776	$ 15,316	$ 10,025	$ 12,087	$ 7,441	$ 12,295	$ (6)	$ (875)	$ 305,792
Property operating expenses	45,667	22,727	11,889	3,659	5,710	168	3,116	1,533	3,311	(49)	(1,698)	96,033
NOI	$ 101,981	$ 40,788	$ 16,681	$ 6,117	$ 9,606	$ 9,857	$ 8,971	$ 5,908	$ 8,984	$ 43	$ 823	$ 209,759
Additions to commercial real estate properties	$ 190,038	$ 21,638	$ 6,206	$ 66,628	$ 4,664	$ 1,202	$ 1,823	$ 8,814	$ 1,398	$ 5	$ 37,746	$ 340,162
Segment assets at December 31, 2006	$ 1,081,356	$ 473,540	$ 162,786	$ 135,118	$ 117,573	$ 97,795	$ 97,661	$ 52,661	$ 48,499	$ —	$ 152,612	$ 2,419,601
Year Ended December 31, 2005												
Revenues	$ 123,819	$ 60,255	$ 11,099	$ 1,006	$ 12,555	$ 10,025	$ 12,852	$ 1,814	$ 13,779	$ 6,605	$ (1,450)	$ 252,359
Property operating expenses	37,373	20,348	4,367	407	4,791	157	2,784	334	5,737	2,209	(2,267)	76,240
NOI	$ 86,446	$ 39,907	$ 6,732	$ 599	$ 7,764	$ 9,868	$ 10,068	$ 1,480	$ 8,042	$ 4,396	$ 817	$ 176,119
Additions to commercial real estate properties	$ 144,334	$ 57,972	$ 110,085	$ 57,901	$ 58,707	$ 872	$ 5,739	$ 42,658	$ 2,199	$ 449	$ 419	$ 481,335
Segment assets at December 31, 2005	$ 901,718	$ 463,179	$ 189,576	$ 63,767	$ 130,221	$ 99,357	$ 99,191	$ 42,884	$ 67,206	$ —	$ 72,660	$ 2,129,759
Year Ended December 31, 2004												
Revenues	$ 105,945	$ 48,701	$ 8,406	$ —	$ 8,924	$ 10,025	$ 5,483	$ —	$ 18,793	$ 8,855	$ (559)	$ 214,573
Property operating expenses	33,252	14,323	3,465	—	3,372	165	1,327	—	5,362	2,874	(1,087)	63,053
NOI	$ 72,693	$ 34,378	$ 4,941	$ —	$ 5,552	$ 9,860	$ 4,156	$ —	$ 13,431	$ 5,981	$ 528	$ 151,520
Additions to commercial real estate properties	$ 111,260	$ 148,400	$ 17,781	$ —	$ 26,513	$ 1,176	$ 90,214	$ —	$ 2,063	$ 509	$ 34	$ 397,950
Segment assets at December 31, 2004	$ 774,541	$ 421,434	$ 60,216	$ —	$ 69,213	$ 101,042	$ 96,413	$ —	$ 85,110	$ 68,126	$ 55,931	$ 1,732,026

The following table reconciles our segment revenues to total revenues as reported on our Consolidated Statements of Operations.

	For the Years Ended December 31,		
	2006	2005	2004
Segment revenues	$ 305,792	$ 252,359	$ 214,573
Construction contract revenues	52,182	74,357	25,018
Other service operations revenues	7,902	4,877	3,885
Less: Revenues from discontinued operations (Note 18)	(4,473)	(10,286)	(10,629)
Total revenues	$ 361,403	$ 321,307	$ 232,847

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

	For the Years Ended December 31,		
	2006	2005	2004
Segment property operating expenses	$ 96,033	$ 76,240	$ 63,053
Less: Property expenses from discontinued real estate operations (Note 18)	(1,529)	(3,987)	(4,071)
Total property operating expenses	$ 94,504	$ 72,253	$ 58,982

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,		
	2006	2005	2004
NOI for reportable segments	$ 209,759	$ 176,119	$ 151,520
Construction contract revenues	52,182	74,357	25,018
Other service operations revenues	7,902	4,877	3,885
Equity in loss of unconsolidated entities	(92)	(88)	(88)
Income tax expense	(887)	(668)	(795)
Less:			
Depreciation and other amortization associated with real estate operations	(78,712)	(61,049)	(49,289)
Construction contract expenses	(49,961)	(72,534)	(23,733)
Other service operations expenses	(7,384)	(4,753)	(3,263)
General and administrative expenses	(16,936)	(13,534)	(10,938)
Interest expense on continuing operations	(71,378)	(54,872)	(42,148)
Amortization of deferred financing costs	(2,847)	(2,229)	(2,420)
Minority interests in continuing operations	(4,584)	(5,245)	(5,473)
NOI from discontinued operations	(2,944)	(6,299)	(6,558)
Income from continuing operations	$ 34,118	$ 34,082	$ 35,718

The accounting policies of the segments are the same as those previously disclosed for Corporate Office Properties Trust and subsidiaries, where applicable. We did not allocate 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 entities, 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 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 2006 and actual 2005 and 2004) and net income as reported on our Consolidated Statements of Operations are set forth below (unaudited):

	For the Years Ended December 31,		
	2006 (Estimated)	2005	2004
Net income	$ 49,227	$ 39,031	$ 37,032
Adjustments:			
Rental revenue recognition	(8,144)	(7,225)	(6,400)
Compensation expense recognition	(17,163)	(5,068)	(9,633)
Operating expense recognition	(169)	(68)	(57)
Gain on sales of properties	(11,045)	7,174	150
Interest income	—	—	84
Losses from service operations	(2,321)	(1,780)	(1,971)
Income tax expense	887	699	795
Depreciation and amortization	29,680	18,668	11,588
Earnings from unconsolidated real estate joint ventures	373	307	41
Minority interests, gross	2,586	(4,828)	1,202
Other	(191)	(737)	7
Taxable income	$ 43,720	$ 46,173	$ 32,838

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 and preferred shares during each of the last three years was as follows:

	Common Shares			Preferred Shares		
	For the Years Ended December 31,			For the Years Ended December 31,		
	2006	2005	2004	2006	2005	2004
Ordinary income	50.3%	70.7%	67.4%	87.4%	79.9%	100.0%
Long term capital gain	7.2%	17.8%	0.0%	12.6%	20.1%	0.0%
Return of capital	42.5%	11.5%	32.6%	0.0%	0.0%	0.0%

We distributed all of our REIT taxable income in 2006, 2005 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 before income taxes under GAAP of $2,288 in 2006, $1,780 in 2005 and $1,971 in 2004. COMI's provision for income tax consisted of the following:

	For the Years Ended December 31,		
	2006	2005	2004
Deferred			
Federal	$ 641	$ 572	$ 654
State	141	127	141
	782	699	795
Current			
Federal	86	—	—
State	19	—	—
	105	—	—
Total	$ 887	$ 699	$ 795

A reconciliation of COMI's Federal statutory rate to the effective tax rate for income tax reported on our Statements of Operations is set forth below:

	For the Years Ended December 31,		
	2006	2005	2004
Income taxes at U.S. statutory rate	34.0%	34.0%	35.0%
State and local, net of U.S. Federal tax benefit	4.6%	4.7%	4.6%
Other	0.2%	0.6%	0.7%
Effective tax rate	38.8%	39.3%	40.3%

Items contributing to temporary differences that lead to deferred taxes include net operating losses that are not deductible until future periods, depreciation and amortization, share-based compensation, 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 the following:

- three properties located in the Northern/Central New Jersey region that were sold on September 8, 2005;
- the two Lakeview at the Greens properties that were sold on February 6, 2006;
- the 68 Culver Road property that was sold on March 8, 2006;
- the 710 Route 46 property that was sold on July 26, 2006;
- the 230 Schilling Circle property that was sold on August 9, 2006;
- the 7 Centre Drive property that was sold on August 30, 2006; and
- the Brown's Wharf property that was sold on September 28, 2006.

The table below sets forth the components of income from discontinued operations:

	For the Years Ended December 31,		
	2006	2005	2004
Revenue from real estate operations	$ 4,473	$ 10,286	$ 10,629
Expenses from real estate operations:			
Property operating expenses	1,529	3,987	4,071
Depreciation and amortization	1,362	2,506	2,615
Interest expense	1,042	2,272	2,115
Other	135	11	11
Expenses from real estate operations	4,068	8,776	8,812
Income from discontinued operations before gain on sales of real estate and minority interests	405	1,510	1,817
Gain on sales of real estate	17,031	4,324	—
Minority interests in discontinued operations	(3,059)	(1,153)	(390)
Income from discontinued operations, net of minority interests	$ 14,377	$ 4,681	$ 1,427

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, 2006, we were under contract to acquire the following properties:

- the Nottingham Acquisition, as described in Note 22, for $362,500, of which we paid a deposit of $2,000 in 2006. We completed this acquisition in January 2007, as discussed in Note 22;

- a parcel of land in Aberdeen, Maryland for $10,000, of which we paid a deposit of $100 in 2006; and
- the remaining 91 acres of land not yet acquired as part of the acquisition of property in Washington County, Maryland discussed in Note 4; we expect to make the following additional future cash payments to the seller for (1) the acquisition of the remaining 91 acres and (2) portions of the contract price on which payment was deferred per the contract: $1,310 in 2007, $1,000 in 2008 and $155 in 2009. We could incur an additional cash obligation to the seller after that of up to $4,000; this $4,000 cash obligation is subject to reduction by an amount ranging between $750 and $4,000, with the amount of such reduction to be determined based on defined levels of (1) job creation resulting from the future development of the property and (2) future real estate taxes generated by the property. Upon completion of this acquisition, we will be obligated to incur $7,500 in development and construction costs for the property.

Joint Ventures

As part of our obligations under the partnership agreement of Harrisburg Corporate Gateway Partners, LP, we may be required to make unilateral payments to fund rent shortfalls on behalf of a tenant that was in bankruptcy at the time the partnership was formed. Our total unilateral commitment under this guaranty is approximately $306; the tenant's account was current as of December 31, 2006. We also agreed to indemnify the partnership's lender for 80% of losses under standard nonrecourse loan guarantees (environmental indemnifications and guarantees against fraud and misrepresentation) during the period of time in which we manage the partnership's properties; we do not expect to incur any losses under these loan guarantees.

We are party to a contribution agreement that formed a joint venture relationship with a limited partnership to develop up to 1.8 million square feet of office space on 63 acres of land located in Hanover, Maryland. Under the contribution agreement, we agreed to fund up to $2,200 in pre-construction costs associated with the property. As we and the joint venture partner agree to proceed with the construction of buildings in the future, we would make additional cash capital contributions

into newly-formed entities and our joint venture partner would contribute land into such entities. We will have a 50% interest in this joint venture relationship.

We may need to make our pro rata 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 two of the consolidated joint ventures that we owned as of December 31, 2006, we would be obligated to acquire the other members' 50% interests in the joint ventures if defined events were to occur. The amounts we would need to pay for those membership interests are computed based on the amounts that the owners of the interests would receive under the joint venture agreements in the event that office properties owned by the 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 the other members' membership interests in these joint ventures to be $2,383; however, since the determination of this amount is dependent on the operations of the office properties, which are not both completed and sufficiently occupied, this estimate is preliminary and could be materially different from the actual obligation.

Ground Lease

On April 4, 2006, we entered into a 62-year ground lease agreement on a six-acre land parcel on which we expect to construct a 110,000 square foot property. We paid $550 to the lessor upon lease execution and expect to pay an additional $1,870 in rent under the lease in 2007. No other rental payments are required over the life of the lease, although we are responsible for expenses associated with the property. We will recognize the total lease payments incurred under the lease evenly over the term of the lease.

Office Space Operating Leases

We are obligated as lessee under four operating leases for office space. Future minimum rental payments due under the terms of these leases as of December 31, 2006 follow:

2007	$ 270
2008	261
2009	175
2010	135
2011	57
	$ 898

Other Operating Leases

We are obligated under various leases for vehicles and office equipment. Future minimum rental payments due under the terms of these leases as of December 31, 2006 follow:

2007	$ 475
2008	383
2009	209
2010	67
2011	9
	$ 1,143

Environmental Indemnity Agreement

We agreed to provide certain environmental indemnifications in connection with a lease of three properties in our New Jersey region. The prior owner of the properties, a Fortune 100 company which is responsible for groundwater contamination at such properties, previously agreed to indemnify us for (1) direct losses incurred in connection with the contamination and (2) its failure to perform remediation activities required by the State of New Jersey, up to the point that the state declares the remediation to be complete. Under the lease agreement, we agreed to the following:

- to indemnify the tenant against losses covered under the prior owner's indemnity agreement if the prior owner fails to indemnify the tenant for such losses. This

indemnification is capped at $5,000 in perpetuity after the State of New Jersey declares the remediation to be complete;

- to indemnify the tenant for consequential damages (e.g., business interruption) at one of the buildings in perpetuity and another of the buildings for 15 years after the tenant's acquisition of the property from us, if such acquisition occurs. This indemnification is capped at $12,500; and
- to pay 50% of additional costs related to construction and environmental regulatory activities incurred by the tenant as a result of the indemnified environmental condition of the properties. This indemnification is capped at $300 annually and $1,500 in the aggregate.

20. Quarterly data (Unaudited)

The tables below set forth selected quarterly information for the years ended December 31, 2006 and 2005. Certain of the amounts below have been reclassified to conform to our current presentation of discontinued operations, which is discussed in Note 18.

	For the Year Ended December 31, 2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 86,476	$ 85,689	$ 92,927	$ 96,311
Operating income	$ 26,693	$ 28,419	$ 27,631	$ 31,163
Income from continuing operations	$ 7,652	$ 8,999	$ 7,799	$ 9,668
Income (loss) from discontinued operations, net of minority interests	$ 2,175	$ 92	$ 12,191	$ (81)
Net income	$ 9,937	$ 9,116	$ 20,587	$ 9,587
Preferred share dividends	(3,654)	(3,653)	(4,307)	(3,790)
Issuance costs associated with redeemed preferred shares	—	—	(1,829)	(2,067)
Net income available to common shareholders	$ 6,283	$ 5,463	$ 14,451	$ 3,730
Basic earnings per share:				
Income from continuing operations	$ 0.10	$ 0.13	$ 0.05	$ 0.09
Net income available to common shareholders	$ 0.16	$ 0.13	$ 0.34	$ 0.09
Diluted earnings per share:				
Income from continuing operations	$ 0.10	$ 0.13	$ 0.05	$ 0.09
Net income available to common shareholders	$ 0.15	$ 0.13	$ 0.33	$ 0.08

	For the Year Ended December 31, 2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 74,887	$ 76,791	$ 90,792	$ 78,837
Operating income	$ 23,816	$ 23,965	$ 22,354	$ 27,049
Income from continuing operations	$ 8,798	$ 8,631	$ 6,660	$ 9,993
Income from discontinued operations, net of minority interests	$ 223	$ 320	$ 3,870	$ 268
Net income	$ 9,040	$ 9,120	$ 10,589	$ 10,282
Preferred share dividends	(3,654)	(3,654)	(3,653)	(3,654)
Net income available to common shareholders	$ 5,386	$ 5,466	$ 6,936	$ 6,628
Basic earnings per share:				
Income from continuing operations	$ 0.14	$ 0.14	$ 0.08	$ 0.16
Net income available to common shareholders	$ 0.15	$ 0.15	$ 0.19	$ 0.17
Diluted earnings per share:				
Income from continuing operations	$ 0.14	$ 0.13	$ 0.08	$ 0.16
Net income available to common shareholders	$ 0.14	$ 0.14	$ 0.18	$ 0.16

21. Pro Forma Financial Information (Unaudited)

We accounted for our acquisitions using the purchase method of accounting. We included the results of operations for our acquisitions in our Consolidated Statements of Operations from their respective purchase dates through December 31, 2006.

We prepared our pro forma condensed consolidated financial information presented below as if our 2005 acquisition of the Hunt Valley/Rutherford portfolios and all of our 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,	
	2005	2004
Pro forma total revenues	$ 347,417	$ 274,893
Pro forma net income	$ 38,233	$ 36,484
Pro forma net income available to common shareholders	$ 23,618	$ 18,342
Pro forma earnings per common share on net income available to common shareholders		
Basic	$ 0.63	$ 0.55
Diluted	$ 0.61	$ 0.52

22. Subsequent Events

On January 9 and 10, 2007, we completed a series of transactions that resulted in the acquisition of 56 operating properties totaling 2.4 million square feet and land parcels totaling 187 acres. We refer to this transaction as the Nottingham Acquisition. All of the acquired properties are located in Maryland, with 36 of the operating properties, totaling 1.6 million square feet, and land parcels totaling 175 acres, located in White Marsh, Maryland and the remaining properties and land parcels located in other regions in Northern Baltimore County and the Baltimore/Washington Corridor. We believe that the land parcels totaling 187 acres can support at least 2.0 million developable square feet. We completed the Nottingham acquisition for an aggregate cost of approximately $363.9 million, including approximately $1.4 million in transaction

costs. We financed the acquisition by (1) issuing $26.6 million in Series K Preferred Shares of beneficial interest (the "Series K Preferred Shares") to the seller; (2) issuing $154.9 million in common shares to the seller, at a deemed value of $49 per share; (3) assuming existing mortgage loans totaling $38.0 million, with an average interest rate of approximately 6.0%; (4) assuming an existing mortgage loan totaling $10.3 million, which we repaid on January 11, 2007 using borrowings under our Revolving Credit Facility; (5) assuming an existing unsecured loan totaling $89.1 million, with a variable interest rate of LIBOR plus 1.15% to 1.55% depending on our leverage levels at different points in time; (6) using $20.1 million from an escrow funded by proceeds from one of our property sales; and (7) using borrowings under the Revolving Credit Facility for the balance.

The Series K Preferred Shares issued in the Nottingham Acquisition are valued at, and carry a liquidation preference equal to, $50 per share. The Series K Preferred Shares are nonvoting, redeemable for cash at $50 per share at our option on or after January 9, 2017, and are convertible, subject to certain conditions, into common shares on the basis of 0.8163 common shares for each preferred share, in accordance with the terms of the Articles Supplementary describing the Series K Preferred Shares. Holders of the Series K Preferred Shares are entitled to cumulative dividends, payable quarterly (as and if declared by our Board of Trustees). Dividends will accrue from the date of issue at the annual rate of $2.80 per share, which is equal to 5.6% of the $50 per share liquidation preference.

Corporate Office Properties Trust
Schedule III - Real Estate Depreciation and Amortization
December 31, 2006
(Dollars in thousands)

Property	Location	Building Type	Encumbrances (1)	Initial Cost: Land	Initial Cost: Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
751, 753 760, 785 Jolly Road	Blue Bell, PA	Office	$ 34,530	$ 25,374	$ 90,054	$ 5	$ 115,433	$ (20,345	1966/1996	10/14/1997	40 Years
13200 Woodland Park Drive	Herndon, VA	Office	71,759	10,428	49,476	12,245	72,149	(13,371)	2002	6/2/2003	40 Years
7125 Columbia Gateway Drive	Columbia, MD	Office	37,739	20,487	46,965	182	67,634	(747)	1973/1999	6/29/2006	40 Years
1751 Pinnacle Drive	McClean, VA	Office	34,749	10,486	43,013	4,835	58,334	(3,544)	1989/1985	9/23/2004	40 Years
15000 Conference Center Drive	Chantilly, VA	Office	31,370	5,193	47,526	4,534	57,253	(8,339)	1989	11/30/2001	40 Years
1753 Pinnacle Drive	McClean, VA	Office	27,392	8,275	34,353	5,320	47,948	(2,447)	1976/2004	9/23/2004	40 Years
2730 Hercules Road	Annapolis Junction, MD	Office	22,680	8,737	31,612	—	40,349	(6,524)	1990	9/28/1998	40 Years
8611 Military Drive	San Antonio, TX	Office	14,444	14,020	24,042	—	38,062	(724)	1982/1985	3/30/2005	40 Years
15010 Conference Center Drive	Chantilly, VA	Office	—	3,500	34,331	—	37,831	(179)	2006	11/30/2001	40 Years
2720 Technology Drive	Annapolis Junction, MD	Office	18,279	3,863	29,270	26	33,159	(1,705)	2004	1/31/2002	40 Years
318 Sentinel Drive	Annapolis Junction, MD	Office	—	2,769	25,490	—	28,259	(633)	2005	11/14/2003	40 Years
140 National Business Parkway	Annapolis Junction, MD	Office	13,813	3,407	24,167	620	28,194	(1,644)	2003	12/31/2003	40 Years
Clarks 100	Annapolis Junction, MD	Office	—	26,833	935	—	27,768	—	(2)	6/29/2006	N/A
Meadowville Road	Richmond, VA	Office	—	1,303	26,317	—	27,620	—	(2)	9/15/2006	N/A
304 Sentinel Drive	Annapolis Junction, MD	Office	37,280	3,575	23,770	11	27,356	(573)	2006	11/14/2003	40 Years
11800 Tech Road	Silver Spring, MD	Office	18,024	4,574	19,812	1,650	26,036	(3,335)	1969/1989	8/1/2002	40 Years
15049 Conference Center Drive	Chantilly, VA	Office	14,180	4,415	20,489	14	24,918	(3,049)	1997	8/14/2002	40 Years
11311 McCormick Road	Hunt Valley, MD	Office	11,019	2,308	21,364	474	24,146	(663)	1984/1994	12/22/2005	40 Years
2711 Technology Drive	Annapolis Junction, MD	Office	17,755	2,251	21,647	3	23,901	(3,338)	2002	11/13/2000	40 Years
6711 Columbia Gateway Drive	Columbia, MD	Office	14,293	3,970	19,907	13	23,890	(110)	2006	9/28/2000	40 Years
306 Sentinel Drive	Annapolis Junction, MD	Office	—	3,575	19,730	15	23,320	(217)	2006	11/14/2003	40 Years
6731 Columbia Gateway Drive	Columbia, MD	Office	14,529	3,948	18,986	138	23,072	(2,460)	2002	3/29/2000	40 Years
302 Sentinel Drive	Annapolis Junction, MD	Office	16,930	3,575	19,154	—	22,729	—	(2)	11/14/2003	N/A
7468 Candlewood Road	Hanover, MD	Office	—	5,599	17,053	—	22,652	—	1979/1982(2)	12/20/2005	N/A
400 Professional Drive	Gaithersburg, MD	Office	16,180	3,673	17,399	818	21,890	(2,771)	2000	3/5/2004	40 Years
7200 Riverwood Drive	Columbia, MD	Office	15,499	4,089	16,356	807	21,252	(3,546)	1986	10/13/1998	40 Years
431 Ridge Road	Dayton, NJ	Office	5,040	2,782	11,128	7,323	21,233	(4,896)	1958/1998	10/14/1997	40 Years
9690 Deereco Road	Timonium, MD	Office	8,727	3,415	13,723	3,217	20,355	(3,846)	1988	12/21/1999	40 Years
14280 Park Meadow Drive	Chantilly, VA	Office	9,422	3,731	16,140	298	20,169	(1,327)	1999	9/29/2004	40 Years
15059 Conference Center Drive	Chantilly, VA	Office	23,442	5,753	13,816	559	20,128	(2,502)	2000	8/14/2002	40 Years
320 Sentinel Drive	Annapolis Junction, MD	Office	16,517	2,767	17,209	—	19,976	—	(2)	11/14/2003	N/A
15 West Gude Drive	Rockville, MD	Office	—	3,120	13,658	2,757	19,535	(737)	1986	4/7/2005	40 Years
2691 Technology Drive	Annapolis Junction, MD	Office	24,000	2,098	17,389	5	19,492	(530)	2005	11/14/2003	40 Years
14900 Conference Center Drive	Chantilly, VA	Office	14,555	3,436	14,895	949	19,280	(2,130)	1999	7/25/2003	40 Years
2721 Technology Drive	Annapolis Junction, MD	Office	13,128	4,611	14,591	9	19,211	(2,435)	2000	10/21/1999	40 Years
10150 York Road	Hunt Valley, MD	Office	6,266	2,700	11,730	4,683	19,113	(2,026)	1985	4/15/2004	40 Years
322 Sentinel Drive	Annapolis Junction, MD	Office	—	2,764	16,076	—	18,840	(99)	2006	11/14/2003	40 Years
6950 Columbia Gateway Drive	Columbia, MD	Office	10,042	3,596	14,269	838	18,703	(3,073)	1998	10/21/1998	40 Years
870 - 880 Elkridge Landing Road	Linthicum, MD	Office	15,607	2,003	10,403	6,239	18,645	(4,044)	1981	8/3/2001	40 Years
45 West Gude Drive	Rockville, MD	Office	6,389	3,102	15,267	15	18,384	(984)	1987	4/7/2005	40 Years
429 Ridge Road	Dayton, NJ	Office	7,398	2,932	12,047	2,859	17,838	(2,915)	1966/1996	10/14/1997	40 Years
2701 Technology Drive	Annapolis Junction, MD	Office	13,522	1,737	15,265	7	17,009	(2,554)	2001	5/26/2000	40 Years
132 National Business Parkway	Annapolis Junction, MD	Office	10,498	2,917	12,438	1,433	16,788	(2,919)	2000	5/28/1997	40 Years
2900 Towerview Road	Herndon, VA	Office	—	4,468	10,446	1,400	16,314	(349)	1982(2)	12/20/2005	40 Years
13454 Sunrise Valley Drive	Herndon, VA	Office	11,710	2,899	12,202	643	15,744	(1,637)	1998	7/25/2003	40 Years
133 National Business Parkway	Annapolis Junction, MD	Office	7,167	2,517	10,233	2,852	15,602	(2,539)	1997	9/28/1998	40 Years
7000 Columbia Gateway Drive	Columbia, MD	Office	19,166	3,131	12,103	27	15,261	(1,359)	1999	5/31/2002	40 Years
1306 Concourse Drive	Linthicum, MD	Office	9,298	2,796	11,186	1,055	15,037	(2,490)	1990	11/18/1999	40 Years
110 Thomas Johnson Drive	Frederick, MD	Office	3,482	2,810	12,075	148	15,033	(354)	1987/1999	10/21/2005	40 Years
1304 Concourse Drive	Linthicum, MD	Office	10,828	1,999	12,934	15	14,948	(1,845)	2002	11/18/1999	40 Years
2500 Riva Rd	Annapolis, MD	Office	12,545	2,791	12,146	—	14,937	(1,319)	2000	3/4/2003	40 Years
6940 Columbia Gateway Drive	Columbia, MD	Office	16,935	3,545	9,916	1,138	14,599	(2,464)	1999	11/13/1998	40 Years
6750 Alexander Bell Drive	Columbia, MD	Office	8,339	1,263	12,460	415	14,138	(2,657)	2000	12/31/1998	40 Years
5725 Mark Dabling Blvd	Colorado Springs, CO	Office	12,882	900	11,397	1,757	14,054	(255)	1984	5/18/2006	40 Years
375 West Padonia Road	Timonium, MD	Office	3,537	2,483	10,415	890	13,788	(2,109)	1986	12/21/1999	40 Years
8621 Robert Fulton Drive	Columbia, MD	Office	17,308	2,317	11,440	26	13,783	(292)	2005	6/10/2005	40 Years
7067 Columbia Gateway Drive	Columbia, MD	Office	8,644	1,829	11,823	57	13,709	(1,519)	2001	8/30/2001	40 Years
135 National Business Parkway	Annapolis Junction, MD	Office	6,877	2,484	9,750	1,447	13,681	(2,468)	1998	12/30/1998	40 Years
4851 Stonecroft Boulevard	Chantilly, VA	Office	16,171	1,878	11,621	4	13,503	(640)	2006	8/14/2002	40 Years
5775 Mark Dabling Blvd	Colorado Springs, CO	Office	12,477	1,035	12,440	9	13,484	(396)	1984	5/18/2006	40 Years
985 Space Center Drive	Colorado Springs, CO	Office	7,455	777	12,287	186	13,250	(465)	1989	9/28/2005	40 Years
200 International Circle	Hunt Valley, MD	Office	1,849	2,016	10,851	70	12,937	(314)	1987	12/22/2005	40 Years
141 National Business Parkway	Annapolis Junction, MD	Office	6,738	2,398	9,590	750	12,738	(2,225)	1990	9/28/1998	40 Years

Property	Location	Building Type	Encumbrances(1)	Initial Cost: Land	Initial Cost: Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
22309 Exploration Drive	Lexington Park, MD	Office	1,814	2,243	10,419	31	12,693	(1,073)	1984	3/24/2004	40 Years
Patriot Park	Colorado Springs, CO	Office	—	7,405	5,117	—	12,522	—	(2)	7/8/2005	N/A

920 Elkridge Landing Road	Linthicum, MD	Office	8,200	2,101	9,765	328	12,194	(2,449)	1982	7/2/2001	40 Years
226 Schilling Circle	Hunt Valley, MD	Office	—	1,877	9,891	1	11,769	(368)	1980	12/22/2005	40 Years
134 National Business Parkway	Annapolis Junction, MD	Office	14,091	3,684	7,516	498	11,698	(1,722)	1999	11/13/1998	40 Years
1302 Concourse Drive	Linthicum, MD	Office	6,910	2,078	8,313	1,263	11,654	(2,134)	1996	11/18/1999	40 Years
900 Elkridge Landing Road	Linthicum, MD	Office	5,074	1,993	7,972	1,438	11,403	(2,342)	1982	4/30/1998	40 Years
5755 Mark Dabling Blvd	Colorado Springs, CO	Office	10,208	799	10,324	277	11,400	(213)	1989	5/18/2006	40 Years
6700 Alexander Bell Drive	Columbia, MD	Office	4,000	1,755	7,019	2,315	11,089	(1,833)	1988	5/14/2001	40 Years
Interquest Land Parcel	Colorado Springs, CO	Office	1,447	10,757	134	—	10,891	—	(2)	9/30/2005	N/A
Patriot Park Building 1	Colorado Springs, CO	Office	3,018	654	10,232	—	10,886	(63)	2006	7/8/2005	40 Years
131 National Business Parkway	Annapolis Junction, MD	Office	5,356	1,906	7,623	1,139	10,668	(2,297)	1990	9/28/1998	40 Years
1199 Winterson Road	Linthicum, MD	Office	18,578	1,599	6,395	2,564	10,558	(2,149)	1988	4/30/1998	40 Years
14850 Conference Center Drive	Chantilly, VA	Office	8,280	1,615	8,358	2	9,975	(1,329)	2000	7/25/2003	40 Years
999 Corporate Boulevard	Linthicum, MD	Office	13,533	1,187	8,332	295	9,814	(1,563)	2000	8/1/1999	40 Years
14840 Conference Center Drive	Chantilly, VA	Office	8,410	1,572	8,175	11	9,758	(1,408)	2000	7/25/2003	40 Years
Waterview III	Herndon, VA	Office	2,699	9,614	66	—	9,680	—	(3)	4/29/2004	N/A
1190 Winterson Road	Linthicum, MD	Office	11,291	1,335	5,340	2,859	9,534	(2,649)	1987	4/30/1998	40 Years
16480 Commerce Dr	Dahlgren, VA	Office	5,557	1,856	7,666	1	9,523	(571)	2004	12/28/2004	40 Years
Old Annapolis Road	Columbia, MD	Office	6,400	1,637	5,500	1,964	9,101	(1,022)	1974/1985	12/14/2000	40 Years
7467 Ridge Road	Hanover, MD	Office	5,437	1,629	6,517	920	9,066	(1,753)	1990	4/28/1999	40 Years
201 International Circle	Hunt Valley, MD	Office	5,950	1,552	6,071	1,409	9,032	(272)	1982	12/22/2005	40 Years
13450 Sunrise Valley Drive	Herndon, VA	Office	5,822	1,386	5,576	1,965	8,927	(611)	1998	7/25/2003	40 Years
7240 Parkway Drive	Hanover, MD	Office	4,205	1,496	5,985	1,226	8,707	(1,599)	1985	4/18/2000	40 Years
849 International Drive	Linthicum, MD	Office	11,692	1,356	5,426	1,837	8,619	(1,887)	1988	2/23/1999	40 Years
Columbia Gtwy T11 Lot 1	Columbia, MD	Office	2,317	6,387	2,090	—	8,477	—	(2)	9/20/2004	N/A
Lots 24R-27R & 31RR-32RR, National Business Parkway	Annapolis Junction, MD	Office	6,382	2,369	6,039	—	8,408	—	(2)	11/14/2003	N/A
Parcels 27 and 37A-Westfields Corporate Center	Chantilly, VA	Office	2,321	7,141	1,225	—	8,366	—	(3)	1/27/2005	N/A
6740 Alexander Bell Drive	Columbia, MD	Office	4,326	1,424	5,696	1,239	8,359	(2,037)	1992	12/31/1998	40 Years
7015 Albert Einstein Drive	Columbia, MD	Office	3,781	2,054	6,084	—	8,138	(403)	1999	12/1/2005	40 Years
1670 North Newport Road	Colorado Springs, CO	Office	4,893	853	7,007	—	7,860	(314)	1986/1987	9/30/2005	40 Years
6716 Alexander Bell Drive	Columbia, MD	Office	3,774	1,242	4,969	1,618	7,829	(1,950)	1990	12/31/1998	40 Years
16539 & 16541 Commerce Drive	Dahlgren, VA	Office	2,614	1,462	6,132	221	7,815	(611)	2004	12/21/2004	40 Years
7210 Ambassador Road	Woodlawn, MD	Office	—	1,481	6,257	—	7,738	(241)	1972	12/22/2005	40 Years
7152 Windsor Boulevard	Woodlawn, MD	Office	—	879	6,763	—	7,642	(176)	1985	12/22/2005	40 Years
46579 Expedition Drive	Lexington Park. MD	Office	4,131	1,406	5,943	283	7,632	(652)	2002	3/24/2004	40 Years
1099 Winterson Road	Linthicum, MD	Office	12,012	1,323	5,293	1,010	7,626	(1,626)	1988	4/30/1998	40 Years
San Antonio land parcel - 31 acres	San Antonio, TX	Office	—	7,430	74	—	7,504	—	(3)	1/20/2006	N/A
911 Elkridge Landing Road	Linthicum, MD	Office	2,884	1,215	4,861	1,398	7,474	(1,551)	1985	4/30/1998	40 Years
22289 Exploration Drive	Lexington Park. MD	Office	4,014	1,422	5,719	284	7,425	(456)	2000	3/24/2004	40 Years
22299 Exploration Drive	Lexington Park. MD	Office	3,654	1,362	5,814	246	7,422	(631)	1998	3/24/2004	40 Years
Commons Office Lot 6-B	Hanover, MD	Office	—	1,836	5,451	—	7,287	—	(2)	2/10/2006	N/A
Fort Ritchie	Washington County, MD	Mixed-Use	—	3,960	3,242	—	7,202	—	(2)	10/5/2006	40 Years
46591 Expedition Drive	Lexington Park. MD	Office	1,944	1,200	5,828	—	7,028	(34)	2005-2006	3/24/2004	40 Years
Gateway Exchange III	Columbia, MD	Office	—	—	6,953	—	6,953	—	(2)	9/28/2000	N/A
44425 Pecan Court	California, MD	Office	3,907	1,309	5,458	132	6,899	(543)	1997	5/5/2004	40 Years
8671 Robert Fulton Drive	Columbia, MD	Office	7,546	1,718	4,280	881	6,879	(578)	2003	12/30/2003	40 Years
891 Elkridge Landing Road	Linthicum, MD	Office	4,173	1,160	4,792	878	6,830	(993)	1984	7/2/2001	40 Years
901 Elkridge Landing Road	Linthicum, MD	Office	3,693	1,151	4,416	1,047	6,614	(960)	1984	7/2/2001	40 Years
1201 Winterson Road	Linthicum, MD	Office	2,181	1,288	5,154	93	6,535	(1,126)	1985	4/30/1998	40 Years
7138 Columbia Gateway Drive	Columbia, MD	Office	5,406	1,104	3,518	1,858	6,480	(199)	1990	9/19/2005	40 Years
Gude Drive Land	Rockville, MD	Office	—	6,234	207	—	6,441	—	(2)	4/7/2005	N/A
22300 Exploration Drive	Lexington Park. MD	Office	2,928	1,094	5,038	—	6,132	(398)	1989	11/9/2004	40 Years
6708 Alexander Bell Drive	Columbia, MD	Office	6,320	897	3,588	1,576	6,061	(836)	1988	5/14/2001	40 Years
938 Elkridge Landing Road	Linthicum, MD	Office	4,552	1,204	4,727	126	6,057	(668)	1984	7/2/2001	40 Years
9950 Federal Drive	Colorado Springs, CO	Office	1,971	877	5,045	—	5,922	(178)	2001	12/22/2005	40 Years
San Antonio Land Parcel	San Antonio, TX	Office	—	5,893	12	1	5,906	—	(3)	6/14/2005	N/A
939 Elkridge Landing Road	Linthicum, MD	Office	1,771	939	3,756	1,162	5,857	(1,353)	1983	4/30/1998	40 Years
881 Elkridge Landing Road	Linthicum, MD	Office	11,812	1,034	4,137	684	5,855	(1,041)	1986	4/30/1998	40 Years
8661 Robert Fulton Drive	Columbia, MD	Office	6,635	1,510	3,764	562	5,836	(452)	2003	12/30/2003	40 Years
7065 Columbia Gateway Drive	Columbia, MD	Office	3,364	919	4,222	671	5,812	(1,163)	2000	8/30/2001	40 Years
6724 Alexander Bell Drive	Columbia, MD	Office	10,939	449	5,039	306	5,794	(810)	2002	5/14/2001	40 Years
7130 Columbia Gateway Drive	Columbia, MD	Office	6,519	1,350	4,412	3	5,765	(204)	1989	9/19/2005	40 Years
921 Elkridge Landing Road	Linthicum, MD	Office	3,079	1,044	4,176	518	5,738	(1,270)	1983	4/30/1998	40 Years
7063 Columbia Gateway Drive	Columbia, MD	Office	3,182	902	4,145	613	5,660	(1,217)	2000	8/30/2001	40 Years
6760 Alexander Bell Drive	Columbia, MD	Office	2,705	890	3,561	1,204	5,655	(1,272)	1991	12/31/1998	40 Years
930 International Drive	Linthicum, MD	Office	8,488	1,013	4,053	555	5,621	(1,052)	1986	4/30/1998	40 Years
7142 Columbia Gateway Drive	Columbia, MD	Office	6,280	1,342	4,252	3	5,597	(212)	1994	9/19/2005	40 Years

				Initial Cost			Gross				
Property	Location	Building Type	Encumbrances(1)	Land	Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
300 Sentinel Drive	Annapolis Junction, MD	Office	—	4,453	985	—	5,438	—	(2)	11/14/2003	N/A
900 International Drive	Linthicum, MD	Office	8,008	981	3,922	534	5,437	(937)	1986	4/30/1998	40 Years
7318 Parkway Drive	Hanover, MD	Office	3,244	972	3,888	568	5,428	(793)	1984	4/16/1999	40 Years
Parcel 3-A, Westfields International Corporate Center	Chantilly, VA	Office	—	3,609	1,788	—	5,397	—	(2)	7/31/2002	N/A
940 Elkridge Landing Road	Linthicum, MD	Office	3,456	1,100	4,267	—	5,367	—	1984(6)	7/2/2001	40 Years
1340 Ashton Road	Hanover, MD	Office	3,020	905	3,620	760	5,285	(1,047)	1989	4/28/1999	40 Years
7321 Parkway Drive	Hanover, MD	Office	3,137	940	3,760	513	5,213	(987)	1984	4/16/1999	40 Years
11011 McCormick Road	Hunt Valley, MD	Office	568	875	3,474	770	5,119	(109)	1974	12/22/2005	40 Years
7320 Parkway Drive	Hanover, MD	Office	5,712	905	3,635	347	4,887	(727)	1983	4/4/2002	40 Years
7150 Columbia Gateway Drive	Columbia, MD	Office	4,850	1,032	3,429	122	4,583	(159)	1991	9/19/2005	40 Years
9960 Federal Drive	Colorado Springs, CO	Office	4,485	695	3,873	—	4,568	(113)	2001	12/22/2005	40 Years
800 International Drive	Linthicum, MD	Office	8,408	775	3,099	608	4,482	(875)	1988	4/30/1998	40 Years
4230 Forbes Boulevard	Lanham, MD	Office	8,339	511	3,837	—	4,348	(614)	2003	(4)	40 Years
9140 Guilford Road	Columbia, MD	Office	2,914	794	3,261	272	4,327	(579)	1983	4/4/2002	40 Years
21 Governor’s Court	Woodlawn, MD	Office	—	771	3,348	106	4,225	(120)	1981/1995	12/22/2005	40 Years
44408 Pecan Court	California, MD	Office	1,670	817	3,269	30	4,116	(225)	1986	3/24/2004	40 Years
9160 Guilford Road	Columbia, MD	Office	2,588	665	2,836	603	4,104	(547)	1984	4/4/2002	40 Years
7061 Columbia Gateway Drive	Columbia, MD	Office	2,616	729	3,347	25	4,101	(697)	2000	8/30/2001	40 Years
1915 Aerotech Drive	Colorado Springs, CO	Office	3,394	556	3,094	283	3,933	(81)	1985	6/8/2006	40 Years
9965 Federal Drive	Colorado Springs, CO	Office	1,004	1,401	2,476	—	3,877	—	1983(2)	1/19/2006	N/A
23535 Cottonwood Parkway	California, MD	Office	1,362	763	3,051	17	3,831	(210)	1984	3/24/2004	40 Years
1334 Ashton Road	Hanover, MD	Office	2,457	736	2,946	105	3,787	(665)	1989	4/28/1999	40 Years
47 Commerce Drive	Cranbury, NJ	Office	1,273	756	3,025	1	3,782	(618)	1992/1998	10/30/1998	40 Years
437 Ridge Road	Dayton, NJ	Office	1,579	717	2,866	175	3,758	(682)	1962/1996	10/14/1997	40 Years
1925 Aerotech Drive	Colorado Springs, CO	Office	3,717	556	3,067	1	3,624	(68)	1985	6/8/2006	40 Years
7253 Ambassador Road	Woodlawn, MD	Office	—	792	2,778	—	3,570	(109)	1988	12/22/2005	40 Years
114 National Business Parkway	Annapolis Junction, MD	Office	—	364	3,060	3	3,427	(384)	2002	6/30/2000	40 Years
16442 Commerce Drive	Dahlgren, VA	Office	2,485	613	2,582	—	3,195	(177)	2005	12/21/2004	40 Years
1331 Ashton Road	Hanover, MD	Office	1,959	587	2,347	37	2,971	(457)	1989	4/28/1999	40 Years
COPT-FD Indian Head, LLC	Charles County, MD	Office	—	2,907	58	—	2,965	—	(3)	10/23/2006	N/A
7125 Ambassador Road	Woodlawn, MD	Office	—	844	1,896	122	2,862	(117)	1985	12/22/2005	40 Years
316 Sentinel Drive	Annapolis Junction, MD	Office	—	2,750	31	—	2,781	—	(2)	11/14/2003	N/A
16501 Commerce Drive	Dahlgren, VA	Office	2,113	522	2,194	38	2,754	(220)	2002	12/21/2004	40 Years
980 Technology Court	Colorado Springs, CO	Office	1,259	526	2,046	124	2,696	(109)	1995	9/28/2005	40 Years
7175 Riverwood Drive	Columbia, MD	Office	—	1,788	891	—	2,679	(27)	1996	7/27/2005	40 Years
7134 Columbia Gateway Drive	Columbia, MD	Office	2,949	704	1,971	3	2,678	(103)	1990	9/19/2005	40 Years
2 Centre Drive	Monroe Township, NJ	Office	1,016	480	1,922	65	2,467	(414)	1989	10/30/1998	40 Years
44417 Pecan Court	California, MD	Office	819	434	1,939	13	2,386	(250)	1989	3/24/2004	40 Years
16543 Commerce Drive	Dahlgren, VA	Office	1,763	436	1,830	—	2,266	(151)	2002	12/21/2004	40 Years

8 Centre Drive	Monroe Township, NJ	Office	31	388	1,554	288	2,230	(546)	1986	10/30/1998	40 Years
1350 Dorsey Road	Hanover, MD	Office	1,312	393	1,573	255	2,221	(466)	1989	4/28/1999	40 Years
1460 Dorsey Road	Hanover, MD	Office	—	2,141	—	—	2,141	—	(3)	2/28/2006	N/A
44414 Pecan Court	California, MD	Office	598	405	1,619	63	2,087	(135)	1986	3/24/2004	40 Years
11101 McCormick Road	Hunt Valley, MD	Office	682	991	1,080	—	2,071	(48)	1976	12/22/2005	40 Years
1344 Ashton Road	Hanover, MD	Office	1,185	355	1,421	238	2,014	(426)	1989	4/28/1999	40 Years
9150 Guilford Road	Columbia, MD	Office	1,250	319	1,354	235	1,908	(292)	1984	4/4/2002	40 Years
201 Technology Park Drive	Lebanon, VA	Office	—	—	1,865	—	1,865	—	(2)	(5)	N/A
44420 Pecan Court	California, MD	Office	1,081	344	1,374	98	1,816	(80)	1989	11/9/2004	40 Years
1341 Ashton Road	Hanover, MD	Office	1,020	306	1,223	209	1,738	(317)	1989	4/28/1999	40 Years
15 Governor's Court	Woodlawn, MD	Office	—	383	1,168	—	1,551	(48)	1981	12/22/2005	40 Years
Riverwood II	Columbia, MD	Office	—	1,367	143	—	1,510	—	(2)	7/27/2005	N/A
7104 Ambassador Road	Woodlawn, MD	Office	—	572	613	209	1,394	(27)	1988	12/22/2005	40 Years
Thomas Johnson Drive Land	Frederick, MD	Office	—	1,092	295	—	1,387	—	(2)	10/21/2005	N/A
Dahlgren Land Parcel	Dahlgren, VA	Office	—	1,227	158	—	1,385	—	(2)	3/16/2005	N/A
Aerotech 1	Colorado Springs, CO	Office	—	972	404	3	1,379	—	(2)	5/19/2006	N/A
Patriot Pk-Spec Bldg G	Colorado Springs, CO	Office	—	866	495	—	1,361	—	(2)	7/8/2005	N/A
9130 Guilford Road	Columbia, MD	Office	976	230	975	101	1,306	(190)	1984	4/4/2002	40 Years
Aerotech 2	Colorado Springs, CO	Office	—	1,291	5	—	1,296	—	(3)	5/19/2006	N/A
UMBC-5522 Research Park Drive	Baltimore, MD	Office	—	—	1,270	—	1,270	—	(2)	3/8/2006	N/A
0 Galley Road	Colorado Springs, CO	Office	—	1,060	—	—	1,060	—	(3)	4/21/2006	N/A
1343 Ashton Road	Hanover, MD	Office	645	193	774	4	971	(149)	1989	4/28/1999	40 Years
Expedition VII	Lexington Park. MD	Office	—	705	102	—	807	—	(2)	3/24/2004	N/A
Gude Drive Land	Rockville, MD	Office	—	—	789	—	789	—	(2)	4/7/2005	N/A
Park Center	Chantilly, VA	Office	—	—	787	—	787	—	(2)	7/18/2002	N/A
7129 Ambassador Road	Woodlawn, MD	Office	—	129	610	—	739	(15)	1985	12/22/2005	40 Years
17 Governor's Court	Woodlawn, MD	Office	—	170	530	4	704	(13)	1981	12/22/2005	40 Years
UMBC-5520 Research Park Drive	Baltimore, MD	Office	—	—	688	—	688	—	(2)	4/4/2006	N/A
Airport Square XXII	Linthicum, MD	Office	—	630	8	—	638	—	(2)	12/19/2001	N/A

Property	Location	Building Type	Encumbrances(1)	Initial Cost Land	Initial Cost Building and Land Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period	Accumulated Depreciation	Year Built or Renovated	Date Acquired	Depreciation Life
7127 Ambassador Road	Woodlawn, MD	Office	—	142	455	—	597	(11)	1985	12/22/2005	40 Years
16442A Commerce Drive	Dahlgren, VA	Office	—	—	563	—	563	—	(2)	12/21/2004	N/A
7106 Ambassador Road	Woodlawn, MD	Office	—	229	306	—	535	(13)	1988	12/22/2005	40 Years
COPT Princeton South	Dayton, NJ	Office	—	512	—	—	512	—	(3)	9/29/2004	N/A
7102 Ambassador Road	Woodlawn, MD	Office	—	277	203	—	480	(5)	1988	12/22/2005	40 Years
7131 Ambassador Road	Woodlawn, MD	Office	—	105	368	1	474	(9)	1985	12/22/2005	40 Years
9965 Federal Land Parcel	Colorado Springs, CO	Office	—	466	—	—	466	—	(3)	1/19/2006	N/A
NBP Visitor Control Center	Annapolis Junction, MD	Office	—	—	453	—	453	—	(2)	11/14/2003	N/A
7108 Ambassador Road	Woodlawn, MD	Office	—	171	252	—	423	(6)	1988	12/22/2005	40 Years
COPT Pennlyn LLC	Blue Bell, PA	Office	—	401	—	—	401	—	(3)	7/14/2004	N/A
6741 Columbia Gateway Drive	Columbia, MD	Office	—	—	166	—	166	—	(2)	9/28/2000	N/A
1338 Ashton Road	Hanover, MD	Office	33	50	—	40	90	(9)	(3)	4/28/1999	40 Years
312 Sentinel Drive	Annapolis Junction, MD	Office	—	—	29	—	29	—	(2)	11/14/2003	N/A
Other Developments(7)	Various	Office	—	11	8	163	182	93	Various	Various	Various
			$ 1,295,852	$ 496,534	$ 1,708,889	$ 125,461	$ 2,330,884	$ (219,574)			

(1) Excludes net premiums of $345 and unsecured notes payable of $2,339.
(2) Under construction, development or redevelopment at December 31, 2006.
(3) Held for future development at December 31, 2006.
(4) These joint ventures were consolidated effective March 31, 2004 as required under 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) This building was reclassified into development in 2005.
(7) Includes intercompany eliminations.

The following table summarizes our changes in cost of properties for the periods ended December 31, 2005, 2004 and 2003 (in thousands):

	2006	2005	2004
Beginning balance	$ 2,061,590	$ 1,685,016	$ 1,287,066
Property acquisitions	166,416	341,911	260,023
Building and land improvements	173,746	139,424	117,817
Sales	(70,868)	(28,109)	—
Contribution of assets to unconsolidated joint venture	—	(76,183)	—
Adjustments related to consolidation of joint ventures (1)	—	—	20,187
Reclassification of building into development	—	(464)	—
Other	—	(5)	(77)
Ending balance	$ 2,330,884	$ 2,061,590	$ 1,685,016

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

	2006	2005	2004
Beginning balance	$ 174,935	$ 141,716	$ 103,070
Depreciation expense	55,382	48,421	38,594
Sales	(10,743)	(3,508)	—
Contribution of assets to unconsolidated joint venture	—	(11,146)	—
Reclassification of building into development	—	(464)	
Adjustments related to consolidation of joint ventures (2)	—	—	52
Other	—	(84)	—
Ending balance	$ 219,574	$ 174,935	$ 141,716

(1) 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 Statements.

Exhibit 10.29

EXECUTION COPY

PURCHASE AGREEMENT AND

AGREEMENT AND PLAN OF MERGER

DATED AS OF DECEMBER 21, 2006

BY AND

AMONG

CORPORATE OFFICE PROPERTIES TRUST,

CORPORATE OFFICE PROPERTIES, L.P.,

W&M BUSINESS TRUST,

AND

NOTTINGHAM VILLAGE, INC.

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PURCHASE AGREEMENT AND AGREEMENT AND PLAN OF MERGER, dated as of December 21, 2006 (this "***Agreement***"), among Corporate Office Properties Trust, a Maryland real estate investment trust ("***Acquiror***"), Corporate Office Properties, L.P., a Delaware limited partnership ("***Acquiror OP***"), W&M Business Trust, a Maryland business trust ("***Merger Subsidiary***"), and Nottingham Village, Inc. ("***Target***"), a Maryland corporation.

RECITALS

WHEREAS, Nottingham Properties, Inc., a Maryland corporation ("***NPI***") owns, through one or more subsidiaries, the commercial office properties and the appurtenances thereto and the partnership and membership interests listed on Schedule 1 hereto (the "***Purchase Properties***") and Target will own, immediately prior to the Closing Date, the commercial office properties and tracts of land listed on Schedule 2 hereto and the appurtenances thereto through one or more subsidiaries (the "***Merger Properties,***");

WHEREAS, Acquiror OP desires to purchase and NPI desires to sell the percentage of ownership interests in the entities owning the Purchase Properties as more particularly set forth on Schedule 1 hereto;

WHEREAS, prior to the Merger, Target intends to dispose of certain residential and other non-office properties, related entities assets and contracts to the Liquidating Trust or to third parties;

WHEREAS, one (1) day following the Merger, the Surviving Entity shall dispose of the ownership interests in the entities (the "***Retail Entities***") owning the retail properties listed on Schedule 3 hereto (the "***Retail Properties***") by consummating an exchange under Section 1031 of the Code (the "***Exchange***") with NPI whereby the Surviving Entity will exchange the ownership interests in the Retail Entities for the ownership interests in the entities (the "***NPI Exchange Entities***") owning those properties listed on Schedule 4 hereto (the "***NPI Exchange Properties***");

WHEREAS, the Board of Trustees of Acquiror and the Board of Directors of Target have each adopted a resolution declaring that the merger of Target with and into Merger Subsidiary (the "***Merger***"), with Merger Subsidiary continuing as the surviving entity in the Merger in accordance with the MGCL, is advisable and have approved this Agreement;

WHEREAS, it is intended that, for U.S. federal income tax purposes, the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "***Code***"), and that this Agreement shall constitute, and is hereby adopted as, a plan of reorganization;

WHEREAS, Acquiror, Acquiror OP, Merger Subsidiary and Target desire to make certain representations, warranties and agreements in connection with the Merger.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants, representations, warranties and agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I.
CERTAIN DEFINITIONS

1.01. Certain Definitions.

The following terms are used in this Agreement with the meanings set forth below:

"***Acquiror***" has the meaning set forth in the preamble to this Agreement.

"***Acquiror Bylaws***" means the bylaws of Acquiror.

"***Acquiror Common Shares***" means common shares of beneficial interest, $.01 par value per share, of Acquiror.

"***Acquiror Convertible Preferred Shares***" means the 5.6% convertible Acquiror Preferred Shares, $50.00 liquidation preference per share, of Acquiror, with such terms as are set forth in the Articles Supplementary.

"***Acquiror Declaration of Trust***" means the declaration of trust of Acquiror.

"***Acquiror Material Adverse Effect***" means any event, circumstance, change or effect that adversely affects the financial condition or results of operations of Acquiror in an amount in excess of $100,000,000, that was not reasonably foreseeable at the date of this Agreement; *provided*, *however*, that none of the following shall be deemed to constitute or shall be taken into account in determining whether there has been an "Acquiror Material Adverse Effect": (i) any event, circumstance, change or effect arising out of or attributable to (A) any changes in the United States or global economy or capital, financial or securities markets generally, including changes in interest or exchange rates, (B) the commencement or escalation of a war or armed hostilities or the occurrence of acts of terrorism or sabotage, (C) any changes in general economic, legal, regulatory or political conditions in the geographic regions in which Acquiror operates, (D) earthquakes, hurricanes or other natural disasters, and (E) changes in Law or GAAP or (ii) any existing event, circumstance, change or effect with respect to which Target has knowledge as of the date hereof.

"***Acquiror OP***" has the meaning set forth in the preamble to this Agreement.

"***Acquiror Preferred Shares***" means preferred shares of beneficial interest, $.01 par value per share, of Acquiror.

"***Acquiror SEC Documents***" has the meaning set forth in Section 6.04(b).

"***Acquiror Shares***" means the Acquiror Common Shares and Acquiror Preferred Shares, collectively.

"***Acquiror Subsidiary***" or "***Acquiror Subsidiaries***" means a Subsidiary or Subsidiaries of Acquiror.

"***Acquisition Agreement***" means the Acquisition Agreement dated August 17, 2005 by and between Honeygo Run Reclamation Center, Inc. and Target.

"***Acquisition Proposal***" has the meaning set forth in Section 7.04(a).

"***Action***" means any claim, action, suit, proceeding, arbitration, mediation or other investigation as to which written notice has been provided to the applicable party.

"***Additional Escrow Shares***" has the meaning set forth in Section 4.05(b).

"***Additional Share Escrow Agreement***" means the escrow agreement among the Share Escrow Agent, Acquiror, Acquiror OP, Merger Subsidiary and Stockholders' Agent with respect to the Additional Escrow Shares.

"***Affiliate***" means, with respect to any Person, any other Person which directly or indirectly controls, is controlled by or is under common control with such Person. For purposes of the immediately preceding sentence, the term "***control***" (including, with correlative meanings, the terms "***controlling***," "***controlled by***" and "***under common control with***"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"***Aggregate Closing Adjustments***" has the meaning set forth in Section 4.01(a).

"***Agreement***" means this Agreement, as amended or modified from time to time in accordance with Section 11.04.

"***Applicable Date***" has the meaning set forth in Section 6.04(b).

"***Applicable Permits***" has the meaning set forth in Section 6.02(e).

"***Articles of Merger***" has the meaning set forth in Section 3.02(b).

"***Articles Supplementary***" means the Articles Supplementary to the Acquiror Declaration of Trust setting forth the terms of the Acquiror Convertible Preferred Shares, in the form attached hereto as Exhibit A.

"***Assumed Loans***" means the loans listed in Schedule 5 hereto.

"***Assumption Fees***" has the meaning set forth in Section 7.11(b).

"***Blue Sky Laws***" means the state securities laws of the several States.

"***Business Day***" means Monday through Friday of each week, except a legal holiday recognized as such by the U.S. Government or any day on which banking institutions in the State of Maryland are authorized or obligated to close.

"***Calculation Price***" means the average closing price on the NYSE of the Acquiror Common Shares over a period of twenty (20) trading days, ending on the tenth (10th) trading day prior to the Closing Date; *provided, however*, that such price shall equal a minimum of $43.00 per share and a maximum of $49.00 per share.

"***Cash Escrow Agent***" means Anchor Title Company.

"***Cash Escrow Agreement***" means the escrow agreement among the Cash Escrow Agent, Acquiror, Acquiror OP, Merger Subsidiary and Target with respect to investment and payment of the Deposit.

"***Certificate***" or "***Certificates***" has the meaning set forth in Section 4.02(a).

"***Change in Recommendation***" has the meaning set forth in Section 7.04(f).

"***Claims Notice***" has the meaning set forth in Section 7.07(d).

"***Closing***" and "***Closing Date***" have the meanings set forth in Section 3.02(a).

"***Closing Adjustments***" has the meaning set forth in Section 8.04.

"***Closing Adjustment Amount***" has the meaning set forth in Section 8.04.

"***Closing Adjustment Time***" has the meaning set forth in Section 8.04.

"***COBRA***" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

"***Code***" means the Internal Revenue Code of 1986, as amended.

"***Common Share Consideration***" means the Common Share Consideration Amount divided by the Calculation Price (i.e., the amount of Acquiror Common Shares issued at Closing).

"***Common Share Consideration Amount***" means the Merger Consideration Amount minus the Preferred Share Consideration Amount.

"***Confidentiality Agreement***" has the meaning set forth in Section 7.03(b).

"***Damages***" has the meaning set forth in Section 7.07(b)(i).

"***Debt Balance***" means the balance due under all indebtedness of Target, Target Subsidiaries and Retail Entities at the Effective Time, including but not limited to accrued but unpaid interest, and incurred but unpaid prepayment premiums. The Debt

Balance does not include the Exchange Properties Indebtedness, as this shall be an obligation of NPI at the Effective Time.

"***Deposit***" has the meaning set forth in Section 4.04.

"***Dollenberg Retirement Obligations***" means any outstanding obligations to make payments to P. Douglas Dollenberg pursuant to Sections 3(iii), 4 and 8(i) of the Retirement Agreement dated January 1, 2005 by and among P. Douglas Dollenberg, Target and NPI, as amended.

"***Effective Date***" means the day of the Effective Time.

"***Effective Time***" has the meaning set forth in Section 3.02(b).

"***Environment***" has the meaning set forth in Section 6.04(f).

"***Environmental Laws***" means any United Stated federal, state or local Laws in existence on the date hereof relating to the presence or release of Hazardous Substances or protection of the environment, including the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("***CERCLA***").

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended.

"***ERISA Affiliate***" means any Person who, together with Target or the Surviving Entity, as appropriate in the context, is or has been treated as a single employer under Section 414 of the Code, and the regulations thereunder.

"***Escrow Fund***" has the meaning set forth in Section 7.07(a).

"***Escrow Period***" has the meaning set forth in Section 7.07(c).

"***Escrow Shares***" has the meaning set forth in Section 4.05(a).

"***Exchange***" has the meaning set forth in the preamble to this Agreement.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"***Exchange Agreement***" means the exchange agreement to be entered into by and between NPI and Surviving Entity on the day after the Closing pursuant to which the ownership interests in the Retail Entities will be exchanged for the ownership interests in the NPI Exchange Entities.

"***Exchange Properties Indebtedness***" has the meaning set forth in the Exchange Agreement.

"***Existing Indebtedness***" means the Existing Office Indebtedness and the Existing Retail Indebtedness.

"***Existing Office Indebtedness***" means the loans incurred by the entities set forth in Section 8.02 of the Target Disclosure Letter, secured by deeds of trust on the properties owned by such entities, having an aggregate balance as of December 1, 2006 of approximately Fifty-Seven Million Five Hundred Sixty-Four Thousand One Hundred Thirty-One Dollars ($57,564,131). Target shall use a portion of the proceeds of the Short Term Loan to prepay the Existing Office Indebtedness prior to Closing.

"***Existing Retail Indebtedness***" means the loans secured by deeds of trust on the properties owned by White Marsh Plaza Business Trust and The Avenue at White Marsh Business Trust, having an aggregate balance as of December 1, 2006 of approximately Twenty-Nine Million One Hundred Forty-Six Thousand Three Hundred Ninety-Eight Dollars ($29,146,398). Acquiror shall not be directly or indirectly liable for the Existing Retail Indebtedness upon or after the closing of the Exchange, except to the extent set forth in Section 6.02(k) of the Target Disclosure Letter.

"***Former Superior Proposal***" has the meaning set forth in Section 7.04(e).

"***GAAP***" means accounting principles generally accepted in the United States of America.

"***Governmental Authority***" means any federal, state or local court, administrative agency or commission or other governmental authority or instrumentality or agency.

"Gross Value" means the sum of $303,422,124 (which is equal to $362,500,000 less the gross purchase price of $59,077,876 payable for the ownership interests in the NPI Entities).

"***Hazardous Materials***" means (i) those substances defined in or regulated under the following federal statutes and their state counterparts, as each may be amended from time to time, and all regulations thereunder: the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Safe Drinking Water Act, the Atomic Energy Act and the Clean Air Act; (ii) petroleum and petroleum products, including crude oil and any fractions thereof; (iii) polychlorinated biphenyls, friable asbestos and radon; and (iv) any chemicals, materials, substances or wastes which are defined as or included in the definition of "hazardous substances," "restricted hazardous wastes," "toxic substances," "toxic pollutants" or words of similar import, under any applicable Environmental Law; and (v) any substance, material, or waste regulated by any Governmental Authority pursuant to any Environmental Law.

"***Indemnified Person***" or "***Indemnified Persons***" have the meaning set forth in Section 7.07(b)(i).

"***Indemnity Threshold***" has the meaning set forth in Section 7.07(b)(iii).

"***Inspection Period***" has the meaning set forth in Section 8.01(b).

"***Intellectual Property***" means all intellectual property owned or used by Target and the Target Subsidiaries, including patents (including any continuations, divisionals, continuations-in-part, renewals and reissues), trademarks, trade names, service marks, logos, domain names and other indicators of source or origin, database rights, copyrights, mask works, technology, know-how, trade secrets, inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), tangible or intangible proprietary information or material and all other intellectual property or proprietary rights, together with all goodwill symbolized by any of the foregoing, registrations and applications for the foregoing, and rights to sue for past infringement thereof.

"***IRS***" means the Internal Revenue Service.

"***knowledge of Acquiror***" or "***to Acquiror's knowledge***" means the actual knowledge of Randall M. Griffin or Roger A. Waesche, Jr.

"***knowledge of Target***" or "***to Target's knowledge***" means the actual knowledge of J. Joseph Credit, Steven Endres or Peter Teeling.

"***Law***" has the meaning set forth in Section 6.02(d)(i).

"***Leasing Commissions***" means any commissions due and payable on the Target Properties Leases to third parties and not to Affiliates of Target.

"***Lender's Approval***" has the meaning set forth in Section 7.11(b).

"***License Agreement***" has the meaning set forth in Section 8.06.

"***Liens***" means any charge, mortgage, pledge, security interest, restriction, Claim, lien or encumbrance.

"***Liquidating Trust***" means NVI Liquidating Trust, a Maryland business trust.

"***Liquidation Preference***" means $50.00 per Acquiror Convertible Preferred Share.

"***Loan Escrows***" has the meaning set forth in Section 4.01(a).

"***Loan Documents***" has the meaning set forth in Section 7.11(a).

"***Loans***" means any loan, loan agreement, note, borrowing arrangement or extension of credit, including, without limitation, letters of credit, leases, credit enhancements, guarantees and similar interest-bearing assets, as well as commitments to extend any of the same.

"***Merger***" has the meaning set forth in Section 3.01(a).

"***Merger Closing Properties***" means the Merger Properties and the Retail Properties.

"***Merger Closing Properties Leases***" means the leases applicable to the Merger Closing Properties.

"***Merger Consideration***" has the meaning set forth in Section 4.01(a).

"***Merger Consideration Amount***" has the meaning set forth in Section 4.01(a).

"***Merger Properties***" has the meaning set forth in the preamble to this Agreement.

"***Merger Properties Leases***" means the leases in effect as of the date hereof with tenants of the Merger Properties and all written amendments, modifications and supplements thereto.

"***Merger Subsidiary***" has the meaning set forth in the preamble to this Agreement.

"***Merger Subsidiary Common Shares***" means the common shares of beneficial interest, $0.01 par value per share, of Merger Subsidiary.

"***MGCL***" means the Maryland General Corporation Law.

"***Non-Target Properties Letters of Credit***" has the meaning set forth in Section 6.02(g)(xix).

"***NPI***" has the meaning set forth in the preamble to this Agreement.

"***NPI Entities***" means, collectively, one hundred percent (100%) of the ownership interests in 37 Allegheny Business Trust, Philadelphia Road Operating Company, LLC, 9020 Mendenhall, LLC, Woods Investors, LLC, Rivers Center III Investors LLC and White Marsh Hi-Tech 2 Business Trust, fifty percent (50%) of the ownership interests in Campbell Corporate Center I Limited Partnership, forty-three and seven-tenths percent (43.7%) in Nottingham Associates Limited Partnership and sixty percent (60%) in Sandpiper Limited Partnership.

"***NPI Exchange Entities***" has the meaning set forth in the preamble to this Agreement.

“***NPI Exchange Properties***” has the meaning set forth in the preamble to this Agreement.

“***NPI Exchange Properties Leases***” means all leases in effect as of the date hereof with tenants of the NPI Exchange Properties and all written amendments, modifications and supplements thereto.

“***NYSE***” means the New York Stock Exchange, Inc.

“***Office Assumed Loan Documents***” means the documents evidencing and relating to the Office Assumed Loans.

“***Office Assumed Loans***” means the Assumed Loans, the loans to be assumed by Acquiror OP under the PSA (Woods and Rivers Center III) and the loan made to Tyler Ridge I.

“***Outside Date***” has the meaning set forth in Section 10.01(b)(ii).

“***Payment Fund***” has the meaning set forth in Section 4.02(a).

“***Permitted Liens***” means (i) Liens for Taxes not yet delinquent and Liens for Taxes being contested in good faith; (ii) inchoate mechanics’ and materialmen’s Liens for construction in progress; (iii) inchoate workmen’s, repairmen’s, warehousemen’s and carriers’ Liens arising in the ordinary course of business of Target or any of the Target Subsidiaries; (iv) zoning restrictions, survey exceptions, utility easements, rights of way and similar Liens that are imposed by any Governmental Authority having jurisdiction thereon; (v) with respect to real property, any title exception disclosed in title insurance policy with respect to any Target Property (whether material or immaterial), Liens and obligations arising under the Material Contracts (including but not limited to any Lien securing mortgage debt disclosed in the Target Disclosure Letter) and any other Lien that does not interfere materially with the current use of such property (assuming its continued use in the manner in which it is currently used) or materially adversely affect the value or marketability of such property; (vi) reciprocal easement agreements; (vii) matters that would be disclosed on current title reports or surveys and/or (viii) Liens or restrictions arising pursuant to the Target Properties Leases.

“***Person***” means any individual, bank, corporation, partnership, association, joint-stock company, business trust, limited liability company or unincorporated organization.

“***Potential Acquiror***” has the meaning set forth in Section 7.04(d).

“***Preferred Share Consideration***” means the number of Acquiror Convertible Preferred Shares designated by Target to Acquiror at least five (5) Business Days prior to the Closing; *provided, however*, the number of Acquiror Convertible Preferred Shares shall not exceed the sum of (i) 2,830,000 plus (ii) seventy percent (70%) of the Aggregate Closing Adjustments divided by the Liquidation Preference.

“***Preferred Share Consideration Amount***” means the Preferred Share Consideration multiplied by the Liquidation Preference.

“***Pre-LOI Leases***” the Target Properties Leases signed on or prior to September 6, 2006.

“***Pre-LOI Leasing Commissions***” means any commissions due and payable on Pre-LOI Leases but excluding commissions due with respect to future renewals or extensions of Pre-LOI Leases.

“***Pre-LOI TI Work***” has the meaning set forth in Section 7.14.

“***Proxy Statement***” means the proxy statement to be provided to the Target Stockholders in connection with the Target Stockholders Meeting.

“***Purchase and Sale***” has the meaning set forth in Section 2.01.

“***Purchase Price***” has the meaning set forth in Section 2.02.

“***Purchase Properties***” has the meaning set forth in the preamble to this Agreement.

“***Purchase Properties Leases***” means all leases in effect as of the date hereof with tenants of the Purchase Properties and all written amendments, modifications and supplements thereto.

“***Rating Agencies***” has the meaning set forth in Section 7.11(b).

“***Reciprocal Release***” has the meaning set forth in Section 9.04(k).

“***REIT***” means a real estate investment trust within the meaning of Section 856- 860 of the Code.

“***Registration Rights Agreement***” means the registration rights agreement between Acquiror and the Target Stockholders relating to the filing of the Registration Statement, in substantially the form attached hereto as Exhibit B.

“***Registration Statement***” means the Acquiror Registration Statement on Form S-3 or other available form registering the resale of the Common Share Consideration and the Acquiror Common Shares issuable upon conversion of the Acquiror Convertible Preferred Shares and any amendments or supplements thereto.

“***Release***” has the meaning set forth in Section 6.04(f).

“***Representative***” has the meaning set forth in Section 7.04(b).

“***Retail Entities***” has the meaning set forth in the preamble to this Agreement.

"***Retail Loan Guarantees***" has the meaning set forth in Section 7.07(b).

"***Retail Properties***" has the meaning set forth in the preamble to this Agreement.

"***Retail Transaction***" means the acquisition of NPI by, or the merger of NPI with, an entity that engages or proposes to engage in retail property acquisitions or ownership.

"***Rights***" means, with respect to any Person, warrants, options, rights, convertible securities and other arrangements or commitments which obligate the Person to issue or dispose of any of its stock or other ownership interests.

"***Scheduled Contracts***" means those service and other contracts which have been entered into by Target or Target Subsidiaries or that will be assigned to Target or Target Subsidiaries prior to Closing, all as set forth in Section 6.02(k) of the Target Disclosure Letter.

"***SDAT***" has the meaning set forth in Section 3.02(b).

"***SEC***" means the Securities and Exchange Commission.

"***Securities Act***" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"***Share Escrow Agent***" means U.S. Bank National Association.

"***Share Escrow Agreement***" means the escrow agreement among the Share Escrow Agent, Acquiror, Acquiror OP, Merger Subsidiary and Stockholders' Agent with respect to the Escrow Shares.

"***Shares***" means shares of Target Common Stock.

"***Short Term Loan***" means the loan to be made to Target by Wachovia Bank, N.A. with an outstanding balance not to exceed $83,018,978 as of the Closing, which may be fully prepaid at any time by Acquiror after Closing without any prepayment penalty thereto. The documents evidencing or securing the Short Term Loan are referred to herein as the "***Short Term Loan Documents***." Of the total proceeds of the Short Term Loan, up to $57,564,131 shall be applied by Target to prepay Existing Office Indebtedness prior to Closing.

"***Stockholder Approval***" has the meaning set forth in Section 6.02(c)(ii).

"***Stockholders' Agent***" shall mean the Liquidating Trust.

"***Subsidiary***" and "***Significant Subsidiary***" have the meanings ascribed to those terms in Rule l-02 of Regulation S-X promulgated by the SEC.

"***Superior Proposal***" means a bona fide written proposal (and its most recently amended or modified terms, if amended or modified) made by a Person other than Target or its Affiliates: (A) to consummate an Acquisition Proposal; (B) on terms which the Target Board in good faith concludes (following advice of its financial advisors that such proposal is more favorable to the Target Stockholders, from a financial point of view, and advice of outside counsel), taking into account, among other things, all legal, financial, regulatory, timing and other aspects of the proposal and the identity and nature of the Person making the proposal, would, if consummated, result in a transaction that is more favorable to Target or to the Target Stockholders (in their capacities as stockholders), as the case may be, from a financial point of view, than the transactions contemplated by this Agreement (as the same may be proposed to be amended by Acquiror pursuant to

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Section 7.04(e)); and (C) that does not contain any contingency to obtain financing or other funding.

"***Superior Proposal Notice***" has the meaning set forth in Section 7.04(d).

"***Surviving Entity***" has the meaning set forth in Section 3.01(a).

"***Target***" has the meaning set forth in the preamble to this Agreement.

"***Target Board***" means the Board of Directors of Target.

"***Target Bylaws***" means the Amended and Restated Bylaws of Target as in effect on the date hereof.

"***Target Charter***" means the Articles of Incorporation of Target as in effect on the date hereof.

"***Target Class A Common Stock***" means the Class A Common Stock, $10.00 par value per share, of Target.

"***Target Class B Common Stock***" means the Class B Common Stock, $1.00 par value per share, of Target.

"***Target Common Stock***" means the Target Class A Common Stock together with the Target Class B Common Stock.

"***Target Disclosure Letter***" has the meaning set forth in Section 6.01.

"***Target Group***" means, collectively, Target, Target Subsidiaries, NPI and the NPI Entities.

"***Target Joint Ventures***" meanings the Target Properties in which Target or a Target Subsidiary owns less than a 100% equity interest.

"***Target Material Adverse Effect***" means any event, circumstance, change or effect that adversely affects the financial condition or results of operations of Target

and the Target Subsidiaries in an amount in excess of $18,000,000, taken as a whole, that was not reasonably foreseeable at the date hereof; *provided*, *however*, that none of the following shall be deemed to constitute or shall be taken into account in determining whether there has been an "Target Material Adverse Effect": (i) any event, circumstance, change or effect arising out of or attributable to (A) any changes in the United States or global economy or capital, financial or securities markets generally, including changes in interest or exchange rates, (B) the commencement or escalation of a war or armed hostilities or the occurrence of acts of terrorism or sabotage, (C) any changes in general economic, legal, regulatory or political conditions in the geographic regions in which Target and the Target Subsidiaries operate, (D) earthquakes, hurricanes or other natural

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disasters and (E) changes in Law or GAAP or (ii) any existing event, circumstance, change or effect with respect to which Acquiror has knowledge as of the date hereof.

"***Target Material Contracts***" means the Target Properties Leases, the Office Assumed Loan Documents, the Short Term Loan Documents, the Scheduled Contracts and the documents evidencing or securing the Existing Indebtedness (it being recognized that the documents evidencing or securing the Existing Office Indebtedness shall be terminated in conjunction with the repayment thereof with the proceeds of the Short Term Loan).

"***Target Property***" or "***Target Properties***" means, collectively, the Merger Properties, NPI Exchange Properties and Purchase Properties.

"***Target Properties Escrow LCs***" has the meaning set forth in Section 6.02(g)(xix).

"***Target Properties Leases***" means the Purchase Properties Leases collectively with the Merger Properties Leases and the NPI Exchange Properties Leases.

"***Target Properties LCs***" has the meaning set forth in Section 6.02(g)(xix).

"***Target Stockholders***" means the holders of the Target Common Stock.

"***Target Stockholders Meeting***" means a special meeting of the Target Stockholders to consider and vote upon the approval of the Merger, this Agreement and any other matter required to be approved by Target's stockholders for consummation of the Transaction (including any adjournment or postponement).

"***Target Subsidiary***" or "***Target Subsidiaries***" has the meaning set forth in Section 6.02(a)(ii).

"***Tax***" or "***Taxes***" shall mean any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"***Tax Returns***" means any return, declaration, report, claim for refund, transfer pricing report or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"***Termination Date***" has the meaning set forth in Section 10.01.

"***Termination Fee***" has the meaning set forth in Section 10.03(b).

"***Transaction***" shall mean the Merger and the Purchase and Sale, collectively, along with any other transaction contemplated by this Agreement.

"***Transfer Taxes***" shall mean any real property transfer, sales, use, recordation, recording costs, registration and other fees and any similar Taxes together with any related interest, penalties or additions to Tax.

ARTICLE II.
PURCHASE AND SALE OF OWNERSHIP INTERESTS IN NPI ENTITIES

2.01. Purchase and Sale of the Ownership Interests.

On the Closing Date, Acquiror OP shall purchase from NPI the percentage of ownership interests in the NPI Entities as more particularly set forth on Schedule 1 hereto pursuant to the terms and conditions set forth herein (the "***Purchase and Sale***") and pursuant to a purchase and sale agreement by and between NPI and Acquiror OP (the "***PSA***").

2.02. Purchase Price.

The purchase price for the ownership interests in the NPI Entities which Acquiror OP agrees to deliver to NPI, subject to the terms and conditions set forth herein and in the PSA, shall be cash in an amount equal to (a) $59,077,876 (subject to adjustment) reduced by (b) the reductions and adjustments set forth in the PSA (the difference between (a) and (b) being herein referred to as the "***Purchase Price***").

ARTICLE III.
THE MERGER

3.01. The Merger.

(a) The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, Target will merge into Merger Subsidiary (the "***Merger***"), the separate corporate existence of Target shall cease and Merger Subsidiary shall survive and continue to exist as a Maryland business trust and as a wholly owned subsidiary of Acquiror (Merger Subsidiary, as the surviving entity in the Merger, is sometimes referred to herein as the "***Surviving Entity***") with all its rights, privileges, immunities, powers and franchises continuing unaffected by the Merger.

(b) Name. The name of the Surviving Entity shall be "W&M Business Trust".

(c) Certificate of Trust and Declaration of Trust. The certificate of trust and declaration of trust of the Merger Subsidiary in effect immediately prior to the Effective Time shall be the certificate of trust and declaration of trust of the Surviving Entity, unless and until duly amended in accordance with applicable Law.

(d) Trustees and Officers of the Surviving Entity. The parties hereto shall take all actions necessary so that the trustees of the Surviving Entity immediately after the Merger shall be the trustees of the Merger Subsidiary immediately prior to the Merger. The parties hereto shall take all actions necessary so that the officers of the Surviving Entity immediately after the Merger shall be the officers of the Merger Subsidiary immediately prior to the Merger.

(e) Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the MGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of Target shall vest in the Surviving Entity, and the Assumed Loans directly or indirectly shall become the debts of the Surviving Entity.

(f) Additional Actions. If, at any time after the Effective Time, the Surviving Entity shall consider that any further assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in the Surviving Entity its right, title or interest in, to or under any of the rights, properties or assets of Target acquired or to be acquired by the Surviving Entity as a result of, or in connection with, the Merger, or (ii) otherwise carry out the purposes of this Agreement, Target, and its proper officers and directors, shall be deemed to have granted to the Surviving Entity an irrevocable power of attorney to execute and deliver all such proper deeds, assignments and assurances in law and to do all acts necessary or proper to vest, perfect or confirm title to and possession of such rights, properties or assets in the Surviving Entity and otherwise to carry out the purposes of this Agreement, and the proper officers and trustees of the Surviving Entity are fully authorized in the name of the Surviving Entity or otherwise to take any and all such action.

3.02. Effective Date and Effective Time; Closing.

(a) The closing of the Transaction (the "***Closing***") shall take place immediately prior to the Effective Time at 10:00 a.m., Eastern Time, at the offices of DLA Piper US LLP at 6225 Smith Avenue, Baltimore, Maryland 21209, or at such other place, at such other time, or on such other date as the parties may mutually agree upon (such date, the "***Closing Date***"). At the Closing, there shall be delivered to Acquiror and Target the certificates and other documents required to be delivered under Article IX hereof. It is the parties' goal that the Closing Date shall occur no later than December 31, 2006.

(b) As soon as practicable upon satisfaction or waiver of the conditions set forth in Article IX (other than those conditions that by their nature are to be satisfied at the consummation of the Merger, but subject to the fulfillment or waiver of those conditions), at the closing, the parties shall cause Articles of Merger in the form of Exhibit C hereto (the "***Articles of Merger***") to be filed with the State Department of Assessments and Taxation of Maryland (the "***SDAT***") pursuant to the MGCL. The Merger provided for herein shall become effective at such time as the Articles of Merger have been accepted for record by the SDAT, or such later time (not to exceed 30 days

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from the date of filing) designated by the parties in the Articles of Merger in accordance with the MGCL; *provided*, *however*, that such time shall not be on a date later than the Outside Date (the "***Effective Time***").

ARTICLE IV.
MERGER CONSIDERATION; EXCHANGE PROCEDURES

4.01. Conversion of Shares.

At the Effective Time, by virtue of the Merger and without any action on the part of a holder of shares of Target Common Stock:

(a) The aggregate merger consideration payable to holders of Target Common Stock issued and outstanding immediately prior to the Effective Time (expressed as a number of shares) is referred to as the "***Merger Consideration***". The Merger Consideration shall be comprised of the Preferred Share Consideration and the Common Share Consideration. For example, assume that the Debt Balance were $129,648,266 (comprised of the Existing Retail Indebtedness of $29,146,398, the Short Term Loan of $83,018,978 and the Assumed Loans of $17,482,890), the Closing Adjustment Amount due by Target to Acquiror were $2,000,000 and the Loan Escrows were $1,000,000. The Merger Consideration Amount would be as follows:

	$	303,422,124
Debt Balance	$	–129,648,266
Closing Adjustment Amount	$	–2,000,000
Loan Escrows	$	+1,000,000
Merger Consideration Amount	$	172,773,858

Further, assume that the Preferred Share Consideration were designated by Target to be 2,830,000 Acquiror Convertible Preferred Shares. The Preferred Share Consideration Amount would therefore be 2,830,000 x $50 = $141,500,000. The Common Share Consideration Amount would therefore be:

Merger Consideration Amount	$	172,773,858
Preferred Share Consideration Amount	$	–141,500,000
Common Share Consideration Amount	$	31,273,858

If the Calculation Price were $45 per share, the Common Share Consideration would be $31,273,858 ÷ $45 = 694,974.62 Acquiror Common Shares.

"***Merger Consideration Amount***" means (i) the excess of the Gross Value over the Debt Balance, (ii) increased by any Closing Adjustment Amount owed by Acquiror to Target pursuant to Section 8.04, if applicable, or decreased by any Closing Adjustment Amount owed by Target to Acquiror pursuant to Section 8.04, if applicable, as the case may be, plus (iii) the amount of any loan escrows held by Target's lenders in connection with the Assumed Loans at the Effective Time, to the extent not taken into account in

computing the Debt Balance (the "***Loan Escrows***"). The sum of (ii) and (iii) is referred to as the "***Aggregate Closing Adjustments***".

(b) At the Effective Time, except as set forth in subsections (c) and (d) below, each share of Target Common Stock issued and outstanding immediately prior to the Effective Time shall be converted into, and shall be canceled in exchange for, the right to receive a pro rata share of the Merger Consideration.

(c) Each share of Merger Subsidiary Common Shares issued and outstanding immediately prior to the Effective Time that is owned by Acquiror or by any Subsidiary of Acquiror, shall be converted into and become one share of common stock of the Surviving Entity.

(d) Each share of Target Common Stock that is owned by Target or any of the Target Subsidiaries, or by Acquiror, Merger Subsidiary or any other direct or indirect Subsidiary of Acquiror or Merger Subsidiary, shall be cancelled and retired and shall cease to exist and no cash, stock or any other consideration shall be delivered by Acquiror or Merger Subsidiary in exchange therefor.

4.02. Exchange Procedures.

(a) Custody of Certificates and Payment Fund. At or prior to the Effective Time, (i) Target shall acquire and hold for the Target Stockholders pursuant to a Power of Attorney between the Liquidating Trust and the Target Stockholders the certificate or certificates or affidavits of loss in accordance with Section 4.02(e) hereof (collectively, the "***Certificates***"), which immediately prior to the Effective Time represented shares of Target Common Stock and (ii) Acquiror shall deposit or cause to be deposited with the Liquidating Trust, for the benefit of the Target Stockholders for exchange in accordance with this Article IV, full certificates representing Acquiror Common Shares and Acquiror Convertible Preferred Shares in an amount sufficient to satisfy the aggregate Merger Consideration (such aggregate certificates being deposited hereinafter referred to as the "***Payment Fund***"). The Liquidating Trust shall, pursuant to irrevocable instructions, make payments out of the Payment Fund as provided for in this Article IV, and the Payment Fund shall not be used for any other purpose.

(b) Exchange Procedures for Target Common Stock. After surrender to the Liquidating Trust of a Certificate for cancellation, together with such Power of Attorney duly executed, and such other customary documents as may reasonably be required by the Liquidating Trust, upon the Effective Time, the holder of such Certificate shall be entitled to receive the Merger Consideration in exchange therefor for each share of Target Common Stock formerly represented by such Certificate. Such payment of the Merger Consideration shall be sent to such holder by the Liquidating Trust promptly after receipt by the Liquidating Trust of the Payment Fund, and the Power of Attorney duly executed, and such other customary documents as may reasonably be required by the Liquidating Trust, and the shares of Target Common Stock formerly represented by such

Certificate so surrendered shall forthwith be canceled. No interest will be paid or will accrue on any cash payable upon the surrender of a Certificate.

(c) No Further Ownership Rights in Stock. Until surrendered as contemplated by this Article IV, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration in respect of the shares of Target Common Stock formerly represented by such Certificate as contemplated by this Section 4.02. All shares paid upon the surrender for exchange of Certificates in accordance with the terms of this Article IV shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Target Common Stock represented by such Certificates. After the Effective Time, there shall be no further registration of transfers of shares of Target Common Stock outstanding immediately prior to the Effective Time on the records of Target, and if Certificates are presented to the Surviving Entity, they shall be canceled and exchanged as provided for, and in accordance with the procedures set forth, in this Article IV.

(d) Unregistered Transfer of Stock. If payment of the Merger Consideration is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it shall be a condition of such payment that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the Person requesting such payment shall have paid any transfer and any other Taxes required by reason of the payment to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Entity that such Tax either has been paid or is not applicable.

(e) Lost Certificates. In the event that any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Entity, an indemnity against any claim that may be made against it with respect to such Certificate, the Liquidating Trust will issue, in exchange for such lost, stolen or destroyed Certificate, the Merger Consideration payable pursuant to this Article IV.

(f) Termination of Payment Fund. Any portion of the Payment Fund remaining unclaimed by holders of Shares immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Authority shall, to the extent permitted by applicable Law, become the property of the Liquidating Trust free and clear of all claims or interest of any Persons previously entitled thereto.

(g) No Liability. None of Acquiror, Merger Subsidiary, Target or the Liquidating Trust, or any employee, officer, director, agent or Affiliate thereof, shall be liable to any Person in respect of any cash from the Payment Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

4.03. Adjustments.

Notwithstanding anything in this Agreement to the contrary, if, between the date of this Agreement and the Effective Time, the outstanding shares of Target Common

Stock shall be changed into a different number, class or series of shares by reason of any stock dividend, subdivision, reclassification, recapitalization, stock split, combination or exchange of shares, then the Merger Consideration payable with respect thereto and any other amounts payable pursuant to this Agreement shall be appropriately adjusted in order to provide holders of Target Common Stock the same economic effect as contemplated by this Agreement.

4.04. Deposit.

Within one (1) Business Day after the execution of this Agreement, Acquiror shall deposit with the Cash Escrow Agent in cash Two Million Dollars ($2,000,000) which sum, together with any interest earned thereon prior to the Closing Date, is referred to as the "***Deposit***", pursuant to the Cash Escrow Agreement for the benefit of the Target Stockholders. The Deposit shall be held in an interest bearing escrow account, pending disposition of the Deposit in accordance with Section 8.01(b). At Closing of the Merger, the Cash Escrow Agent shall remit the Deposit to Acquiror.

4.05. Deposit of Escrow Shares and Additional Escrow Shares.

(a) As soon as practicable after the Effective Time, and subject to, and in accordance with, the provisions of Section 7.07, Acquiror shall cause to be deposited with the Share Escrow Agent a certificate or certificates representing a number of Acquiror Common Shares (the "***Escrow Shares***") equal to Three Million Five Hundred Thousand Dollars ($3,500,000) of the Merger Consideration Amount, which shall be registered in the name of the Share Escrow Agent as nominee for the holders of Certificates cancelled pursuant to Section 4.02(b). The Escrow Shares shall be beneficially owned by such holders so that such holders shall be entitled to any dividends or distributions (other than securities) and have the right to vote the shares and shall be available to compensate Acquiror for certain damages as provided in Section 7.07. The Escrow Shares shall be released in accordance with and subject to the provisions of Section 7.07 and the Share Escrow Agreement. At the Effective Time, the Escrow Shares will not have been registered under the Securities Act. In accordance with the Registration Rights Agreement, Acquiror will register the Escrow Shares with the SEC after Closing pursuant to the Registration Statement.

(b) As soon as practicable after the Effective Time, and subject to, and in accordance with, the Additional Share Escrow Agreement, Acquiror shall cause to be deposited with the Share Escrow Agent a certificate or certificates representing a number of shares of Acquiror Common Shares (the "***Additional Escrow Shares***") equal to Four Million Five Hundred Thousand ($4,500,000) of the Merger Consideration Amount, which shall be registered in the name of the Share Escrow Agent as nominee for the holders of Certificates cancelled pursuant to Section 4.02(b). The Additional Escrow Shares shall be beneficially owned by such holders so that such holders shall be entitled to any dividends or distributions (other than securities) and have the right to vote the shares and shall be available to Acquiror as provided in the Additional Share Escrow Agreement. The Additional Escrow Shares shall be released in accordance with and

subject to the provisions of the Additional Share Escrow Agreement. At the Effective Time, the Additional Escrow Shares will not have been registered under the Securities Act. In accordance with the Registration Rights Agreement, Acquiror will register the Additional Escrow Shares with the SEC after Closing pursuant to the Registration Statement.

ARTICLE V.
CONDUCT OF THE PARTIES PENDING CLOSING

5.01. Conduct of Business by Target.

From the date hereof until the earlier of the Effective Time and the termination of this Agreement pursuant to and in accordance with Article X, except as expressly contemplated or permitted by this Agreement or as disclosed in the Target Disclosure Letter as noted specifically herein, without the prior written consent of Acquiror, not to be unreasonably withheld, Target will not, and will cause each of the Target Subsidiaries not to:

(a) Ordinary Course. Conduct its business other than in the ordinary and usual course consistent with past practice or fail to use commercially reasonable efforts to preserve its business organization and in no event enter into any commitment that would impose any obligation on Acquiror, Target, Target Subsidiaries or the Surviving Entity after the Closing, other than tenant improvements with respect to Target Properties Leases signed after September 6, 2006 and other than as set forth in the Target Disclosure Letter.

(b) Acquisitions. Except as set forth in Section 5.01(b) of the Target Disclosure Letter, acquire all or any portion of the assets, business or properties of any other entity.

(c) Governing Documents. Amend the Target Charter or the Target Bylaws or the articles of incorporation or bylaws (or equivalent documents) of Target or any Target Subsidiary.

(d) Contracts. Except in the ordinary course of business consistent with past practice or as otherwise permitted under this Section 5.01 and except as disclosed in the Target Disclosure Letter, enter into or terminate any Target Material Contract or amend or modify in any material respect any of its existing Target Material Contracts.

(e) Insurance. Allow any insurance policy in effect as of the date hereof to be modified, lapse or expire prior to Closing or fail to file any claim, notice or report that Target would normally file in the ordinary course of business or as reasonably requested by Acquiror.

(f) Future Obligations. Grant any severance or termination pay to any director, officer or consultant, pay any special bonus or any remuneration to any director, officer or consultant, the terms of which would require any payments to be made post-Closing.

(g) Employees. Hire any employees.

(h) Litigation. Commence a lawsuit other than for the routine collection of bills, to protect a material right, or for a breach of this Agreement.

(i) Dispositions. Sell, license or otherwise dispose of any Target Properties.

(j) Liens. Encumber or permit any liens on any Target Properties.

(k) Notices. Deliver a default notice to any tenant without simultaneously delivering a copy of such notice to Acquiror.

(l) Indebtedness. Incur any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or guarantee any debt securities of others, other than draw-downs under credit arrangements or loan facilities existing on the date of this Agreement, and other than the Short Term Loans.

(m) Taxes. Except as provided in Section 6.02(i)(xix), make any Tax election, change any Tax election, adopt any Tax accounting method, change any Tax accounting method, file any Tax return (other than any estimated Tax returns, payroll Tax returns or sales Tax returns) or any amendment to a Tax return, enter into any closing agreement, settle any Tax claim or assessment, or consent to any Tax claim or assessment.

(n) Target Properties Leases. (i) Enter into any new leases in excess of 5,000 square feet with respect to a Target Property, (ii) modify or change in any material respect any existing Target Property Lease in excess of 5,000 square feet or (iii) terminate any Target Property Lease in excess of 5,000 square feet. For purposes of this Section 5.01(n), consent of Acquiror may be assumed in the event Target has not received a response from Acquiror within two (2) Business Days of Target's

request for consent.

(o) Other Actions. Authorize or enter into any agreement or otherwise agree or commit to do any of the foregoing.

5.02. Conduct of Acquiror.

From the date hereof until the Effective Time, except as expressly contemplated or permitted by this Agreement, without the prior written consent of Target, not to be unreasonably withheld, Acquiror will not, and will cause each of the Acquiror Subsidiaries not to:

(a) Interference or Delay. Take, or cause to be taken, any action that would interfere with the consummation of the Transaction and other transactions contemplated by this Agreement, or delay the consummation of such transactions.

(b) Adverse Actions. Take any action that is intended or is reasonably likely to result in (x) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Time or (y) any of the conditions to the Transaction set forth in Article IX not being satisfied.

(c) Other Actions. Authorize or enter into any agreement or otherwise agree or commit to do any of the foregoing.

ARTICLE VI.
REPRESENTATIONS AND WARRANTIES

6.01. Target Disclosure Letter.

Concurrently with the execution and delivery of this Agreement, Target is delivering to Acquiror a disclosure letter with numbered sections corresponding to the relevant sections in this Agreement (the "***Target Disclosure Letter***"). Any exception, qualification, limitation, document or other item described in any provision, subprovision, section or subsection of any Section of the Target Disclosure Letter with respect to a particular representation or warranty contained in Section 6.02 herein shall be deemed to be an exception or qualification with respect to all other representations or warranties contained in Section 6.02 herein to which the relevance of such item is reasonably apparent. Nothing in the Target Disclosure Letter is intended to broaden the scope of any representation or warranty contained in Section 6.02 herein.

6.02. Representations and Warranties of Target.

Subject to the exceptions and qualifications set forth in the Target Disclosure Letter, Target hereby represents and warrants to Acquiror, Acquiror OP and Merger Subsidiary that:

(a) Existence; Good Standing; Authority; Compliance with Law.

(i) Target is a corporation duly incorporated, validly existing under the laws of the State of Maryland and in good standing with the SDAT. Target is duly qualified or licensed to do business as a foreign entity and is in good standing under the laws of any other jurisdiction in which the character of the properties owned, leased or operated by it therein or in which the transaction of its business makes such qualification or licensing necessary. Target has all requisite corporate power and authority to own, operate, lease and encumber the Target Properties and carry on its business as now conducted.

(ii) Section 6.02(a)(ii) of the Target Disclosure Letter sets forth as of the Closing Date: (i) each Subsidiary of Target (each, a "***Target Subsidiary***," and collectively, the "***Target Subsidiaries***"); (ii) the legal form of each Target Subsidiary, including the state of formation; and (iii) the identity and ownership interest of each of the Target Subsidiaries that is held by Target or a Target Subsidiary.

(iii) Each of the Target Subsidiaries is duly organized, validly existing and is in good standing under the laws of the State of Maryland. Each of the Target Subsidiaries is duly qualified or licensed to do business and in good standing under the laws of each jurisdiction in which the character of the properties owned, leased or operated by it therein or in which the transaction of its business makes such qualification or licensing necessary.

(iv) Except as set forth in Section 6.02(a)(iv) of the Target Disclosure Letter, as of the Closing Date all of the outstanding voting securities or other interests of each of the Target Subsidiaries have been validly issued and are (i) fully paid and nonassessable and (ii) owned, directly or indirectly, free and clear of any Lien (including any restriction on the right to vote or sell the same, except as may be provided as a matter of Law), and all voting interests in each of the Subsidiaries that is a partnership, joint venture, limited liability company or trust which are owned by Target, by one of the Target Subsidiaries or by Target and one of the Target Subsidiaries, are owned free and clear of any Lien (including any restriction on the right to vote or sell the same, except as may be provided as a matter of Law).

(v) Target has previously made available to Acquiror true and complete copies of the (i) Target Charter and the Target Bylaws, each as amended through the date hereof, (ii) minute books of meetings of the Target's Board and (iii) organizational documents of the Target Subsidiaries, each as amended through the date hereof.

(vi) Section 6.02(a)(vi) of the Target Disclosure Letter sets forth as of the date hereof each Subsidiary of Target; the legal form of such Subsidiary, including the state of formation, and the identity and ownership interest of each of the Subsidiaries held directly or indirectly by Target.

(b) Capitalization.

(i) The authorized shares of capital stock of Target consist of 100,000 shares of Target Class A Common Stock, of which, as of September 30, 2006, 15,000 were issued and outstanding, 300,000 shares of Target Class B Common Stock, of which, as of September 30, 2006, 75,000 were issued and outstanding and 600 shares of Target Class C Common Stock, of which, as of September 30, 2006, none are issued and outstanding. As of the date of this Agreement, there were no shares of Target Common Stock reserved for issuance or required to be reserved for issuance. Section 6.02(b)(i) of the Target Disclosure Letter sets forth a list of the Target Stockholders and the shares of

Target Common Stock owned by each. There are no other classes of stock of Target other than Target Common Stock.

(ii) Section 6.02(b)(ii) of the Target Disclosure Letter sets forth a list of all secured and unsecured debt instruments outstanding as of the date hereof of Target and/or relating to the Target Properties and their outstanding principal amounts as of December 1, 2006. Target has no outstanding bonds, debentures, notes or other similar obligations the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the Target Stockholders on any matter.

(iii) As of the Effective Time, there will not be outstanding any share appreciation rights, dividend equivalent rights, performance awards, restricted stock unit awards or "phantom" shares applicable to Target or Target Subsidiaries.

(iv) Except as set forth in Section 6.02(b)(iv) of the Target Disclosure Letter, there are no agreements or understandings to which Target is a party with respect to shares of Target Common Stock, nor does Target have knowledge, as of the date of this Agreement, of any third party agreements or understandings with respect to the voting of any such shares.

(v) Immediately prior to the Closing, each Target Subsidiary shall be wholly-owned by Target except as otherwise shown on Schedule 2. Neither Target nor any Target Subsidiary has any agreement or commitment to sell or transfer any of its stock, partnership or ownership interests, as the case may be.

(c) Authority Relative to this Agreement.

(i) Target has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the Transaction. No other corporate proceedings on the part of Target is necessary to authorize this Agreement or to consummate the Transaction (other than, with respect to the Merger and this Agreement, to the extent required by Law, the Stockholder Approval). This Agreement has been duly and validly executed and delivered by Target and, assuming due authorization, execution and delivery hereof by each of Acquiror, Acquiror OP and Merger Subsidiary, constitutes a valid, legal and binding agreement of Target, enforceable against Target in accordance with and subject to its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights or by general equitable principles.

(ii) The Target Board has duly and validly authorized the execution and delivery of this Agreement, declared the Transaction advisable and approved, subject to the approval of the Target Stockholders, the Transaction, and no other actions are required to be taken by the Target Board for the consummation of the Transaction. The Target Board has directed that this Agreement be submitted to the Target Stockholders for their approval to the extent required by Law and the Target

Charter and Target Bylaws. The Merger requires the affirmative vote of a two-thirds majority of all votes entitled to be cast by the holders of all outstanding Target Common Stock as of the record date for the Target Stockholder Meeting (the "***Stockholder Approval***"). The Stockholder Approval is the only vote of the holders of any class or series of stock of Target necessary to approve the Transaction.

(d) No Conflict; Required Filings and Consents.

(i) Except as set forth in Section 6.02(d)(i) of the Target Disclosure Letter, the execution and delivery by Target of this Agreement does not, and the performance of its obligations hereunder will not, (A) conflict with or violate the organizational documents of Target or Target Subsidiaries, (B) assuming that all consents, approvals, authorizations and other actions described in subsection (ii) have been obtained and all filings and obligations described in subsection (ii) have been made, conflict with or violate any domestic statute, law, ordinance, regulation, rule, code, executive order, injunction, judgment, decree or other order ("***Law***") applicable to Target and Target Subsidiaries or by which any Target Property or other property or asset of Target or any of the Target Subsidiaries is bound or affected, or (C) result in any breach of or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien or other encumbrance on any Target Property or other property or asset of Target or any of the Target Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation, except, with respect to clauses (B) and (C), for any such conflicts, violations, breaches, defaults or other occurrences that would not (x) prevent or delay consummation of the Transaction or otherwise prevent it from performing its obligations under this Agreement or (y) have a Target Material Adverse Effect.

(ii) Except as set forth in Section 6.02(d)(ii) of the Target Disclosure Letter, the execution and delivery by Target of this Agreement does not, and the performance of its obligations hereunder will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority except (A) for the filing of the Articles of Merger with, and the acceptance for record of the Articles of Merger by, the SDAT and (B) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not (x) prevent or delay consummation of the Transaction or otherwise prevent it from performing its obligations under this Agreement or (y) have a Target Material Adverse Effect.

(e) Permits; Compliance. Except as set forth in Section 6.02(e) of the Target Disclosure Letter, to the knowledge of Target, each of Target and the Target Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, consents, certificates, approvals and orders of any Governmental Authority necessary for each of Target or the Target Subsidiaries to own, lease and operate the Target Properties or to carry on its business as it is now being conducted (the "***Applicable Permits***"),

except where the failure to have, or the suspension or cancellation of, any of the Applicable Permits could not reasonably be expected to have a Target Material Adverse Effect. As of the date hereof, no suspension or cancellation of any of the Applicable Permits is pending or, to the knowledge of Target, threatened, except where the failure to have, or the suspension or cancellation of, any of the Applicable Permits could not reasonably be expected to have a Target Material Adverse Effect. Neither Target nor any of the Target Subsidiaries is in conflict with, or in default, breach or violation of, (i) any Law applicable to Target or any of the Target Subsidiaries or by which any of the Target Properties or assets is bound or affected, or (ii) any note, bond, mortgage, indenture, contract, agreement, lease, license, Applicable Permit, franchise or other instrument or obligation to which Target or any of the Target Subsidiaries is a party or by which Target or any of the Target Subsidiaries or any of their properties or assets is bound, except for any such conflicts, defaults, breaches or violations that could not reasonably be expected to have a Target Material Adverse Effect.

(f) Litigation. Except (i) as listed in Section 6.02(f) of the Target Disclosure Letter, or (ii) for suits, claims, Actions, proceedings or

investigations arising in the ordinary course of business of Target and the Target Subsidiaries which are adequately covered by insurance (it being understood that litigation (A) arising from or related in any way to Hazardous Materials or (B) related to any landlord/tenant rent collection proceeding or regarding Target Properties Leases in excess of 5,000 square feet shall not be considered in the ordinary course of business), there is no suit, Action pending or, to Target's knowledge, threatened against Target or any of the Target Subsidiaries or any of the Target Properties that could reasonably have a Target Material Adverse Effect or that question the validity of this Agreement or any action to be taken by Target in connection with the consummation of the Transaction. None of Target or the Target Subsidiaries is subject to any order, judgment, writ, injunction or decree by any Governmental Authority, except as could not reasonably be expected to have a Target Material Adverse Effect.

(g) Target Properties and Target Properties Leases.

(i) Prior to the Closing Date, the Target Properties shall be owned by the entities shown on Schedules 1, 2 and 4 hereof and no other person will have any ownership interest in or right to share in the profits of any Target Property.

(ii) Target has provided Acquiror all policies of title insurance or updates or endorsements that are in the possession of Target with respect to the Target Properties, and no claim has been made against any such policy that has not been resolved and, to Target's knowledge, there are no facts or circumstances which would constitute the basis for such a claim. Except as set forth in Section 6.02(g)(ii) of the Target Disclosure Letter, to Target's knowledge and subject to matters of record, there are no material exceptions not shown on such title insurance policies.

(iii) All buildings currently under construction by the Target Group on the Target Properties, all construction projects and building maintenance and

improvements currently ongoing, all tenant improvements required to be performed under the Target Properties Leases prior to the commencement of the initial term of a Target Properties Lease or an existing expansion or renewal thereof that have not been so completed as of the date of this Agreement (and have been designated as Pre-LOI TI Work and other work), and all properties currently under contract for acquisition as of the date of this Agreement by the Target or Target Subsidiaries are listed as such in Section 6.02(g)(iii) of the Target Disclosure Letter, other than routine building maintenance in the ordinary course of business not exceeding $2,500.

(iv) Except as provided in Section 6.02(g)(iv) of the Target Disclosure Letter, none of the Target Group (A) has received written notice of any violation of any Law issued by any Governmental Authority, (B) has received written notice of any structural defects relating to any Target Property which would reasonably be expected to have a Target Material Adverse Effect, or (C) has received written notice of any physical damage to any Target Property which would, individually or in the aggregate, reasonably be expected to have a Target Material Adverse Effect for which there is not insurance in effect covering the cost of the restoration and the loss of revenue.

(v) Except as set forth in Section 6.02(g)(v) of the Target Disclosure Letter, no tenant or third party has any option to purchase any of the Target Properties, rights of first refusal or other agreements to purchase or sell any Target Properties, other than as set forth in the Target Properties Leases.

(vi) Except (A) as set forth in Section 6.02(g)(vi) of the Target Disclosure Letter, (B) for the Target Properties Leases and (C) for secured loan documents entered into in the ordinary course of business, there are no written agreements which restrict the Target Group from transferring any of the Target Properties, and none of the Target Properties is subject to any restriction on the sale or other disposition thereof or on the financing or release of financing thereon.

(vii) To the knowledge of Target, (i) no certificate, permit or license from any Governmental Authority having jurisdiction over any of the Target Properties or any agreement, easement or other right which is necessary to permit the lawful use and operation of the buildings and improvements on any of the Target Properties or which is necessary to permit the lawful use and operation of all driveways, roads, parking areas, out lots, and other means of egress and ingress to and from any of the Target Properties has not been obtained and is not in full force and effect, and there is no pending threat of modification or cancellation of any of the same; and (ii) no written notice of any violation of any federal, state or municipal law, ordinance, order, regulation or requirement affecting any portion of any of the Target Properties has been received by any of the Target Group with respect to the Target Properties from any Governmental Authority and none of the Target Properties has received notice that any of the Target Properties are in violation of any such federal, state or municipal law, order, ordinance, regulation or requirement, including, without limitation, the Americans with Disabilities Act, except for such violations that would not have a Target Material Adverse Effect on the value of any of the Target Properties, individually or in the aggregate.

(viii) Except as set forth in Section 6.02(g)(viii) of the Target Disclosure Letter, there are no condemnation proceedings pending, or to Target's Knowledge, threatened, against any of the Target Properties.

(ix) None of the Target Group has received any notice to the effect that (A) any betterment assessments have been levied against, or rezoning proceedings are pending or threatened with respect to, any of the Target Properties or (B) any zoning, building or similar law, code, ordinance, order or regulation is or will be violated by the continued maintenance, operation or use of any buildings or other improvements on any of the Target Properties or by the continued maintenance, operation or use of the parking areas.

(x) Section 6.02(g)(x) of the Target Disclosure Letter sets forth a true, accurate and complete rent roll for each of the Target Properties (the "***Rent Roll***") as of the date specified in the Target Disclosure Letter. On the Closing Date, Section 6.02(g)(x) of the Target Disclosure Letter will be updated by Target to reflect the Rent Roll as of two (2) Business Days prior to the Closing Date. Section 6.02(g)(x) of the Target Disclosure Letter sets forth a report listing all tenant delinquencies (the "***Delinquency Report***") as of the date specified in the Target Disclosure Letter. On the Closing Date, Section 6.02(g)(x) of the Target Disclosure Letter will be updated by Target to reflect the Delinquency Report as of two (2) Business Days prior to the Closing Date. Except as noted in Section 6.02(g)(x) of the Target Disclosure Letter, to Target's knowledge, there is no violation of any co-tenancy, exclusive or restriction listed in such Section 6.02(g)(x) of the Target Disclosure Letter.

(xi) Except as set forth in the Target Disclosure Letter, Target has previously delivered or made available to Acquiror a true, complete and correct copy of all Target Properties Leases, tenancies or other agreements for all or any portion of the Target Properties listed on the Rent Roll, all amendments, modifications, assignments, subleases to which any member of the Target Group has consented and supplements thereto and all guarantees with respect thereto.

(xii) Each of the Target Properties Leases is valid and subsisting and in full force and effect and has not been amended, modified or supplemented. Except as noted in Section 6.02(g)(xii) of the Target Disclosure Letter, to the knowledge of Target, other than as set forth in the Target Properties Leases, no tenant under a Lease has the right to terminate such lease prior to the scheduled expiration thereof. Except as set forth in Section 6.02(g)(xii) of the Target Disclosure Letter, none of the Target Group has received any written notice from any tenant under a Target Property Lease of more than 5,000 square feet of any intention to vacate.

(xiii) Except as set forth in Section 6.02(g)(xiii) of the Target Disclosure Letter, no member of the Target Group has received written notice

from any tenant under a Lease of any offset, defense or claim against rent payable by it or other performance of obligations due from it under its lease.

(xiv) Except as set forth in Section 6.02(g)(xiv) of the Target Disclosure Letter, to Target's knowledge and without independent investigation, no tenant under a Lease is currently in default under any monetary provision of its lease nor is any tenant under a Lease currently in material default under any non-monetary provision of its lease, and no such tenant is in arrears in the performance of any monetary obligation required of it under its lease. Except as set forth in Section 6.02(g)(xiv) of the Target Disclosure Letter, Target, to Target's knowledge and without independent investigation, is not aware of any facts or circumstances which with the passage of time and/or notice would constitute a default by any tenant under a Lease.

(xv) Except as set forth in Section 6.02(g)(xv) of the Target Disclosure Letter, Target has received no written notice stating that any tenant leasing in excess of 5,000 square feet under a Lease is insolvent or that any such tenant is unable to perform any or all of its material obligations under its lease.

(xvi) Except as set forth in Section 6.02(g)(xvi) of the Target Disclosure Letter, no tenant under any of the Target Properties Leases, or any guarantor, has asserted any claim of which the Target Group has received written notice which would materially affect the collection of rent from such tenant and the Target Group has not received written notice of any material default or breach on the part of the Target Group under any of the Target Properties Leases which has not been cured within the applicable cure period.

(xvii) Section 6.02(g)(xvii) of the Target Disclosure Letter sets forth a list of all written commitments made by the Target Group to enter into leases of 5,000 square feet or more of any of the Target Properties or any portion thereof which has not yet been reduced to a written lease, including a description of the right of any third party broker to any outstanding brokerage or other commission incidental thereto and all other financial terms, all in reasonable detail. Section 6.02(g)(xvii) of the Target Disclosure Letter also sets forth a complete list of all brokerage or other commissions owed in whole or part as of the date hereof by the Target Group relating to the Target Properties. Target has provided true and correct copies of all such written commitments to Acquiror.

(xviii) Except as set forth in Section 6.02(g)(xviii) of the Target Disclosure Letter and to the knowledge of Target, all Target Properties Leases are valid and effective in accordance with their respective terms, and there is not, under any of such Target Properties Leases, any material existing default or any event which with notice or lapse of time or both would constitute such a default, nor do any of such Target Properties Leases contain any provision which would preclude the Surviving Entity, a Target Subsidiary or a NPI Entity from occupying and using the leased premises for the same purposes and upon substantially the same rental and other terms as are applicable to the occupation and current use by the Target Group.

(xix) Section 6.02(g)(xix) of the Target Disclosure Letter sets forth a list of all of the letters of credit with respect to which Target has any liability,

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classified as (A) those letters of credit for which Acquiror will substitute letters of credit and if such letters of credit are drawn upon, Target shall reimburse Acquiror the amount of such draw (the "***Target Properties Escrow LCs***"), (B) those letters of credit for which Acquiror will substitute letters of credit and assume all obligations thereunder (the "***Target Properties LCs***") and (C) letters of credit relating to properties other than Target Properties (the "***Non-Target Properties Letters of Credit***").

(xx) Except as set forth in Section 6.02(g)(xx) of the Target Disclosure Letter, Target Group has not received any notices of threatened claims regarding the Target Properties.

(xxi) A true and correct copy of the Acquisition Agreement has been supplied to Target and there have been no amendments thereof. Miles & Stockbridge P.C. is the escrow agent under such Acquisition Agreement and is holding the $800,000 Sewer System Credit (as such term is defined therein) pursuant to Section 6.3 of such Acquisition Agreement and none of the Sewer System Credit has been spent. Work in connection with the Sewer System (as such term is defined in the Acquisition Agreement) has been performed by Target or Target Subsidiaries and the cost of such work incurred since September 6, 2006 shall be determined prior to Closing.

(h) Intellectual Property. Except as would not have a Target Material Adverse Effect, (i) the conduct of business of the Target Group as currently conducted with respect to the Target Properties does not, to Target's knowledge, infringe the Intellectual Property rights of any third parties and (ii) with respect to Intellectual Property owned by or licensed to the Target Group and material to the Target Properties, the Target Group has not received any notice that it does not have the right to use such Intellectual Property in the continued operation of its business as currently conducted.

(i) Taxes.

(i) There are no Liens for Taxes upon any assets of the Target Group, except for Permitted Liens.

(ii) Each of the Target Group has timely filed with the appropriate taxing authority all Tax Returns required to be filed by it prior to the date hereof. Each such Tax Return is complete and accurate in all material respects. All Taxes have been properly reflected in the statements of operations of the Target Group, and have been paid prior to the imposition of any penalty. None of the Target Group has executed or filed with the IRS or any other taxing authority any agreement now in effect extending the period for assessment or collection of any Tax. Except as set forth in Section 6.02(i)(ii) of the Target Disclosure Letter, none of the Target Group is a party to any pending action or proceedings by any taxing authority for assessment or collection of any Tax, and no claim for assessment or collection of any Tax has been asserted against it. Except as set forth in the Target Disclosure Letter, true and complete copies of all federal, state and local income or franchise Tax Returns filed by each member of the Target Group with respect to taxable years commencing on or after January 1, 2003 have

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been delivered to Acquiror. No claim has been made in writing by a Governmental Authority in a jurisdiction where the Target Group does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There is no dispute or claim concerning any Tax liability of the Target Group, (A) claimed or raised by any taxing authority in writing or (B) as to which the Target Group has knowledge. No issues have been raised in writing in any examination by any taxing authority with respect to the Target Group which, by application of similar principles, reasonably could be expected to result in a material deficiency or increase in Tax for any other period not so examined. Section 6.02(i)(ii) of the Target Disclosure Letter lists all federal and state income Tax Returns filed with respect to the Target Group for taxable periods commencing on or after

January 1, 2003 that have been audited, and indicates those Tax Returns, if any, that currently are the subject of audit.

(iii) Target and the Stockholders of Target as of April 1, 1998 made a valid election for Target to be treated as an "S corporation", as that term is defined in Section 1361(a) of the Code, and such election will be in effect at the Closing Date. There are no grounds for the revocation of any such election and no such election will be revoked retroactively or otherwise. Target has been an S corporation from April 1, 1998 through the date hereof. Neither Target nor any of the stockholders of Target has taken any action that would cause, or would result in, the termination of the S corporation status of the Target.

(iv) Section 6.02(i)(iv) of the Target Disclosure Letter contains a copy of the Target's election to be treated as an S corporation, which was timely filed with the IRS and has not been superseded by any subsequent filing. The IRS has not sent any correspondence to Target questioning the Target's status as an S corporation.

(v) Target (A) shall be taxed as an S corporation through the Closing Date and has complied (and will comply) with all applicable provisions of the Code relating to an S corporation through the Closing Date, (B) has operated, and intends to continue to operate, in such a manner as to qualify as an S corporation from 1998 and through Closing, and (C) has not taken or omitted to take any action which would reasonably be expected to result in a challenge to its status as an S corporation during such time period, and, to the knowledge of Target, no such challenge is pending or threatened.

(vi) Target, for all taxable years commencing as of April 1, 1998, was eligible to and did validly elect to be taxed as an S corporation for federal income tax purposes and at all times thereafter continued such election and continued to be so eligible to be taxed as an S corporation for federal income tax purposes. The "built-in gain", as of December 31, 2005, of the assets owned indirectly by Target as listed on Section 6.02(i)(vi) of the Target Disclosure Letter is true, accurate and complete.

(vii) Target shall not revoke its election to be taxed as an S corporation within the meaning of Sections 1361 and 1362 of the Code. Target shall not

take or allow any action that would result in the termination of its status as a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code.

(viii) Any disposition of the assets of Target and/or any of the Target Subsidiaries, other than those listed on Section 6.02(i)(viii) of the Target Disclosure Letter, will not be subject to the rules under Section 1374 of the Code. As of Closing, Target shall have no earnings and profits accumulated in any "non-REIT year" within the meaning of Section 857(a)(2) of the Code.

(ix) Target and each of the Target Subsidiaries have withheld and paid all Taxes required to have been withheld and/or paid in connection with amounts paid or owing to any employee, former employee, independent contractor, creditor, stockholder, or other third party.

(x) Target has not owned, directly or indirectly, an interest in any Subsidiary other than (A) a "qualified subchapter S subsidiary" within the meaning of Section 1361(b)(3)(B) of the Code, (B) an entity disregarded for federal income tax purposes or (C) an entity treated as a partnership for federal income tax purposes.

(xi) Neither Target nor any of the Target Subsidiaries has made any election, or is required, to treat any asset of any Subsidiary as owned by another person for tax purposes (other than by reason of a Subsidiary being a "qualified S corporation subsidiary" or a "disregarded entity" for federal income tax purposes and any comparable provision of state, local or foreign law and except with respect to assets beneficially owned by a Subsidiary and record title to which is held by another entity).

(xii) Neither Target nor any of the Target Subsidiaries has requested, received or is subject to any written ruling of a taxing authority related to Taxes or has entered into any written and legally binding agreement with a taxing authority relating to Taxes.

(xiii) Neither Target nor any of its Subsidiaries (A) is a party to or is otherwise subject to any Tax allocation or sharing agreement other than pursuant to the Target Properties Leases or matters appearing in the land records and (B) has any liability for the Taxes of another person under law, by contract or otherwise.

(xiv) Neither Target nor any Target Subsidiary is a party to any so-called "tax increment financing" or similar agreement and none of the Target Properties are located within or subject to any tax increment financing or other special tax district.

(xv) Target is not and has not been subject to passive income tax under Section 1375 of the Code. Target and Target Subsidiaries have not had gross receipts for any three consecutive fiscal years subsequent to the taxable year ended December 31, 1998 of which more than twenty-five percent (25%) were "passive investment income" (as such term is defined in Section 1362(d)(3)(C) of the Code).

(xvi) Except as set forth in Section 6.02(i)(xvi) of the Target Disclosure Letter, Target has not acquired assets from another corporation in which the Target's tax basis for the acquired assets was determined, in whole or in part, by reference to the tax basis of the acquired assets (or any other property) in the hands of the transferor.

(xvii) As of the Effective Time, Target will have no earnings and profits for federal income tax purposes that were accumulated in any taxable year to which the provisions of Sections 856 through 859 of the Code did not apply with respect to Target or any Predecessor. For purposes of this representation, "***Predecessor***" means any corporation the earnings and profits of which Target is required to take into account under Section 381(c) of the Code, by one or more successive applications of such Section.

(xviii) The tax basis as of December 31, 2005 of the Merger Properties and the Retail Properties is shown in Section 6.02(i)(xviii) of the Target Disclosure Letter and is true, accurate and complete.

(xix) Target agrees to timely file the federal and state income tax returns for Target and Target Subsidiaries for the final taxable year ending immediately prior to the Effective Time. Target will timely make an election under Treasury Regulation Section 1.1368-1(f)(3) to distribute all of its "subchapter C" earnings and profits through a deemed dividend to the Target Stockholders with respect to the final taxable year of Target ending immediately prior to the Effective Time.

(j) Environmental Matters. Except as disclosed in Section 6.02(j) of the Target Disclosure Letter or in the environmental audits/reports listed thereon

(all representations being made only to the knowledge of Target):

(i) None of the Target Group has received written notice that any complaint has been filed that remains unresolved, any penalty has been assessed that has not been paid and any investigation or review is pending or threatened by any Governmental Entity with respect to any alleged failure by the Target Group to have any permit required under any applicable Environmental Law or with respect to any treatment, storage, recycling, transportation, disposal or "release" (as defined in 42 U.S.C. § 9601(22) ("***Release***")) by the Target Group of any Hazardous Material in violation of any applicable Environmental Law.

(ii) Except in material compliance with applicable Environmental Laws, (A) there are no asbestos-containing materials present on any Target Property, (B) there are no regulated levels of PCBs present on any Target Property, and (C) there are no underground storage tanks, active or abandoned, used for the storage of Hazardous Materials currently present on any Target Property.

(iii) None of Target, NPI or any Target Subsidiary has received written notice of a claim against any of them, that has not been resolved, to the effect that it is liable to a third party, including a Governmental Entity, as a result of a Release of a

Hazardous Material into the environment in material violation of any applicable Environmental Law at any Target Property nor has any reason to believe such a claim is expected.

(iv) None of the Target Group has received written notice of (A) any Liens arising under or pursuant to any applicable Environmental Law on any Target Property or (B) any action taken or in process which could subject any Target Property to such Liens. The Target Group currently does not have any duty under any applicable Environmental Law to place any restriction relating to the presence of Hazardous Material at any Target Property which have not already been placed.

(v) None of the Target Group has transported or arranged for the transportation of any Hazardous Material to any location which is the subject of any action, suit or proceeding that could be reasonably expected to result in claims against the Target Group related to such Hazardous Material for clean-up costs, remedial work, damages to natural resources or personal injury claims, including claims under CERCLA and the rules and regulations promulgated thereunder and, to the knowledge of Target, there is no reasonable basis for such claim.

(vi) No Hazardous Materials have been or are threatened to be spilled, released, discharged or disposed of at any site presently or formerly owned, operated, leased or used by the Target Group, or, to the knowledge of Target, are present in the soil, sediment, water or groundwater at any such site. No Target Property is listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA or on any similar list of sites under any applicable Environmental Law of any other Governmental Entity where such listing requires active investigation or clean-up.

(vii) None of the Target Group has in its possession or control any environmental assessment or investigation reports prepared within the last five years that disclose a material environmental condition with respect to the Target Properties which has not been addressed or remediated (or is not in the process of being remediated) or been made the subject of an environmental insurance policy maintained by the Target Group.

(viii) Except as set forth in <u>Section 6.02(j)(viii)</u> of the Target Disclosure Letter, Target has not entered into any agreements to provide indemnification to any third party purchaser since January 1, 2003, or to any lender with respect to existing loans, pursuant to Environmental Laws in relation to any property or facility previously owned or operated by the Target Group.

(ix) The backup generator at 9930 Franklin Square Drive that exhibited oil spill characteristics was the result of an overfill, not a spill, and there is no subsurface impact.

(k) <u>Contracts</u>. Except for the Target Material Contracts, neither Target nor any Target Subsidiary is a party to or bound by any contract, other than (i) those contracts entered into in the ordinary course of business consistent with past practice that

do not extend beyond the Closing Date or are terminable at the option of Target without penalty and (ii) public works agreements, utility, grading, storm water management and other development agreements or permits that are binding on Target or Target Subsidiaries as of the date hereof but which shall be assigned by Target or Target Subsidiaries prior to the Effective Time as a result of which neither Target nor any Target Subsidiary shall have any liability thereunder as of the Effective Time. Copies of all of the Scheduled Contracts have been provided to Acquiror and are true and correct. None of the Target Group has received any notice of a default that has not been cured under any of the Scheduled Contracts or is in default respecting any payment obligations thereunder beyond any applicable grace periods except where such default has not had or could not reasonably be expected to have a Target Material Adverse Effect or such default would not prevent or delay consummation of the Transaction.

(i) Each Target Material Contract is valid and binding on each Target Group party thereto, and none of the Target Group is in default under any Target Material Contract, except as would not (A) prevent or materially delay consummation of the Transaction, or (B) result in a Target Material Adverse Effect.

(l) <u>Insurance</u>. <u>Section 6.02(l)</u> of the Target Disclosure Letter sets forth a correct and complete list of the insurance policies held by, or for the benefit of, the Target Group, including the underwriter of such policies and the amount of coverage thereunder. The Target Group has paid, or caused to be paid, all premiums due under such policies and has not received written notice that any such member is in default with respect to any obligations under such policies. None of the Target Group has received any written notice of cancellation or termination with respect to any existing insurance policy set forth in <u>Section 6.02(l)</u> of the Target Disclosure Letter that is held by, or for the benefit of, any of the Target Group. Except as set forth in <u>Section 6.02(l)</u> of the Target Disclosure Letter, in the past three (3) years there have been no claims made under or against the insurance policies listed thereon. Effective upon the date hereof, Acquiror, Acquiror OP and the Surviving Entity shall be named as additional insureds, as their interests may appear, with respect to all of the insurance policies held by or for the benefit of the Target Group as they relate to the Target Properties. Target will include all Target Subsidiaries as additional insureds under such policies.

(m) <u>Related Party Transactions</u>. Except as set forth in <u>Section 6.02(m)</u> of the Target Disclosure Letter and except for ordinary course advances to employees, set forth in <u>Section 6.02(m)</u> of the Target Disclosure Letter is a list of all arrangements, agreements and contracts entered into by Target or any of the Target Subsidiaries under which continuing obligations exist with any Person who is an officer, director or Affiliate of Target or any of the Target Subsidiaries, any member of the "immediate family" (as such term is defined in Item 404 of Regulation S-K promulgated under the Securities Act) of any of the foregoing or any entity of which any of the foregoing is an Affiliate.

(n) <u>Brokers</u>. No broker, finder or investment banker (other than Wachovia Capital Markets, LLC) is entitled to any brokerage, finder's or other fee or commission in connection with the Transaction based upon arrangements made by or on

behalf of Target, Target Subsidiaries or NPI. At Closing, Target shall have delivered to Acquiror a release by Wachovia Capital Markets, LLC in the form attached hereto as Exhibit D releasing Acquiror, Acquiror OP and the Surviving Entity from any liability for any brokerage, finder's or other fee or commission due to Wachovia Capital Markets, LLC relating to the Merger and except as set forth in the documents evidencing the Short Term Loan.

(o) Labor and ERISA Matters.

(i) None of the Target Group is a party to, or bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor union organization. There is no unfair labor practice or labor arbitration proceeding pending or, to the knowledge of Target, threatened against the Target Group, except for any such proceeding which have not had or could not reasonably be expected to have a Target Material Adverse Effect. To the knowledge of Target, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened involving employees of the Target Group.

(ii) Target has never had any employees, has never maintained any employee benefit plans (including, without limitation employee benefit plans within the meaning of Section 3(3) of ERISA) except as disclosed on Section 6.02(o)(ii) of the Target Disclosure Letter, and, except as disclosed on Section 6.02(o)(ii) of the Target Disclosure Letter, as of the Effective Time shall not have any liabilities or contingent liabilities with respect to employee benefit plans maintained by any member of the Target Group or any ERISA Affiliate of Target. The transactions contemplated by this Agreement will not result in any liability or obligation, contingent or otherwise as of the Effective Time, to Target, the Surviving Entity, nor any ERISA Affiliate of the Surviving Entity, with respect to employees or employee benefit plans of any member of the Target Group or any ERISA Affiliate of Target, except for any obligations assumed as set forth in Section 8.07. Section 6.02(o)(ii) of the Target Disclosure Letter is a complete and accurate list of all employee benefit plans and deferred compensation plans (including, without limitation, employee benefit plans within the meaning of Section 3(3) of ERISA) in which employees of the Target Group whose employment involves services in connection with the Target Properties participate. As of the date hereof, all persons owed any money under the section "Employee Benefit Plans of Target" set forth in Section 6.02(o)(ii) of the Target Disclosure Letter are listed in Section 6.02(o)(ii) of the Target Disclosure Letter under the section "List of Persons Owed Money Under Target Employee Benefit Plans." All obligations under the "Employee Benefit Plans of Target" set forth in Section 6.02(o)(ii) of the Target Disclosure Letter shall be fully paid and satisfied at or prior to Closing, other than the Dollenberg Retirement Obligations. Except for any obligations assumed as set forth in Section 8.07 of this Agreement and except for the Dollenberg Retirement Obligations, Target shall have no liability under any of the "Employee Benefit Plans of NPI" set forth in Section 6.02(o)(ii) of the Target Disclosure Letter. At the Effective Time, all employee benefit plans and deferred compensation

plans applicable to Target or Target Subsidiaries shall be terminated, except for the Dollenberg Retirement Obligations.

(p) Office Assumed Loans. Copies of all documents evidencing and relating to the Office Assumed Loans (the "***Office Assumed Loan Documents***") have been provided to Acquiror and are true and correct. None of the Target Group has received any notice of a default that has not been cured under any of the Office Assumed Loan Documents or is in default respecting any payment obligations thereunder beyond any applicable grace periods. None of the Target Group is aware of any default by Target under the Office Assumed Loan Documents that has not been previously disclosed to Acquiror and cured by Target.

(q) Personal Property. At Closing, Target shall own all of the personal property set forth in Section 6.02(q) of the Target Disclosure Letter free and clear of any liens and encumbrances.

(r) No Undisclosed Liabilities; Indebtedness. As of the Closing Date, the only liabilities of Target and Target Subsidiaries shall be the Assumed Loans, the Short Term Loan, and the liability, if any, under those Scheduled Contracts which have not been terminated or assigned to the Liquidating Trust or another party prior to the Effective Date. There have been and are no defaults under the Office Assumed Loan Documents or the Short Term Loan Documents. To Target's knowledge, Columbia Equity Finance LLC, Rivers Center III Investors LLC and Woods Investors LLC have complied, since their inception, with all single purpose entity and bankruptcy remote requirements under the loan documents to which each is a party. As of the Closing Date, the only liabilities of the Retail Entities for monies borrowed shall be the Existing Retail Indebtedness. As of the Closing Date, the maximum aggregate amount due under the Existing Retail Indebtedness, the Short Term Loan and the Assumed Loans shall be $129,648,266 (which has been computed assuming Existing Retail Indebtedness of $29,146,398, Short Term Loan of $83,018,978 and Assumed Loans of $17,482,890).

(s) No Other Representations or Warranties.

(i) Except for the representations and warranties contained in Section 6.02 of this Agreement, Acquiror, Acquiror OP and Merger Subsidiary acknowledge that none of Target, NPI or nor any other Person or entity on behalf of Target or NPI has made, and none of Acquiror, Acquiror OP or Merger Subsidiary has relied upon, any representation or warranty, whether express or implied, with respect to Target, NPI or any of the Target Subsidiaries or their respective businesses, affairs, assets, liabilities, financial condition, results of operations or prospects or with respect to the accuracy or completeness of any other information provided or made available to Acquiror and Merger Subsidiary by or on behalf of Target or NPI. None of Target, NPI or any other Person or entity will have, or be subject to, any liability or indemnification obligation to Acquiror, Acquiror OP, Merger Subsidiary or any other Person or entity resulting from the distribution in written or verbal communications to Acquiror or Merger Subsidiary or use by Acquiror, Acquiror OP or Merger Subsidiary of, any such

information, including any information, documents, projections, forecasts or other material made available to Acquiror, Acquiror OP or Merger Subsidiary in online "data rooms," confidential information memoranda or management interviews and presentations in expectation of the transactions contemplated by this Agreement.

(ii) In connection with any investigation by Acquiror, Acquiror OP and Merger Subsidiary of Target, the Target Subsidiaries and the Target Properties, Acquiror and Merger Subsidiary have received or may receive from Target and the Target Subsidiaries and/or other persons or entities on behalf of Target certain projections, forward-looking statements and other forecasts and certain business plan information in written or verbal communications. Acquiror, Acquiror OP and Merger Subsidiary acknowledge that there are uncertainties inherent in attempting to make such estimates, projections and other forecasts and plans, that Acquiror, Acquiror OP and Merger Subsidiary are familiar with such uncertainties, that Acquiror, Acquiror OP and Merger Subsidiary are taking full responsibility for making their own evaluation of the adequacy and accuracy of all estimates, projections and other forecasts and plans so furnished to them (including the reasonableness of the assumptions underlying such estimates, projections, forecasts or plans), and that Acquiror. Acquiror OP and Merger Subsidiary shall have no claim against any Person or entity with respect thereto. Accordingly, Acquiror, Acquiror OP and Merger Subsidiary acknowledge that none of Target, NPI or any other Person or entity on behalf of Target or NPI makes any representation or warranty with respect to such estimates, projections, forecasts or plans (including the reasonableness of the assumptions underlying such estimates,

projections, forecasts or plans).

6.03. Representations and Warranties of Acquiror, Acquiror OP and Merger Subsidiary.

Acquiror, Acquiror OP and Merger Subsidiary hereby jointly and severally represent and warrant to Target as follows:

(a) Organization.

(i) Acquiror is a real estate investment trust duly organized, validly existing and in good standing under the Laws of the State of Maryland. The Acquiror Declaration of Trust is in effect and no dissolution, revocation or forfeiture proceedings regarding Acquiror have been commenced. Acquiror is in good standing under the Laws of any other jurisdiction in which the character of the properties owned, leased or operated by it therein or in which the transaction of its business makes such qualification or licensing necessary. Acquiror has all requisite power and authority to own, lease and operate its properties and to carry on its businesses as now conducted and proposed by Acquiror to be conducted.

(ii) Acquiror OP is a limited partnership duly formed, validly existing and in good standing under the laws of Delaware. The certificate of formation is in effect and no dissolution, revocation or forfeiture proceedings regarding Acquiror OP

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have been commenced. Acquiror OP is in good standing under the Laws of any other jurisdiction in which the character of the properties owned, leased or operated by it therein or in which the transaction of its business makes such qualification or licensing necessary. Acquiror OP has all requisite power and authority to own, lease and operate its properties and to carry on its businesses as now conducted and proposed by Acquiror OP to be conducted.

(iii) Merger Subsidiary is a business trust duly formed, validly existing and in good standing under the Laws of the State of Maryland. The certificate of trust of Merger Subsidiary is in effect and no dissolution, revocation or forfeiture proceedings regarding Merger Subsidiary have been commenced. Merger Subsidiary is in good standing under the Laws of any other jurisdiction in which the character of the properties owned, leased or operated by it therein or in which the transaction of its business makes such qualification or licensing necessary. Merger Subsidiary has all requisite power and authority to own, lease and operate its properties and to carry on its businesses as now conducted and proposed by Merger Subsidiary to be conducted.

(b) Authority Relative to this Agreement.

(i) Each of Acquiror, Acquiror OP and Merger Subsidiary has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. No other proceedings on the part of Acquiror, Acquiror OP or Merger Subsidiary, or any of their respective subsidiaries, are necessary to authorize this Agreement or to consummate the Transaction. This Agreement has been duly and validly executed and delivered by each of Acquiror, Acquiror OP and Merger Subsidiary and, assuming due authorization, execution and delivery hereof by Target, constitutes a valid, legal and binding agreement of each of Acquiror, Acquiror OP and Merger Subsidiary, enforceable against each of Acquiror, Acquiror OP and Merger Subsidiary in accordance with and subject to its terms and conditions, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights or by general equitable principles.

(ii) The board of trustees of Acquiror has duly and validly authorized the execution and delivery of this Agreement by Acquiror and by Acquiror OP and approved the consummation of the Transaction, and taken all actions required to be taken by Acquiror or Acquiror OP for the consummation of the Transaction.

(iii) The board of trustees of Merger Subsidiary has duly and validly authorized the execution and delivery of this Agreement and approved the consummation of the Transaction, and taken all actions required to be taken by Merger Subsidiary for the consummation of the Transaction.

(c) Consents and Approvals; No Violations.

(i) The execution and delivery of this Agreement by Acquiror or Merger Subsidiary does not, and the performance of Acquiror or Merger Subsidiary's

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obligations hereunder will not, (A) conflict with or violate the Acquiror Declaration of Trust or Acquiror Bylaws, the certificate of formation or limited partnership agreement of Acquiror OP or the certificate of trust or declaration of trust of Merger Subsidiary, (B) assuming that all consents, approvals, authorizations and other actions described below in subsection (ii) have been obtained and all filings and obligations described below in subsection (ii) have been made, conflict with or violate any Law applicable to Acquiror, Acquiror OP or Merger Subsidiary or by which any of its properties or assets is bound or affected, or (C) result in any breach of, or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien or other encumbrance on any of its properties or assets pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which it is a party or by which it or any of its properties or assets is bound or affected, except, with respect to clauses (B) and (C), for any such conflicts, violations, breaches, defaults or other occurrences that would not (x) prevent or delay consummation of the Transaction or otherwise prevent it from performing its obligations under this Agreement or (y) have an Acquiror Material Adverse Effect.

(ii) The execution and delivery of this Agreement by Acquiror or Merger Subsidiary does not, and the performance of Acquiror or Merger Subsidiary's obligations hereunder will not, require any consent, approval, authorization or permit of, or filing with, or notification to, any Governmental Authority, except (A) for applicable requirements, if any, of the Exchange Act, Blue Sky Laws and state takeover Laws, and (B) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not (x) prevent or delay consummation of the Transaction, or otherwise prevent Acquiror from performing its obligations under this Agreement or (y) have an Acquiror Material Adverse Effect.

(d) Litigation. There is no Action pending or, to Acquiror's knowledge, threatened against Acquiror or any of the Acquiror Subsidiaries or any of its or their respective properties or assets that questions the validity of this Agreement or any action to be taken by Acquiror or Merger Subsidiary in connection with the consummation of the Merger.

(e) Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission payable by Acquiror in connection with the Merger based upon arrangements made by and on behalf of Acquiror or Merger Subsidiary or any of their Subsidiaries.

(f) Ownership of Merger Subsidiary; No Prior Activities. Merger Subsidiary is a direct wholly owned subsidiary of Acquiror. Merger Subsidiary is a disregarded entity for federal income tax purposes. Merger Subsidiary has not conducted any activities other than in connection with its organization, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Subsidiary has no subsidiaries.

(g) No Ownership of Target Common Stock. Neither Acquiror nor any of the Acquiror Subsidiaries, including Merger Subsidiary, own any Target Common Stock or other securities of Target.

6.04. Representations and Warranties of Acquiror and Acquiror OP.

Acquiror and Acquiror OP represent and warrant to Target as follows:

(a) Capitalization.

(i) As of the date of this Agreement, the authorized capital stock of Acquiror consists of 75,000,000 Acquiror Common Shares and 15,000,000 Acquiror Preferred Shares, consisting of (1) 42,375,505 outstanding Acquiror Common Shares, (2) 2,200,000 8.0% Series G Cumulative Redeemable Preferred Shares, all of which were issued and outstanding, (3) 2,000,000 7.5% Series H Cumulative Redeemable Preferred Shares, all of which were issued and outstanding and (4) 3,390,000 7.625% Series J Cumulative Redeemable Preferred Shares of which 3,390,000 were issued and outstanding.

(ii) All outstanding Acquiror Common Shares and Acquiror Preferred Shares are, and the Common Share Consideration and the Preferred Share Consideration to be issued in connection with the Merger will be, duly authorized, validly issued, fully paid and nonassessable and not subject to, or issued in violation of, any preemptive right, purchase option, call option, right of first refusal, subscription or any other similar right.

(iii) Acquiror owns approximately 82.4% of the outstanding common units, 2,200,000 Series G Preferred Units, 2,000,000 Series H Preferred Units and 3,390,000 Series J Preferred Units issued by Acquiror OP, and 352,000 Series I Preferred Units issued by Acquiror OP are owned by a third party and have a liquidation preference of $25.00.

(iv) The authorized capital shares of Merger Subsidiary consists of 1,000 Merger Subsidiary Common Shares. All of the issued and outstanding capital shares of Merger Subsidiary are owned by Acquiror or Acquiror Subsidiaries. Merger Subsidiary does not have issued or outstanding any options, warrants, subscriptions, calls, rights, convertible securities or other agreements or commitments obligating Merger Subsidiary to issue, transfer or sell any Merger Subsidiary Common Shares to any Person, other than Acquiror Subsidiaries.

(v) Except as provided herein, there are no outstanding restricted Acquiror Common Shares, performance share awards, stock options, stock appreciation rights or dividend equivalent rights relating to Acquiror Common Shares.

(vi) There is no voting debt of Acquiror or any Acquiror Subsidiary outstanding.

(vii) All dividends or distributions on securities of Acquiror that have been declared or authorized prior to the date of this Agreement have been paid in full.

(b) SEC Documents; Financial Statements.

(i) Acquiror has filed with or furnished to the SEC, and has heretofore made available to Target (by public filing with the SEC or otherwise) true and complete copies of, all reports, schedules, forms, statements and other documents required to be filed with or furnished to the SEC by Acquiror since January 1, 2006 (the "***Applicable Date***") and prior to the date hereof (collectively, the"***Acquiror SEC Documents***"). As of its respective date, each Acquiror SEC Document complied as to form in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be, as and to the extent applicable thereto, and the rules and regulations of the SEC promulgated thereunder applicable to such Acquiror SEC Document. Except to the extent that information contained in any Acquiror SEC Document filed and publicly available prior to the date of this Agreement has been revised or superseded by a later Acquiror SEC Document, none of the Acquiror SEC Documents contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) The consolidated financial statements of Acquiror included in the Acquiror SEC Documents complied as of their respective dates in all material respects with the then applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto) and fairly presented in all material respects the consolidated financial position of Acquiror and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and their consolidated cash flows for the periods then ended, all in accordance with GAAP (subject, in the case of unaudited statements, to normal year-end audit adjustments and to any other adjustments described therein).

(c) No Undisclosed Liabilities. Subsequent to the respective dates as of which information is given in Acquiror SEC Documents, except as described in Acquiror SEC Documents, Acquiror and Acquiror Subsidiaries have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction, in each case not in the ordinary course of business, that could result in an Acquiror Material Adverse Effect.

(d) Absence of Certain Changes or Events. Subsequent to the respective dates as of which information is given in Acquiror SEC Documents, (i) neither Acquiror nor any of Acquiror Subsidiaries has sustained any material casualty loss, condemnations or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from

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any labor dispute or any legal or governmental proceeding that could result in an Acquiror Material Adverse Effect and (ii) there has not been any development or event that

could be reasonably likely to result in an Acquiror Material Adverse Effect, except in each case as described in or contemplated by Acquiror SEC Documents.

(e) Compliance with Laws. To Acquiror's knowledge, Acquiror and Acquiror Subsidiaries possess adequate certificates, authorities, consents, authorizations or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by them, have complied, in all material respects, with the laws, regulations and orders known by them to be applicable to them or their respective businesses and properties, the absence of which or the failure to comply with could result in an Acquiror Material Adverse Effect and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority, consents, authorizations or permit that, if determined adversely to Acquiror or any of Acquiror Subsidiaries, would individually or in the aggregate have an Acquiror Material Adverse Effect.

(f) Environmental Matters.

(i) Except for activities, conditions, circumstances or matters that would not have an Acquiror Material Adverse Effect, (A) to the knowledge of Acquiror, neither Acquiror nor any of Acquiror Subsidiaries has violated any Environmental Laws (and Acquiror and Acquiror Subsidiaries are in compliance with all requirements of applicable permits, licenses, approvals or other authorizations issued pursuant to Environmental Laws); (B) to the knowledge of Acquiror, none of Acquiror or Acquiror Subsidiaries has caused or suffered to occur any Release (as hereinafter defined) of any Hazardous Materials into the Environment (as hereinafter defined) on, in, under or from any property owned by Acquiror or Acquiror Subsidiaries that would reasonably be expected to result in the incurrence of liabilities under, or any violations of, any Environmental Law or give rise to the imposition of any Lien, under any Environmental Law;

As used herein, "***Environment***" shall mean any surface water, drinking water, ground water, land surface, subsurface strata, river sediment, buildings, structures, and indoor and outdoor air and "***Release***" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, emanating or disposing of any Hazardous Materials into the Environment, including, without limitation, the abandonment or discard of barrels, containers, tanks (including, without limitation, underground storage tanks) or other receptacles containing or previously containing and containing a residue of any Hazardous Materials.

(ii) To the knowledge of Acquiror, none of the environmental consultants which prepared environmental and asbestos inspection reports with respect to any of the properties was employed for such purpose on a contingent basis or has any substantial interest in Acquiror or any of Acquiror Subsidiaries, and none of them nor any

of their directors, officers or employees is connected with Acquiror or any of Acquiror Subsidiaries as a promoter, selling agent, voting trustee, director, officer or employee.

(g) Litigation. Except as disclosed in Acquiror SEC Documents, there are no pending actions, suits or proceedings against or, to the knowledge of Acquiror, affecting Acquiror, any of Acquiror Subsidiaries or any of their respective properties or any of their respective officers or trustees that, if determined adversely to Acquiror or any of Acquiror Subsidiaries or any of their respective officers or trustees, would individually or in the aggregate have an Acquiror Material Adverse Effect; and, to the knowledge of Acquiror, no such actions, suits or proceedings are threatened or contemplated, in each case, before or by any federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, having jurisdiction over Acquiror, any of Acquiror Subsidiaries or assets which would individually or in the aggregate have an Acquiror Material Adverse Effect.

(h) Investment Company Act of 1940. Acquiror is not and, after giving effect to the Transaction, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(i) Taxes.

(i) Acquiror and each of Acquiror Subsidiaries has filed all foreign, federal, state and local income tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have an Acquiror Material Adverse Effect) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such tax, assessment, fine or penalty that is currently being contested in good faith or as described in or contemplated by Acquiror SEC Documents or which would not result in an Acquiror Material Adverse Effect.

(ii) Commencing with Acquiror's taxable year ended December 31, 1992, Acquiror was organized and has operated in conformity with the requirements for qualification and taxation as a REIT. All statements in Acquiror SEC Documents regarding Acquiror's qualification as a REIT are true, complete and correct in all material respects.

(j) No Conflict or Violation. To the knowledge of Acquiror, neither Acquiror nor any of Acquiror Subsidiaries is in breach or violation of its respective declaration of trust, charter, bylaws, partnership agreement or other organizational document, as the case may be, or in default in the performance of any obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, bond, debenture, note agreement, joint venture or partnership agreement, lease or other agreement or instrument that is material to Acquiror and Acquiror Subsidiaries, taken as a whole, and to which Acquiror or any of Acquiror Subsidiaries is a party or by which Acquiror or any of Acquiror Subsidiaries or their respective property is bound (and there is no event which, whether with or without the giving of notice, or passage of time or

both, would constitute a default under any of foregoing), where such breach, violation or default would have an Acquiror Material Adverse Effect.

(k) Vote Required. No vote of the holders of any class or series of Acquiror's capital stock is required to approve this Agreement, the Merger or any of the transactions contemplated hereby.

(l) No Other Representations or Warranties. Except for the representations and warranties contained in this Article VI, Target acknowledges that none of Acquiror, Acquiror OP nor any other Person or entity on behalf of Acquiror or Acquiror OP has made, nor has Target relied upon, any representation or warranty, whether express or implied, with respect to Acquiror or any of the Acquiror Subsidiaries or their respective businesses, affairs, assets, liabilities, financial condition, results of operations, future operating or financial results, estimates, projections, forecasts, plans or prospects (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, plans or prospects) or with respect to the accuracy or completeness of any other information provided or made available to Target by or on behalf of Acquiror or Acquiror OP. Target acknowledges that there are uncertainties inherent in attempting to make such estimates, projections and other forecasts and plans, that Target is taking full responsibility for making their own evaluation of the adequacy and accuracy of all estimates, projections and other forecasts and plans so furnished to them (including the reasonableness of the assumptions underlying such estimates, projections, forecasts or plans). None of Acquiror, Acquiror OP nor any other Person or entity will have, or be subject to, any liability or indemnification obligation to Target or any other Person or entity resulting from the distribution in written or verbal

communications to Target or use by Target of, any such information, including any information, documents, estimates, projections, forecasts, plans, prospects, forward looking statements or other material made available to Target in online "data rooms," confidential information memoranda or management interviews and presentations in expectation of the transactions contemplated by this Agreement, except to the extent any such information is deemed to be "made available" to the Company by Acquiror for purposes of this Article VI.

ARTICLE VII.
COVENANTS

7.01. Stockholders' Meeting.

Target shall, in accordance with applicable Law and Target Charter and Target Bylaws, (a) duly call, give notice of, convene and hold the Target Stockholders Meeting as promptly as reasonably practicable after the date of this Agreement, but in no event later than February 14, 2007, and (b) except as is reasonably likely to be required by the Target Board's duties under applicable Law, (i) include in the Proxy Statement the recommendation of the Target Board that Target's Stockholders approve the Merger and (ii) use its reasonable efforts to obtain Target Stockholder Approval.

7.02. Registration Statement.

Prior to the Effective Time, Acquiror and the Target Stockholders shall enter into the Registration Rights Agreement. The parties hereto shall cooperate with each other in the preparation of the Registration Statement, and Acquiror shall notify Target of the receipt of any comments of the SEC with respect to the Registration Statement and of any requests by the SEC for any amendment or supplement thereto or for additional information and shall provide to Target copies of all correspondence between Acquiror or any representative of Acquiror and the SEC. Acquiror shall give Target and its counsel the opportunity to review the Registration Statement prior to its being filed with the SEC and shall give Target and its counsel the opportunity to review all amendments and supplements to the Registration Statement and all responses to requests for additional information and replies to comments prior to their being filed with, or sent to, the SEC. Target shall use its commercially reasonable efforts to obtain the completed accredited investor questionnaires from the Target Stockholders prior to the Closing Date. Target agrees to furnish a copy of the offering circular or other such offering document prepared by Acquiror to the Target Stockholders, the distribution of which shall be at Target's expense, at the time Target distributes notice of the Target Stockholders Meeting to the Target Stockholders.

7.03. Access to Information; Confidentiality.

(a) Upon reasonable notice and subject to applicable Laws relating to the exchange of information, Target shall, and shall cause each of the Target Subsidiaries to, afford to the officers, employees, accountants, counsel and other representatives of Acquiror, reasonable access during normal business hours during the period prior to the Effective Time, to all its properties, books, contracts, commitments, records, officers, employees, accountants, counsel and other representatives and, during such period, Target shall, and shall cause the Target Subsidiaries to, make available to Acquiror information concerning the Target Properties and Target personnel as Acquiror may reasonably request. Neither Target nor any of the Target Subsidiaries shall be required to provide access to or disclose information where such access or disclosure would violate or prejudice the rights of Target's customers, jeopardize attorney-client privilege or contravene any Law, fiduciary duty or binding agreement entered into prior to the date of this Agreement. Acquiror shall, and cause its representatives to, take all reasonable efforts to prevent such access and inspection from interfering with the business operations of Target and the Target Subsidiaries.

(b) All information obtained by Acquiror pursuant to this Section 7.03 shall be kept confidential in accordance with the confidentiality agreement, dated June 7, 2006 (the "***Confidentiality Agreement***"), between Acquiror and Target.

(c) After the Effective Time, Acquiror shall afford to the officers, employees, accountants, counsel and other representatives of the Liquidating Trust access during normal business hours to the books and records of the Target Properties as may reasonably be requested.

7.04. No-Shop Clause.

(a) From and after the date of the execution and delivery of this Agreement by Target until the termination of this Agreement or the consummation of the Transaction, the Target Group will not, without the prior written consent of Acquiror or except as otherwise permitted by this Agreement directly or indirectly: (i) sell, assign, lease, pledge or otherwise transfer or dispose of, directly or indirectly, all or any portion of the Target Properties or Target Properties Leases, or any material portion or amount of equity securities of Target, whether through merger, consolidation, business combination, asset sale, share exchange or otherwise (and including in connection with an offer for all or a material portion of Target's stock or assets) (each of such actions being an "***Acquisition Proposal***"); (ii) solicit offers for, offer up or seek any Acquisition Proposal; (iii) initiate, encourage or provide any documents or information to any third party in connection with, discuss or negotiate with any person regarding any inquires, proposals or offers relating to any Acquisition Proposal; or (iv) enter into any agreement or discussions with any party (other than Acquiror) with respect to any Acquisition Proposal.

(b) Without limiting the foregoing, it is agreed that any violation of the restrictions set forth in Section 7.04(a) by any of the Target Group's employees, investment bankers, attorneys, accountants and other advisors or representatives (such employees, investment bankers, attorneys, accountants and other advisors or representatives, collectively, "***Representatives***"), shall be a breach of Section 7.04(a) by Target. Upon execution of this Agreement, Target has caused the Target Group and its Representatives to, cease immediately and caused to be terminated any and all existing discussions or negotiations with any Persons conducted heretofore with respect to an Acquisition Proposal.

(c) Target shall, as promptly as practicable (and in no event later than 24 hours after receipt thereof), advise Acquiror of any inquiry received by the Target Group relating to any potential Acquisition Proposal and of the material terms of any proposal or inquiry, including the identity of the Person and its Affiliates making the same, that it may receive in respect of any such potential Acquisition Proposal, or of any information requested from it or of any negotiations or discussions being sought to be initiated with it, shall furnish to Acquiror a copy of any such proposal or inquiry, if it is in writing, or a written summary of any such proposal or inquiry, if it is not in writing, and shall keep Acquiror fully informed on a prompt basis with respect to any developments with respect to the foregoing.

(d) Notwithstanding the provisions of Section 7.04(a), prior to the receipt of the approval of the transactions contemplated by this Agreement by Target's Stockholders, Target may, in response to an unsolicited, bona fide written Acquisition Proposal from a Person (the "***Potential Acquiror***") which the Target Board determines in good faith, after consultation with a nationally recognized financial advisor and its outside legal counsel, constitutes a Superior Proposal (and continues to constitute a Superior Proposal after taking into account any modifications proposed by Acquiror

during any five (5) Business Day period referenced below), take the following actions (but only if and to the extent that the Target Board concludes in good faith, following the receipt of advice of its outside legal counsel, that the failure to do so would constitute a breach of its fiduciary obligations under applicable Law); *provided* that, Target has first given Acquiror written notice that states that Target has received such Superior Proposal and otherwise includes the information required by Section 7.04(c) (the "***Superior Proposal Notice***") and five (5) Business Days have passed since the receipt of the Superior Proposal Notice by Acquiror:

(i) furnish nonpublic information to the Potential Acquiror, *provided* that (A) (1) concurrently with furnishing any such nonpublic information to the Potential Acquiror, Target gives Acquiror written notice of its intention to furnish nonpublic information and (2) Target receives from the Potential Acquiror an executed confidentiality agreement containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to the Potential Acquiror on its behalf, the terms of which are at least as restrictive as to the Potential Acquiror as the terms contained in the Confidentiality Agreement are as to Acquiror, and containing customary standstill provisions and (B) contemporaneously with furnishing any such nonpublic information to the Potential Acquiror, Target furnishes such nonpublic information to Acquiror; and

(ii) engage in negotiations with the Potential Acquiror with respect to the Superior Proposal, *provided* that concurrently with entering into negotiations with the Potential Acquiror, it gives Acquiror written notice of its intention to enter into negotiations with the Potential Acquiror.

(e) For a period of not less than five (5) Business Days after Acquiror's receipt of each Superior Proposal Notice, Target shall, if requested by Acquiror, negotiate in good faith with Acquiror to revise this Agreement so that the Acquisition Proposal that constituted a Superior Proposal no longer constitutes a Superior Proposal (a "***Former Superior Proposal***"). The terms and conditions of this Section 7.04 shall again apply to any inquiry or proposal made by any Person who withdraws a Superior Proposal or who made a Former Superior Proposal (after withdrawal or after such time as their proposal is a Former Superior Proposal).

(f) In response to the receipt of a Superior Proposal that has not been withdrawn and continues to constitute a Superior Proposal after Target's compliance with Sections 7.04(b)—(e), the Target Board may withhold or withdraw its recommendation that the Target Stockholders vote in favor of the approval of the Transaction and, in the case of a Superior Proposal that is a tender or exchange offer made directly to the stockholders of Target, may recommend that the Target Stockholders accept the tender or exchange offer (any of the foregoing actions, whether by the Target Board or a committee thereof, a "***Change in Recommendation***"), if both of the following conditions are met:

(i) the Target Stockholder Meeting has not occurred; and

(ii) the Target Board has concluded in good faith, following the receipt of advice of its outside legal counsel, that, in light of such Superior Proposal, the failure of the Target Board to effect a Change in Recommendation would result in a breach of its fiduciary obligations to the Target Stockholders under applicable Law.

(g) Notwithstanding anything to the contrary contained in this Agreement, the obligation of Target to call, give notice of, convene and hold the Target Stockholder Meeting and to hold a vote of the Target Stockholders on this Agreement shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any Acquisition Proposal (whether or not a Superior Proposal), or by any Change in Recommendation.

7.05. Further Action; Reasonable Efforts.

(a) Upon the terms and subject to the conditions hereof, each of the parties hereto shall use its reasonable efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the Merger, including, without limitation, using its reasonable best efforts to obtain all Applicable Permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and parties to contracts with Target and the Target Subsidiaries as are necessary for the consummation of the Merger and to fulfill the conditions to the Closing. In case, at any time after the Closing, any further action is necessary or desirable to carry out the purposes of this Agreement, each of the parties hereto shall use all reasonable efforts to cause its respective officers, employees and agents to take all such action.

(b) The parties hereto shall cooperate and assist one another in connection with all actions to be taken pursuant to Section 7.05(a), including the preparation and making of the filings referred to therein and, if requested, amending or furnishing additional information thereunder, including, subject to applicable Law and the Confidentiality Agreement, providing copies of all related documents to the non-filing party and their advisors prior to filing, and to the extent practicable none of the parties will file any such document or have any communication with any Governmental Authority without prior consultation with the other parties; *provided, however*, Acquiror may make any Exchange Act filings with the SEC with prior notice to Target to the extent possible (but without approval rights). Each party shall keep the others apprised of the content and status of any communications with, and communications from, any Governmental Authority with respect to the Merger. To the extent practicable, and as permitted by a Governmental Authority, each party hereto shall permit representatives of the other party to participate in meetings (whether by telephone or in Person) with such Governmental Authority.

(c) Each of the parties hereto agrees to cooperate and use its reasonable efforts to defend through litigation on the merits any Action, including administrative or judicial Action, asserted by any party in order to avoid the entry of, or to have vacated, lifted, reversed, terminated or overturned any decree, judgment,

injunction or other order (whether temporary, preliminary or permanent) that in whole or in part restricts, delays, prevents or prohibits consummation of the Merger, including, without limitation, by vigorously pursuing all available avenues of administrative and judicial appeal.

7.06. Public Announcements.

Acquiror and Target agree that no public release or announcement concerning the Merger shall be issued by either party without the prior consent of the other party, except as such release or announcement may be required by Law or the rules or regulations of the NYSE in which case the party required to make the release or announcement shall use its reasonable best efforts to allow the other party reasonable time to comment on such release or announcement in advance of such issuance; *provided, however,* if such other party fails to respond or comment on such release or announcement within two (2) Business Days of receipt of a draft of such release or announcement, the release or announcement shall be deemed approved.

7.07. Escrow and Indemnification.

(a) Escrow Fund. Within five (5) Business Days after the Effective Time, the Escrow Shares shall be registered in the name of, and be deposited with the Share Escrow Agent, such deposit to constitute the escrow fund (the **"*Escrow Fund*"**) and to be governed by the terms set forth herein and in the Share Escrow Agreement. The Escrow Fund shall consist of the Escrow Shares and shall be available to compensate Acquiror for Damages pursuant to the indemnification obligations of Target set forth in Section 7.07(b).

(b) Indemnification.

(i) Subject to the limitations set forth in this Section 7.07, the Target Stockholders will indemnify and hold harmless Acquiror, Acquiror OP and Merger Subsidiary and their respective officers, directors, agents and employees, and each Affiliate thereof (hereinafter referred to individually as an "***Indemnified Person***" and, collectively, as "***Indemnified Persons***") from and against any and all losses, costs, damages, liabilities, taxes and expenses arising from claims, demands, actions, causes of action, including, without limitation, reasonable legal fees, (collectively, "***Damages***") arising out of (A) any misrepresentation or breach of, or default in connection with, any of the representations, warranties, covenants and agreements given or made by the Target Group in this Agreement, the Target Disclosure Letter or any exhibit, schedule or certificate to, or delivered in connection with, this Agreement, (B) any of the matters described in Sections 6.02(f) and 6.02(g)(xx) of the Target

Disclosure Letter, (C) payment obligations under NPI's or Target's deferred compensation plan, pension plan, severance obligations and retirement obligations including, but not limited to, the Dollenberg Retirement Obligations, (D) any misrepresentation or breach by NPI under the Exchange Agreement, (E) any continuing liability in connection with the loans as more particularly described in Section 6.02(j)(viii) and Section 6.02(k) of the Target Disclosure Letter but excluding any continuing liability in connection with the Office Assumed Loans and (F) guarantees signed by Target with respect to loans relating to the Retail Properties (the "***Retail Loan Guarantees***"). The Escrow Fund shall be the security for this indemnity obligation subject to the limitations in this Agreement.

(ii) Acquiror and Target each acknowledge that such Damages, if any, would relate to unresolved contingencies existing at the Effective Time, which if resolved at the Effective Time would have led to a reduction in the total number of shares of Merger Consideration that Acquiror would have agreed to issue in connection with the Merger. Following the Effective Time, the right to obtain indemnification from the Escrow Fund, pursuant to the indemnification provisions of this Section 7.07 and the Share Escrow Agreement shall be Acquiror's exclusive remedy for any breach by Target hereof or Damages described in Section 7.07(b)(i); *provided, however*, that the foregoing shall not limit liability of any Person or entity in the case of fraud or any intentional misrepresentation by such Person or entity.

(iii) Acquiror may not receive any Escrow Shares from the Escrow Fund unless and until the Claims Notice specifying an aggregate amount of Damages incurred by Acquiror in excess of Five Hundred Thousand Dollars ($500,000) (the "***Indemnity Threshold***") have been delivered to the Share Escrow Agent as provided in Section 7.07(d) and such amount is determined pursuant to this Section 7.07 to be payable, after which Acquiror shall receive Escrow Shares for the amount of any Damages in excess of the Indemnity Threshold. In determining the amount of any Damage attributable to a breach, any materiality standard contained in a representation, warranty or covenant of Target shall be disregarded.

(iv) The Indemnity Threshold shall not apply to any Claims Notice (A) regarding the payment of any Transfer Taxes, (B) arising out of matters described in Sections 6.02(f) and 6.02(g)(xx) of the Target Disclosure Letter whereby Acquiror sustains actual Damages not reimbursed by insurance, (C) relating to payment obligations under NPI's or Target's deferred compensation plan, pension plan, severance obligations and retirement obligations including, but not limited to, the Dollenberg Retirement Obligations, (D) any misrepresentation or breach by NPI under the Exchange Agreement, (E) arising out of any continuing liability in connection with the loans as more particularly described in Section 6.02(j)(viii) and Section 6.02(k) of the Target Disclosure Letter but excluding any continuing liability in connection with the Office Assumed Loans or (F) regarding the Retail Loan Guarantees.

(c) Escrow Period. The escrow period (the "***Escrow Period***") shall terminate at 11:59 p.m. Eastern Standard Time on the thirty-six (36) month anniversary of the Closing Date; *provided, however*, that a portion of the Escrow Fund, which is necessary to satisfy any unpaid fees due to the Share Escrow Agent and any unsatisfied claims specified in any Claims Notice theretofore delivered to the Share Escrow Agent prior to termination of the Escrow Period with respect to facts and circumstances existing prior to expiration of the Escrow Period, shall remain in the Escrow Fund until such claims have been resolved and such fees have been paid. Promptly after the Effective

Time, Acquiror shall deliver to the Share Escrow Agent a certificate specifying the Closing Date.

(d) Claims Upon Escrow Fund.

(i) Upon receipt by the Share Escrow Agent on or before the last day of the Escrow Period of a certificate signed by any officer of Acquiror (a "***Claims Notice***"):

(A) stating that Damages exist in an aggregate amount greater than the Indemnity Threshold; and

(B) specifying in reasonable detail the individual items included in the amount of Damages in such claim, the date each such item was paid, properly accrued or arose and the nature of the misrepresentation, breach of warranty or claim to which such item is related,

the Share Escrow Agent shall set aside Escrow Shares having a value equal to the amount of Damages in excess of the Indemnity Threshold.

(ii) Upon the earliest of: (A) receipt of written authorization from the Stockholders' Agent or from the Stockholders' Agent jointly with Acquiror to make such delivery, (B) receipt of written notice of a final decision in arbitration of the claim, or (C) in the event the claim set forth in the Claims Notice is uncontested by the Stockholders' Agent as of the close of business on the next Business Day following the fifteenth (15th) day following receipt by the Share Escrow Agent of the Claims Notice; on the next Business Day, the Share Escrow Agent shall deliver the Escrow Shares or the portion of Escrow Shares set aside pursuant to Section 7.07(d)(i) to Acquiror.

(iii) For the purpose of compensating Acquiror for its Damages pursuant to this Agreement, the Escrow Shares in the Escrow Fund shall be valued at the last reported sale price of an Acquiror Common Share on the NYSE on the Business Day prior to the date such claim is paid.

(e) Objections to Claims. At the time of delivery of any Claims Notice to the Share Escrow Agent, a duplicate copy of such Claims Notice shall be delivered to the Stockholders' Agent and for a period of fifteen (15) days after such delivery to the Share Escrow Agent of such Claims Notice, the Share Escrow Agent shall

make no delivery of Escrow Shares pursuant to Section 7.07 unless and until the Share Escrow Agent shall have received written authorization from the Stockholders' Agent to make such delivery. After the expiration of such fifteen (15) day period, the Share Escrow Agent shall make delivery of the Escrow Shares in accordance with Section 7.07, *provided*, that no such payment or delivery may be made if the Stockholders' Agent shall object in a written statement to the claim made in the Claims Notice, and such statement shall have been delivered to the Share Escrow Agent and to Acquiror prior to the expiration of such fifteen (15) day period.

(f) Resolution of Conflicts; Arbitration.

(i) In case the Stockholders' Agent shall so object in writing to any claim or claims by Acquiror made in any Claims Notice, Acquiror shall have fifteen (15) days after receipt by the Share Escrow Agent of an objection by the Stockholders' Agent to respond in a written statement to the objection of the Stockholders' Agent. If after such fifteen (15) day period there remains a dispute as to any claims, the Stockholders' Agent and Acquiror shall attempt in good faith for thirty (30) days to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholders' Agent and Acquiror should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Share Escrow Agent. The Share Escrow Agent shall be entitled to rely on any such memorandum and shall distribute the Escrow Shares from the Escrow Fund in accordance with the terms thereof.

(ii) If no such agreement can be reached after good faith negotiation, either Acquiror or the Stockholders' Agent may, by written notice to the other, demand arbitration of the matter unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration; and in either such event the matter shall be settled by arbitration conducted by three arbitrators. Within fifteen (15) days after such written notice is sent, Acquiror and the Stockholders' Agent shall each select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The decision of the arbitrators as to the validity and amount of any claim in such Claims Notice shall be binding and conclusive upon the parties to this Agreement, and notwithstanding anything in this Section 7.07, the Share Escrow Agent shall be entitled to act in accordance with such decision and make or withhold payments out of the Escrow Fund in accordance therewith.

(iii) Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction. Any such arbitration shall be held in Howard County, Maryland under the commercial rules then in effect of the American Arbitration Association and applying the laws of the State of Maryland. Acquiror, on the one hand, and Target Stockholders, on the other hand, shall each bear its/their own expenses (including attorneys' fees and expenses) incurred in connection with any such arbitration. In the event the arbitrator or arbitrators find in favor of Acquiror as to the claim in dispute, all fees, costs, and the reasonable expenses of legal counsel incurred by Acquiror will be charged against the Escrow Fund in addition to the amount of the disputed claim. Similarly, in the event the arbitrator or arbitrators find in favor of Target as to the claim in dispute, all fees, costs, and the reasonable expenses of legal counsel incurred by Target will be paid by Acquiror. The fees and expenses of each arbitrator and the administrative fee of the American Arbitration Association shall be allocated by the arbitrator or arbitrators, as the case may be (or, if not so allocated, shall be borne equally by Acquiror, on the one hand, and Target Stockholders, out of the Escrow Fund, on the other hand).

(g) Stockholders' Agent

(i) The Liquidating Trust shall be constituted and appointed as the Stockholders' Agent for and on behalf of the Target Stockholders to execute and deliver the Share Escrow Agreement and for all other purposes thereunder, to give and receive notices and communications, to authorize delivery of Escrow Shares from the Escrow Fund in satisfaction of claims by Acquiror, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Stockholders' Agent for the accomplishment of the foregoing. Such agency may be changed by the holders of a majority in interest of the Escrow Fund from time to time upon not less than ten (10) days' prior written notice to all of Target Stockholders and to Acquiror. No bond shall be required of the Stockholders' Agent, and the Stockholders' Agent shall receive no compensation for his services. Notices or communications to or from the Stockholders' Agent shall constitute notice to or from each of Target Stockholders.

(ii) The Stockholders' Agent shall not be liable for any act done or omitted hereunder as Stockholders' Agent while acting in good faith, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. Target Stockholders shall severally indemnify the Stockholders' Agent and hold him harmless against any loss, liability or expense incurred without bad faith on the part of the Stockholders' Agent and arising out of or in connection with the acceptance or administration of his duties hereunder.

(h) Actions of the Stockholders' Agent. A decision, act, consent or instruction of the Stockholders' Agent shall constitute a decision of all of Target Stockholders and shall be final, binding and conclusive upon each and every Target Stockholder, and the Share Escrow Agent and Acquiror may rely upon any decision, act, consent or instruction of the Stockholders' Agent as being the decision, act, consent or instruction of each and every Target Stockholder. The Share Escrow Agent and Acquiror are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholders' Agent.

(i) Third-Party Claims. In the event that Acquiror becomes aware of a third-party claim which Acquiror believes may result in a demand against the Escrow Fund, Acquiror shall promptly notify the Stockholders' Agent of such claim, and the Stockholders' Agent and Target Stockholders shall be entitled, at their expense, to participate in any defense of such claim. Acquiror shall have the right in its sole discretion to settle any such claim; *provided, however*, that Acquiror may not effect the settlement of any such claim without the consent of the Stockholders' Agent, which consent shall not be unreasonably withheld. In the event that the Stockholders' Agent has consented to any such settlement, the Stockholders' Agent shall have no power or authority to object under Section 7.07(e) or any other provision of this Section 7.07 to any claim by Acquiror against the Escrow Fund for indemnity in the amount of such settlement.

(j) The provisions of this Section 7.07 shall not be terminated or modified in such a manner as to adversely affect any indemnitee to whom this Section 7.07 applies without the consent of such affected indemnitee and are intended to be for the benefit of, and will be enforceable by, each indemnified party, his or her heirs and his or her legal representatives.

(k) Additional Escrow Shares. The Additional Escrow Shares shall be held by the Share Escrow Agent pursuant to the terms of the Additional Share Escrow Agreement.

7.08. Intentionally Deleted.

7.09. Transfer Taxes.

Acquiror shall be liable for all Transfer Taxes (including any such taxes imposed post-Closing) applicable to any transfers relating to the properties set forth in Section 7.09(a) of the Target Disclosure Letter. Target and Acquiror shall each be liable for one-half of all Transfer Taxes (including any such taxes imposed post-Closing) applicable to any transfers relating to the properties set forth in Section 7.09(b) of the Target Disclosure Letter. Target shall be liable for all Transfer Taxes (including any such taxes imposed post-Closing) applicable to any transfers relating to the properties set forth in Section 7.09(c) of the Target Disclosure Letter. Target and Acquiror shall each be liable for one-half of all Transfer Taxes (including any such taxes imposed post-Closing) applicable to any transfers effectuated pursuant to the transactions contemplated in the PSA. Notwithstanding the foregoing, in no event shall liability under this Section 7.09 extend to any transfers taking place after the Effective Time.

7.10. Additional Acknowledgement #2. Upon the closing of the Retail Transaction, the Liquidating Trust shall deliver to the Surviving Entity a copy of the Additional Acknowledgement #2 by P. Douglas Dollenberg in the form attached hereto as Exhibit P.

7.11. Lender's Approval.

(a) The current loan documents evidencing the Office Assumed Loans are listed inSection 7.11 of the Target Disclosure Letter (the "***Loan Documents***").

(b) Target and Acquiror, with due diligence and in good faith, shall cooperate to attempt to obtain for the benefit of Acquiror, Acquiror OP and Merger Subsidiary legally binding letters or agreements, effective through the Closing Date, from the lenders who hold Office Assumed Loans and, if required, any nationally recognized rating agencies (if any) required by such lenders (the "***Rating Agencies***"), approving the transactions contemplated by this Agreement, to the extent applicable to the Office Assumed Loans, setting forth the amount of principal and interest outstanding as of the Closing Date, stating that there has not been, and there does not currently exist, any default under any of the Loan Documents and thereafter with due diligence and in good faith shall cooperate to consummate the closing of the Office Assumed Loans (each, a

"***Lender's Approval***"). All documentation to be signed by Target Group, Acquiror or Acquiror OP in connection with any Lender's Approval shall be subject to Acquiror's prior written consent, not to be unreasonably withheld. Target shall pay (i) any assumption fee under the Loan Documents, (ii) the consent fee charged by the servicer and lenders, (iii) the legal fees of the servicer and lenders in connection with Lender's Approval, (iv) any and all other fees and costs of the servicer, the lenders, and the Rating Agencies relating to Lender's Approval including all structural, environmental, inspection, administrative, flood determination, insurance review and credit review fees of the servicer, the lenders, and the Rating Agencies relating to Lender's Approval or otherwise relating to the Office Assumed Loans (the "***Assumption Fees***"). On the Closing Date if the Transaction is consummated, Acquiror shall reimburse Target for the Assumption Fees.

(c) Acquiror shall use its commercially reasonable efforts to obtain a release of NPI and Nottingham Investment Company from guarantees and/or indemnities for obligations accruing under the Office Assumed Loans from and after the date of assumption of the Office Assumed Loans.

7.12. Termination of Management Agreements.

Prior to the Effective Time, Target shall terminate those property management agreements listed inSection 7.12 of the Target Disclosure Letter.

7.13. Short Term Loan.

No later than one (1) Business Day prior to the Closing Date, Target shall obtain the Short Term Loan and will sign the Short Term Loan Documents as may be reasonably requested by Wachovia Bank, N.A. or Acquiror. The Short Term Loan Documents shall be subject to Acquiror's prior written approval, which may be withheld in its reasonable discretion. The proceeds of the Short Term Loan will be used to repay in full the Existing Office Indebtedness and certain other obligations of Target. All liens securing the Existing Office Indebtedness shall be released at the time of the closing of the Short Term Loan. The Short Term Loan may be secured by a lien on the ownership interests of Target or Target Subsidiaries, *provided* that such lien is released upon the guaranty by Acquiror OP of the Short Term Loan.

7.14. Tenant Improvements.

Target shall use commercially reasonable efforts to complete all tenant improvement work with respect to the Pre-LOI Leases required to be performed at the commencement of the lease term (the "***Pre-LOI TI Work***") prior to the Effective Time. If such work shall not be completed prior to the Effective Time, Target will enter into contracts with third parties, subject to Acquiror's prior written approval, to complete such work. Target will enter into contracts with third parties, subject to Acquiror's prior written approval, for all tenant improvements with respect to Target Properties Leases which are not Pre-LOI Leases.

7.15. Sewer System Escrow.

Upon the completion of all work to the Sewer System (as defined in the Acquisition Agreement), in the event any unspent funds remain in the escrow under such Acquisition Agreement (which agreement calls for the such remaining funds to be equally split between Honeygo Run Reclamation Center, Inc. and Target), Acquiror shall transmit all of the funds it receives from such escrow to the Liquidating Trust promptly upon receipt of such funds. Except as set forth in Section 8.04(viii) hereof, Acquiror shall not be responsible for the reimbursement to Target, any Target Subsidiary or the Liquidating Trust of any money spent as of the Closing Date on the Sewer System.

ARTICLE VIII.
ADDITIONAL AGREEMENTS

8.01. Inspection of the Target Properties.

(a) Right of Inspection. Acquiror shall have the right, at its own risk, cost and expense, at any time prior to Closing during normal business hours (i.e. Monday through Friday from 9:00 a.m. to 5:00 p.m. - federal holidays excepted) upon not less than forty-eight (48) hours prior notice to Target, and subject to the approval of the tenants under the Target Properties Leases with respect to any entry into the leased premises, to enter, or cause its agents or representatives to enter, upon any of the Target Properties for the purpose of making surveys, tests, test borings, inspections, investigations and architectural, structural, economic, environmental and other studies of any of the Target Properties as Acquiror may deem desirable. Target agrees that it shall reasonably cooperate with Acquiror in connection with any other

information regarding the Target Properties reasonably requested by Acquiror and will provide or make available such information during the Inspection Period and at all periods thereafter through the Closing to the extent in Target's possession. Acquiror shall, at Acquiror's sole cost and expense, promptly and fully restore any damage or destruction to any of the Target Properties occurring as a result of any act or omission of Acquiror by reason of such tests, studies or investigations. Acquiror shall indemnify, defend and hold Target harmless from and against all loss, cost, damage or claim (including attorneys' fees reasonably incurred, court costs and costs of investigation) arising out of or resulting from Acquiror's exercise of the right and privilege granted to Acquiror contained in this Section 8.01, and the undertakings contained in this Section 8.01 shall survive Closing or prior termination of this Agreement.

(b) Inspection Period. Acquiror shall have the period commencing on the date hereof and ending at 5:00 p.m. Eastern Time on December 21, 2006 (the "***Inspection Period***") to inspect the Target Properties and to conduct such tests and investigations as it deems advisable in order to determine that the Target Properties can be used for Acquiror's intended use. If, during the Inspection Period, Acquiror is not reasonably satisfied with its findings thereof or for any other reason whatsoever, Acquiror shall notify Target in writing (prior to the expiration of the Inspection Period) in which event:

(i) the Deposit shall be returned to Acquiror; and

(ii) this Agreement shall be terminated in accordance with the provisions of Article X hereof.

It is expressly recognized and agreed by the parties that following expiration of the Inspection Period, Acquiror shall be deemed to have waived its termination right under this Section 8.01. If this Agreement is terminated by Target pursuant to Section 10.01(d)(i), the Cash Escrow Agent shall pay the Deposit to Target as Target's final liquidated damages (it being understood that Target's actual damages in the event of such default are difficult to ascertain and that such proceeds represent the parties' best current estimate of such damages). Conversely, if this Agreement is terminated for any other reason whatsoever, the Deposit shall be promptly paid by the Cash Escrow Agent to Acquiror.

8.02. Prepayment of Indebtedness.

After obtaining Acquiror's prior written consent, Target shall prepay the Existing Office Indebtedness listed in Section 8.02 of the Target Disclosure Letter prior to Closing, using a portion of the proceeds of the Short Term Loan, which Existing Office Indebtedness is secured by the properties listed in Section 8.02 of the Target Disclosure Letter, and in connection therewith shall pay all accrued interest, prepayment penalties and other charges related thereto or in connection therewith.

8.03. Acquisition of Joint Venture Interests; Disposal of Properties.

Prior to or concurrently with the Closing, Target shall have taken all actions necessary to (i) acquire the outstanding equity interests in the Target Joint Ventures not owned by Target and (ii) dispose of the real estate properties and related entities owned by Target which hold assets other than the Target Properties or the Retail Properties.

8.04. Prorations and Adjustments.

This Section 8.04 applies to the Merger Closing Properties. At Closing, accounts payable, rents (to the extent prepaid), all real and personal property taxes, water rents, sewer charges, electric and other utility charges, fuel if any, operating expenses, wages, any special assessments, if any, and other similar charges affecting the Merger Closing Properties and all utility charges, if any, shall be adjusted and prorated as of midnight of the day prior to the Closing Date (the "***Closing Adjustment Time***"). All other charges or fees customarily prorated and adjusted in similar transactions shall be adjusted as of the Closing Adjustment Time. All rent (other than prepaid rent) received from the tenants of the Merger Closing Properties shall be adjusted (prorated) as of the Closing Adjustment Time and paid in accordance with the following provisions, together with the following adjustments:

(i) Following receipt of the monthly installment of basic rent under any of the Merger Closing Properties Leases attributable to the month in which the

Closing occurs, such installment shall be adjusted as of the Closing Adjustment Time, with the Target Stockholders being entitled to the portion thereof attributable to the period of the month immediately preceding the Closing Date and Acquiror entitled to the balance of such monthly installment. Acquiror shall use commercially reasonable efforts to seek to collect unpaid rents and other amounts attributable to the period prior to the Closing Adjustment Time.

(ii) Acquiror shall be entitled to all basic rent and other sums due under any of the Merger Closing Properties Leases as of the Closing Adjustment Time with the exception of (a) common area maintenance (CAM) and real estate tax reimbursements attributable to periods prior to the Closing Adjustment Time; (b) the basic rent for the Closing month to which an Acquiror is entitled under (i) above, and (c) rental arrearages for periods preceding the Closing Adjustment Time, and (d) rents received from tenants prior to the Closing Adjustment Time which relate to periods prior to the Closing Adjustment Time. Annual CAM and tax reimbursements, which are payable by the tenant on an annual basis after the conclusion of each calendar year, will be adjusted as of the Closing Adjustment Time, with the Target Stockholders being entitled to the portion thereof attributable to the period of the year immediately preceding the Closing Adjustment Time and the Acquiror being entitled to the balance of such payment. Additionally, any tenant payments for special services which were specifically billed by Target or one of its Affiliates prior to the Closing Adjustment Time shall be owed to the Target Stockholders. All CAM payments from tenants received by Target or Target Subsidiaries which relate to periods after the Closing Adjustment Time shall be credited to Acquiror at Closing.

(iii) All security deposits under the Merger Closing Properties Leases (excluding letters of credit posted as security deposits as listed in Section 8.04(iii) of the Target Disclosure Letter) and rents received by Target and Target Subsidiaries which relate to periods after the Closing Adjustment Time shall be credited to Acquiror at Closing. Letters of credit posted as security deposits as listed in Section 8.04(iii) of the Target Disclosure Letter shall be assigned to Acquiror at Closing.

(iv) All Leasing Commissions and tenant improvements with respect to the Target Properties Leases signed after September 6, 2006 shall be assumed by Acquiror. All Pre-LOI Leasing Commissions and Pre-LOI TI Work shall be the obligation of the Target. Any such unpaid amounts with regard to the Pre-LOI Leases as of the Closing Date, together with the estimated cost to complete the Pre-LOI TI Work after the Closing, shall be credited to Acquiror at Closing. To the extent Target has paid the Leasing Commissions and tenant improvements for leases signed after September 6, 2006, Target Stockholders shall receive a credit at Closing.

(v) Acquiror will be credited at Closing for an amount equal to any casualty insurance deductibles and uninsured losses relating to casualties which may have occurred at the Merger Closing Properties prior to the Closing.

(vi) If Acquiror collects any unpaid or delinquent rents relating to the Merger Closing Properties after the Closing Adjustment Time, Acquiror shall deliver to the Liquidating Trust the rent to which the Liquidating Trust is entitled relating to the period prior to the Closing Adjustment Time. All rents relating to the Merger Closing Properties received by Acquiror after the Closing Adjustment Time shall be applied first to current and then delinquent rent in the inverse order of maturity.

(vii) An amount equal to the Retained LC Amount shall be credited to Acquiror at Closing pursuant to Section 8.08.

(viii) Acquiror shall credit to Target Stockholders at Closing any money spent by Target with respect to the Sewer System (as such term is defined in the Acquisition Agreement) on or after September 6, 2006.

(ix) Intentionally Deleted.

(x) If there are any liens or encumbrances applicable to Target Properties other than Permitted Liens, as of Closing, the amount to discharge such liens and encumbrances shall be credited to Acquiror at Closing.

(xi) If there shall be a breach of any of the representations, warranties, covenants or agreements made by Target herein and Target fails to cure such breach by the Outside Date, or if there shall be any outstanding liabilities or obligations of Target, Target Subsidiaries, NPI Exchange Entities or NPI Entities as of the Effective Time other than the Office Assumed Loans, the Short Term Loan, the Scheduled Contracts and the Target Properties Leases, the amount of the aggregate Damages resulting from such breach or such outstanding liabilities or obligations in excess of Two Hundred Fifty Thousand Dollars ($250,000) shall be credited to Acquiror at Closing.

(xii) The fees payable to the Share Escrow Agent shall be equally split by Target Stockholders and Acquiror and paid at Closing.

(xiii) Any unpaid amounts due by Target as of the Effective Time as described in Section 6.02(i)(ii) of the Target Disclosure Letter shall be credited to Acquiror at Closing. Any refund of prior property taxes owed to Target as of the Effective Time (net of any attorneys' fees), pursuant to a successful appeal, shall be credited to Target Stockholders at Closing.

(xiv) Any costs to rectify overstressed joints pursuant to, and in accordance with, paragraph three of Section 6.02(g)(iv) of the Target Disclosure Letter shall be credited to Acquiror at Closing, to the extent such costs were not paid by Target prior to Closing.

All adjustment items (collectively, the "***Closing Adjustments***") shall be resolved by the parties in good faith at least five (5) Business Days prior to the Closing Date. To the extent that the Closing Adjustments result in a net payment due to Target Stockholders, immediately prior to the Effective Time, the Merger Consideration shall be increased as

set forth in Section 4.01. To the extent that the Closing Adjustments result in a net payment due by the Target Stockholders, immediately prior to the Effective Time, the Merger Consideration shall be decreased as set forth in Section 4.01. The net payment either due to or due by the Target Stockholders is referred to as the "***Closing Adjustment Amount***".

8.05. Articles Supplementary.

Acquiror shall take all necessary actions to approve and file with the SDAT the Articles Supplementary prior to the Effective Time.

8.06. Intellectual Property.

The parties hereto agree that the Target Stockholders retain the exclusive rights to use of the word "Nottingham" except that Acquiror will be granted a license to use the names "Nottingham Ridge," "Nottingham Centre" and "Nottingham Center" with respect to those properties, in the form attached hereto as Exhibit E (the "***License Agreement***").

8.07. COBRA Agreements.

On and after the Effective Time, Acquiror shall provide applicable notices and continuing health coverage that satisfies COBRA to Ronald Heagy, Bruce Campbell III, John Auer and Deborah Sellmayer (and members of their family), to individuals who are within their COBRA election period as of the Effective Time, and to employees of NPI (and members of their family) terminated in connection with the Retail Transaction but only with respect to the NPI Group Health Plan and only if such Retail Transaction is consummated within sixty (60) days of the Closing hereunder. Acquiror's obligation, however, does not include the assumption of any other liability with respect to NPI's employee benefit plans and does not extend to any other obligation or liability under COBRA. NPI shall indemnify Acquiror, Acquiror OP and Merger Subsidiary with respect to any such non-assumed obligations and liabilities, pursuant to the agreement described in Section 9.05(f) of this Agreement.

8.08. Certain Agreements.

As of the Effective Time, Acquiror shall assume the obligations of Target or its Affiliates under each of the public works agreements, utility agreements and permits relating to the Target Properties Escrow LCs and the Target Properties LCs. At the Closing, Acquiror shall receive a credit against the Merger Consideration equal to the sum of the amount outstanding under the Target Properties Escrow LCs as of the Effective Time (the "***Retained LC Amount***"). Acquiror OP shall use its commercially reasonable efforts to arrange for the Target Properties Escrow LCs to be released or terminated once the work which is secured by the Target Properties Escrow LCs shall have been completed (the "***Outstanding Work***"). Target will use its commercially reasonable efforts to complete all Outstanding Work prior to Closing. To the extent that any such Outstanding Work is not completed prior to Closing, Acquiror shall use its commercially reasonable efforts to complete such Outstanding Work. At any time and

from time to time as a Target Properties Escrow LC is terminated or released, Acquiror will pay to the Liquidating Trust the amount of the outstanding balance of such Target

Properties Escrow LC less the documented amount paid by Acquiror or Acquiror OP to complete the Outstanding Work or to correct any defective Outstanding Work related to such Target Properties Escrow LC.

8.09. Reciprocal Release.

Prior to the Closing, Target and NPI will enter into the Reciprocal Release.

8.10. Lockbox.

Prior to Closing, Target shall close its lockbox that was previously established for the receipt of rents attributable to the Target Properties.

8.11. Final Tax Returns.

Target shall prepare its final income tax return at its own expense subject to Acquiror's prior written approval.

8.12. Insurance Proceeds.

All insurance proceeds with respect to the Target Properties, regardless of the amount, shall remain the property of Target and Target Subsidiaries. Thus, Target Stockholders shall not be entitled to any such insurance proceeds in the event of a casualty at the Target Properties or a claim that arose with respect to the Target Properties.

8.13. Satisfaction of Dollenberg Retirement Obligations.

Prior to the Closing, NPI and Target will establish a trust to which they shall pay the funds due to P. Douglas Dollenberg to satisfy the Dollenberg Retirement Obligations.

ARTICLE IX.
CONDITIONS TO CONSUMMATION OF THE TRANSACTION AND CLOSING DELIVERIES

9.01. Conditions to the Obligations of Each Party.

The obligations of each party to effect the Merger shall be subject to the satisfaction, at or prior to the Closing, of the following conditions:

(a) Target Stockholder Approval. This Agreement and the Transaction shall have been approved and adopted by the requisite affirmative vote of the Target Stockholders in accordance with the MGCL and the Target Charter.

(b) No Order. No Governmental Authority in the United States shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) which is then in effect and has the effect of making the Transaction illegal or otherwise restricting, preventing or prohibiting consummation of the Transaction.

(c) Governmental Approvals. All required approvals of Governmental Authorities, if any, shall have been obtained.

(d) Lender's Approval. All required Lender's Approval of the Target Group, if any, shall have been obtained.

9.02. Conditions to the Obligations of Acquiror, Acquiror OP and Merger Subsidiary.

The obligations of Acquiror and Merger Subsidiary to consummate the Transaction are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of Target in this Agreement that (i) are not made as of a specific date shall be true and correct as of the date of this Agreement and as of the Closing, as though made on and as of the Closing, and (ii) are made as of a specific date shall be true and correct as of such date, in each case, except where the failure of all representations or warranties to be true and correct in the aggregate is not reasonably likely to result in a Target Material Adverse Effect. Notwithstanding the foregoing, in determining whether a cumulative Target Material Adverse Effect has occurred at Closing for the purposes of this Section 9.02(a), any limitation as to materiality or Target Material Adverse Effect in a representation or warranty shall be disregarded.

(b) Agreements and Covenants. Target shall have delivered all of the items listed in Section 9.04, and otherwise have performed, in all material respects, all obligations and complied with, in all material respects, all agreements and covenants to be performed or complied with by it under this Agreement on or prior to the Closing.

(c) Material Adverse Effect. Since the date of this Agreement, there shall have occurred no change, event or circumstance which, individually, or in the aggregate, is reasonably likely to result in a Target Material Adverse Effect.

(d) Existing Indebtedness. All of the Existing Office Indebtedness shall have been repaid and the only indebtedness of Target and Target Subsidiaries as of the Effective Time shall be the Assumed Loans and the Short Term Loan, the only indebtedness of the Retail Entities as of the Effective Time shall be the Existing Retail Indebtedness, and the amounts due under the Existing Retail Indebtedness, Short Term Loan and Assumed Loans shall not exceed $129,648,266.

(e) Officer's Certificate. Target shall have delivered to Acquiror a certificate, dated the date of the Closing, signed by the President or any Vice President of Target, certifying as to the satisfaction of the conditions specified in this Section 9.02, and including as an exhibit a Target Disclosure Letter updated as of the Closing Date.

(f) Tenant Estoppels. At least one (1) Business Day prior to the Closing Date, Target shall have delivered to Acquiror the tenant estoppel certificates

in the form attached hereto as Exhibit J executed by those tenants listed in Section 9.02(f) of the Target Disclosure Letter, free from material adverse disclosures not previously disclosed to Acquiror.

(g) Office Assumed Loan Documents. The Office Assumed Loan Documents shall have been fully executed and delivered to Acquiror.

(h) Corporate Dissolutions. Prior to the Effective Time, Target shall have dissolved the corporations listed in Section 9.02(h) of the Target Disclosure Letter.

(i) Stock Distribution. Prior to the Effective Time, Target shall have caused all of the outstanding stock in each of NVI Communities, Inc. and Village Ventures, Inc. to be distributed to the Liquidating Trust.

(j) Assignment of Insurance Loans. Prior to the Effective Time, Target shall have transferred all of its rights and obligations relating to the officers life insurance policies and loans as listed in Section 9.02(j) of the Target Disclosure Letter to the Liquidating Trust.

9.03. Conditions to the Obligations of Target.

The obligations of Target to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of Acquiror, Acquiror OP and Merger Subsidiary in this Agreement that (i) are not made as of a specific date shall be true and correct as of the date of this Agreement and as of the Closing, as though made on and as of the Closing, and (ii) are made as of a specific date shall be true and correct as of such date, in each case, except where the failure of such representations or warranties to be true and correct in the aggregate is not reasonably likely to result in an Acquiror Material Adverse Effect. Notwithstanding the foregoing, in determining whether a cumulative Acquiror Material Adverse Effect has occurred at Closing for the purposes of this Section 9.03(a), any limitation as to materiality or Acquiror Material Adverse Effect in a representation or warranty shall be disregarded.

(b) Agreements and Covenants. Acquiror, Acquiror OP and Merger Subsidiary shall have performed, in all material respects, all obligations or complied with, in all material respects, all agreements and covenants to be performed or complied with by them under this Agreement on or prior to the Closing.

(c) Intentionally Deleted.

(d) Articles Supplementary. The Articles Supplementary shall have been approved by the trustees of Acquiror, filed with and accepted by the SDAT and be in full force and effect.

(e) Material Adverse Effect. Since the date of this Agreement, there shall have occurred no change, event or circumstance which, individually, or in the aggregate, is reasonably likely to result in an Acquiror Material Adverse Effect.

(f) Officer Certificate. Acquiror shall have delivered to Target a certificate, dated the date of the Closing, signed by the President or any Vice President of Acquiror, certifying as to the satisfaction of the conditions specified in this Section 9.03.

9.04. Deliveries by Target. At Closing, Target shall execute and deliver or cause to be delivered to Acquiror:

(a) Notices to Tenants substantially in the form attached hereto as Exhibit F, dated as of the Closing Date, executed by Target, and complying with applicable statutes in order to relieve Target of liability for any security deposits (provided the security deposits are paid to Acquiror), directing tenants to pay all rent due and owing under the Target Properties Leases to Acquiror or Acquiror's designated agent;

(b) originals of the Target Properties Leases and copies of lease files at the Target Properties, and originals of any maintenance and service contracts that are to be assumed, to the extent any such documents are in the possession of Target or any Target Subsidiary;

(c) an affidavit that Target is not a "foreign person" in the form attached as Exhibit G;

(d) maintenance records, equipment manuals and plans and specifications for the Target Properties, to the extent any such documents are in the possession of Target or any Target Subsidiary;

(e) keys or combinations to all locks at the Target Properties, to the extent any such keys or combinations are in the possession of Target or any Target Subsidiary;

(f) the certificate described in Section 9.02(e);

(g) legal opinions of Gordon, Feinblatt, Rothman, Hoffberger & Hollander, LLC, dated as of the Closing Date and in the form attached hereto as Exhibit H;

(h) the receipt or release from Wachovia Capital Markets, LLC as described in Section 6.02(n);

(i) an executed settlement sheet;

(j) affidavits required by the Anchor Title Company in the form attached hereto as Exhibit I;

(k) cross-release and indemnity between NPI, Acquiror and Target in the form of Exhibit K attached hereto (the "***Reciprocal Release***");

(l) release of guaranties executed by Target on properties that are not Target Properties or evidence reasonably satisfactory to Acquiror that the associated loan has been repaid;

(m) certificate of good standing of Target from the State Department of Assessments and Taxation of the State of Maryland;

(n) estoppels from the community associations set forth on Section 9.04(n) of the Target Disclsoure Letter;

(o) tenant estoppels as more particularly set forth in Section 9.02(f) hereof;

(p) the Office Assumed Loan Documents;

(q) with respect to obligations of Target to P. Douglas Dollenberg, a receipt evidencing payment of such obligations, a payoff acknowledgement, a copy of the original promissory note marked cancelled and paid-in-full and a copy of the returned Target stock certificates;

(r) the First Amendment to Retirement Agreement by and between P. Douglas Dollenberg, NPI and Target in substantially the form of Exhibit L attached hereto;

(s) releases from the employees listed in document #1 under the heading "Employee Benefit Plans of Target" in Section 6.02(o)(ii) of the Target Disclosure Letter;

(t) evidence of payment of all deferred management fees owed by Target to NPI;

(u) evidence from Mercantile — Safe Deposit and Trust Company that there is no balance due under Target's revolving line of credit;

(v) the License Agreement (as executed by the Liquidating Trust);

(w) the Acknowledgement by P. Douglas Dollenberg in substantially the form attached hereto as Exhibit N; and

(x) the Additional Acknowledgement #1 by P. Douglas Dollenberg in substantially the form attached hereto as Exhibit O.

9.05. Deliveries by Acquiror. At Closing, Acquiror shall execute and deliver or cause to be delivered to Target:

(a) the Merger Consideration, as more particularly set forth in Section 4.01;

(b) certificate of good standing of Acquiror from the State Department of Assessments and Taxation of the State of Maryland;

(c) the Office Assumed Loan Documents;

(d) legal opinion of DLA Piper US LLP, dated as of the Closing Date in the form attached hereto as Exhibit M;

(e) the certificate described in Section 9.03(f);

(f) the Reciprocal Release; and

(g) the License Agreement (as executed by the Surviving Entity).

ARTICLE X.
TERMINATION

10.01. Termination.

This Agreement may be terminated at any time prior to the Effective Time in writing (the date of any such termination, the "***Termination Date***"):

(a) by the mutual written consent of Acquiror and Target;

(b) by either Target or the Acquiror upon written notice to the other party, if:

(i) any Governmental Authority with jurisdiction over such matters shall have issued a governmental order permanently restraining, enjoining or otherwise prohibiting the Transaction, and such governmental order shall have become final and unappealable; *provided*, *however*, that the terms of this Section 10.01(b)(i) shall not be available to any party (A) unless such party shall have used its reasonable efforts to oppose any such governmental order or to have such governmental order vacated or made inapplicable to the Transaction or (B) whose failure to comply with the terms of this Agreement has been the cause of, or materially contributed to, such governmental action;

(ii) the Transaction shall not have been consummated on or before February 28, 2007 (the "***Outside Date***"), unless the failure to consummate the Transaction on or prior to the Outside Date is the result of any action or inaction under this Agreement by the party seeking to terminate the Agreement pursuant to the terms of this Section 10.01(b)(ii); or

(iii) upon a vote at a duly held meeting (or at any adjournment or postponement thereof) to obtain the Stockholder Approval, the Stockholder Approval is not obtained;

(c) by Acquiror, upon written notice to Target:

(i) if a Target Material Adverse Effect shall have occured;

(ii) if the Target Board makes a Change in Recommendation prior to the Target Stockholder Meeting; or

(iii) if Target shall have breached any of its representations or warranties or failed to perform any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Section 9.02 and (B) is incapable of being cured by Target by the Outside Date or, if capable of being cured by Target by the Outside Date, Target does not commence to cure such breach or failure within ten (10) Business Days after its receipt of written notice thereof from Acquiror and cure such breach or failure by the Outside Date;

(d) by Target, upon written notice to Acquiror, if:

(i) Acquiror shall have breached any of its representations or warranties or failed to perform any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Section 9.03(a) or 9.03(b) and (B) is incapable of being cured by Acquiror by the Outside Date or, if capable of being cured by Acquiror by the Outside Date, Acquiror does not commence to cure such breach or failure within ten (10) Business Days after its receipt of written notice thereof from Target and cure such breach or failure by the Outside Date;

(ii) prior to receipt of the Stockholder Approval, Target (i) receives a Superior Proposal, (ii) resolves to accept such Superior Proposal, (iii) shall have given Acquiror three (3) Business Days' prior written notice of its intention to terminate pursuant to this provision, and (iv) such proposal continues to constitute a Superior Proposal taking into account any revised proposal made by Acquiror during such three (3) Business Day period; *provided, however*, that such termination shall not be effective until such time as payment of the Termination Fee required by Section 10.03(b) shall have been made by Target; *provided, further*, that Target's right to terminate this Agreement under this Section 10.01(d)(ii) shall not be available if Target is then in breach of Section 7.04; or

(iii) the average last reported sale price on the NYSE of the Acquiror Common Shares over any period of ten (10) consecutive trading days after the date of this Agreement is less than or equal to $35.00 per share.

10.02. Effect of Termination.

In the event of termination of this Agreement and abandonment of the Merger and the other transactions contemplated by this Agreement pursuant to and in accordance with Section 10.01, this Agreement shall forthwith become void and of no further force or effect whatsoever and there shall be no liability on the part of any party, or their respective officers, directors, subsidiaries or partners, as applicable, to this Agreement; *provided*, *however*, that notwithstanding the foregoing, the covenants and other obligations under this Agreement shall terminate upon the termination of this Agreement, except that the agreements set forth in Section 7.03(b), Section 7.06, Section 8.01, Section 10.03, Section 11.07, Section 11.08 and Section 11.09 shall survive termination indefinitely. If this Agreement is terminated as provided herein, all filings, applications and other submissions made pursuant to this Agreement, to the extent practicable, shall be withdrawn from the agency or other Person to which they were made.

10.03. Fees and Expenses.

(a) Except as otherwise explicitly set forth in this Section 10.03 or elsewhere in this Agreement, all costs and expenses incurred in connection with this Agreement or the transactions contemplated hereby shall be paid by the party incurring such expenses, whether or not the transactions contemplated by this Agreement are consummated.

(b) Target agrees that if this Agreement shall be terminated by (i) Acquiror pursuant to Section 10.01(c)(ii), or (ii) Target pursuant to Section 10.01(d)(ii), Target shall pay to Acquiror an amount equal to $6,500,000 (the "***Termination Fee***") in cash upon such termination.

(c) Target agrees that if this Agreement shall be terminated by Acquiror or Target pursuant to Section 10.01(b)(iii), and, (i) prior to the Target Stockholder Meeting, an Acquisition Proposal shall have been publicly announced that is not subsequently withdrawn, and (ii) concurrently with such termination or within twelve (12) months following the Termination Date, Target enters into an agreement with respect to such Acquisition Proposal, or such Acquisition Proposal is consummated, then Target shall, if and when such Acquisition Proposal is consummated, pay to Acquiror the Termination Fee within three (3) Business Days following consummation.

(d) Intentionally Deleted.

(e) Acquiror agrees that if (i) all conditions to Closing under Section 9.01 and Section 9.02 have been satisfied, (ii) Target has tendered all of its deliveries under Section 9.04, (iii) Acquiror fails to deliver the closing deliveries set forth in Section 9.05 and (iv) Target therefore terminates this Agreement in accordance with Section

10.01(b)(ii), then Acquiror shall reimburse Target for the full amount of prepayment penalties under the Existing Office Indebtedness previously paid by Target. Target acknowledges that if it elects reimbursement of the prepayment penalties under this Section 10.03(e), such election shall be its sole remedy, together with payment to it of the Deposit, upon the termination of this Agreement.

(f) Intentionally Deleted.

(g) If Stockholder Approval is not obtained prior to the Outside Date, Target shall reimburse Acquiror for the reasonable fees and expenses of outside auditors for any audit required by Rule 3-14 of Regulation S-X, as promulgated by the SEC, which filing requirement results from the filing or contemplated filing of the Registration Statement, within three (3) Business Days after demand by Acquiror.

(h) Intentionally Deleted.

(i) If Acquiror terminates this Agreement pursuant to Section 10.01(c)(i) or Section 10.01(c)(iii), Target shall reimburse Acquiror for Acquiror's reasonable costs and expenses (including reasonable attorney's fees) in connection with this Transaction, not to exceed One Million Dollars ($1,000,000), within three (3) Business Days after demand by Acquiror.

ARTICLE XI.
GENERAL PROVISIONS

11.01. Survival of Representations and Warranties.

The representations, warranties, covenants and agreements in this Agreement and any exhibit, schedule or instruments delivered pursuant to this Agreement shall survive the Closing for a period of thirty-six (36) months from the Closing Date; *provided,* that any claims made under Section 7.07 prior to the end of such thirty-six (36) month period shall survive until such claim is resolved pursuant to Section 7.07.

11.02. Notices.

All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in Person or by a recognized overnight courier service or sent by telecopy (providing confirmation of transmission) to the respective parties at the following addresses or telecopy numbers (or at such other address or telecopy numbers for a party as shall be specified in a notice given in accordance with this Section 11.02):

if to Acquiror, Acquiror OP or Merger Subsidiary:

Corporate Office Properties Trust
6711 Columbia Gateway Drive, Suite 300
Columbia, Maryland 21046
Fax No.: (443) 285-7650
Attn: Roger A. Waesche, Jr., Executive Vice President and Chief Operating Officer

with copies to:

Corporate Office Properties Trust
6711 Columbia Gateway Drive, Suite 300
Columbia, Maryland 21046
Fax No.: (443) 285-7652
Attn: Karen M. Singer, Senior Vice President and General Counsel

and

DLA Piper US LLP
6225 Smith Avenue
Baltimore, Maryland 21209
Fax No.: (410) 580-3400
Attn: Richard E. Levine, Esq.

if to Target:

Nottingham Village, Inc.
100 West Pennsylvania Avenue
Towson, Maryland 21204
Fax No.: (410) 321-8018
Attention: J. Joseph Credit

with a copy to:

Gordon, Feinblatt, Rothman, Hoffberger & Hollander, LLC
233 East Redwood Street
Baltimore, Maryland 21202
Fax No.: (410) 576-4246
Attention: Abba David Poliakoff, Esq.

11.03. Severability.

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner

materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

11.04. Amendment.

This Agreement may be amended by the parties hereto by action taken by their respective board of directors (or similar governing body or entity) at any time prior to the Effective Time; *provided*, *however*, that, after approval of the Merger by the Target Stockholders, no amendment may be made that would reduce the Purchase Price or the Merger Consideration without further Stockholder Approval. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

11.05. Entire Agreement; Assignment.

This Agreement, the exhibits attached hereto, the Target Disclosure Letter and any documents delivered by the parties in connection herewith constitute the entire agreement between the parties with respect to the subject matter hereof and supersedes, except as set forth in Section 7.03(b), all prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof and thereof. This Agreement shall not be assigned by operation of law or otherwise (except to the Surviving Entity) without the prior written consent of the other parties.

11.06. Parties in Interest.

This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, other than Section 7.08, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

11.07. Specific Performance.

(a) The parties hereto agree that irreparable damage would occur to Acquiror in the event any provision of this Agreement were not performed by Target or Target Subsidiaries in accordance with the terms hereof and that Acquiror shall be entitled to seek specific performance of the terms and conditions of this Agreement, in addition to any other remedy at law or equity against Target.

(b) In the event Acquiror fails to perform its obligations under this Agreement, Target's exclusive remedy shall be to terminate this Agreement, in which case the Deposit shall be paid by the Cash Escrow Agent as provided in Section 8.01 and Section 10.03(e), if applicable. Target may not pursue specific performance against Acquiror, Acquiror OP or Merger Subsidiary.

11.08. Governing Law.

This Agreement shall be governed by and construed in accordance with, the laws of the State of Maryland without regard, to the fullest extent permitted by law, to the conflicts of laws provisions thereof which might result in the application of the laws of any other jurisdiction.

11.09. Waiver of Jury Trial.

Each of the parties hereto hereby waives to the fullest extent permitted by applicable Law any right it may have to a trial by jury with respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement or the transactions contemplated hereby. Each of the parties hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce that foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the transactions contemplated hereby, as applicable, by, among other things, the mutual waivers and certifications in this Section 11.09.

11.10. Headings.

The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

11.11. Counterparts.

This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

11.12. Mutual Drafting.

Each party hereto has participated in the drafting of this Agreement, which each party acknowledges is the result of extensive negotiations between the parties.

11.13. Time is of the Essence.

Time is of the essence with respect to each provision of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in counterparts by their duly authorized officers, all as of the day and year first above written.

CORPORATE OFFICE PROPERTIES TRUST

By: /s/ ROGER A. WAESCHE, JR.
Executive Vice President
Roger A. Waesche, Jr.
Chief Operating Officer and

CORPORATE OFFICE PROPERTIES, L.P.

By: Corporate Office Properties Trust,
its sole general partner

By: /s/ ROGER A. WAESCHE, JR.
Executive Vice President
Roger A. Waesche, Jr.
Chief Operating Officer and

W&M BUSINESS TRUST

By: /s/ ROGER A. WAESCHE
Executive Vice President
Roger A. Waesche, Jr.
Chief Operating Officer and

NOTTINGHAM VILLAGE, INC.

By: /s/ J. JOSEPH CREDIT
J. Joseph Credit
President and Chief Executive Officer

[Signature page to Merger Agreement]

JOINDERS

Nottingham Properties, Inc. joins herein for the sole purpose of acknowledging its obligations under Sections 8.09 and 8.13 of this Agreement.

NOTTINGHAM PROPERTIES, INC.

By: /s/ J. JOSEPH CREDIT
J. Joseph Credit
President and
Chief Executive Officer

NVI Liquidating Trust joins herein to evidence its obligations under this Agreement, including its obligations as Stockholders' Agent under Section 7.07 of this Agreement.

NVI LIQUIDATING TRUST

By: /s/ J. JOSEPH CREDIT
J. Joseph Credit, Trustee

The Cash Escrow Agent executes this Purchase Agreement and Agreement and Plan of Merger of this 21st day of December, 2006 to acknowledge its receipt of an original copy of this Agreement as executed by Acquiror, Acquiror OP, Merger Subsidiary and Target, to acknowledge that it is holding the Deposit, and to acknowledge its agreement to act as Cash Escrow Agent in accordance with the terms and conditions set forth herein.

WITNESS:

CASH ESCROW AGENT:

ANCHOR TITLE COMPANY

By: /s/ M. CHARLOTTE POWEL
Name: M. Charlotte Powel
Title: President

The Share Escrow Agent executes this Purchase Agreement and Agreement and Plan of Merger of this 21st day of December, 2006 to acknowledge its receipt of an original copy of this Agreement as executed by Acquiror, Acquiror OP, Merger Subsidiary and Target, to acknowledge that it is holding the Escrow Shares, and to acknowledge its agreement to act as Share Escrow Agent in accordance with the terms and conditions set forth herein.

WITNESS:

SHARE ESCROW AGENT:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ CHRIS M. FRIESS

Name: Chris M. Friess
Title: Account Manager

SCHEDULE 1

PURCHASE PROPERTIES

Property Class	Property	Address	Ownership Immediately Prior To Effective Time
B.1	37 Allegheny Avenue	37 Allegheny Avenue, Baltimore County, MD	37 Allegheny Business Trust
B.2	10552 Philadelphia Road – Leasehold Interest	10552 Philadelphia Road, Baltimore County, MD	Philadelphia Road Operating Company, LLC
B.3	Intentionally Deleted		
B.4	9020 Mendenhall	9020 Mendenhall Court, Howard County, MD	9020 Mendenhall, LLC
B.5	Woods at Broken Land	9700 Patuxent Woods Drive, Howard County, MD	Woods Investors, LLC
B.6	Rivers Center III	10270 N. Old Columbia Road, Howard County, MD	Rivers Center III Investors, LLC
G.1	Campbell Corporate Center I	4940 Campbell Boulevard, Baltimore County, MD	Corporate Center I Limited Partnership
G.9	Nottingham Centre	502 Washington Avenue, Baltimore County, MD	Nottingham Associates Limited Partnership
G.10	White Marsh Health Center	8114 Sandpiper Circle, Baltimore County, MD	White Marsh Health Center Limited Partnership, LLLP
G.12	White Marsh Hi-Tech I and II	4969 Mercantile Road (Bldg 1) 4979 Mercantile Road (Bldg 2) 4981 Mercantile Road (Parking)	White Marsh Hi-Tech 1 Business Trust (49%) and White Marsh Hi-Tech 2 Business Trust (51%)

Notes

G.1. Acquiror OP will purchase a 50% limited partnership interest in Corporate Center I Limited Partnership.

G.9. Acquiror OP will purchase a 43.7% limited partnership interest in Nottingham Associates Limited Partnership.

G.10. Acquiror OP will purchase a 60% limited partnership interest in Sandpiper Limited Partnership which, in turn, owns a 72.5% general partnership interest in White Marsh Health Center Limited Partnership, LLLP.

G.12. Acquiror OP will purchase 100% of beneficial interests in White Marsh Hi-Tech 2 Business Trust (which shall own a 51% tenancy-in-common interest in White Marsh Hi-Tech property).

SCHEDULE 2

MERGER PROPERTIES

Property Class	Property	Address	Property Owner Immediately Prior To Effective Time
A.1	8029 - 8031 Corporate Drive	8029-8031 Corporate Drive, Baltimore County, MD	8029 Corporate Drive Business Trust
A.2	Corporate Place I	8140 Corporate Drive, Baltimore County, MD	Corporate Place I Business Trust
A.3	Franklin Ridge V	9900 Franklin Square Drive, Baltimore County, MD	Franklin Ridge V Business Trust
A.4	Tyler Ridge II – Fee Interest	8007 Corporate Drive, Baltimore County, MD	Tyler Ridge II Business Trust
A.5	Tyler Ridge IIA	8003 Corporate Drive, Baltimore County, MD	Tyler Ridge IIA Business Trust
A.6	Tyler Ridge III – Fee Interest	7941 Corporate Drive, Baltimore County, MD	Tyler Ridge III Business Trust
A.7	McLean Ridge V (L)	8100 Sandpiper Circle, Baltimore County, MD	McLean Ridge V Business Trust
A.8	Corporate Place III (L)	8120 Corporate Drive, Baltimore County, MD	Corporate Place III Business Trust
A.9	Corporate Place IV (L)	8130 Corporate Drive, Baltimore County, MD	Corporate Place IV Business Trust
A.10	Lot 401 – on cul-de-sac (L) (Tax Parcel No. 11-2200015748)	4985 Mercantile Road, Baltimore County, MD	Lot 401 Business Trust
A.11	Nottingham Ridge (L) and (Tax Parcel Nos. 11-2400002078 and 11-2300012935)	5300 Nottingham Drive, Baltimore County, MD SWM Pond in Nottingham Ridge	Nottingham Ridge I Business Trust
A.12	Nottingham Ridge/Phila. Road (L) (Tax Parcel No. 11-2400002075)	5357 Nottingham Drive, Baltimore County, MD	Nottingham Ridge II Business Trust
A.13	10521 Red Run Boulevard (L)	10521 Red Run Boulevard, Baltimore County, MD	10521 Red Run Business Trust
A.14	Intentionally Deleted		
A.15	Campbell Blvd & Franklin Sq. (18.62 acres and 1.0052 acres SWM) (L) (Tax Parcel No. 14-2200020875) and Tax Parcel No. 14-22000020877)	5251 Campbell Boulevard, Baltimore County, MD	Campbell Boulevard I Business Trust

A.16	Campbell Blvd & Franklin Sq. (5.23 acres) (L) (Tax Parcel No. 14-2200020165)	5201 Campbell Boulevard, Baltimore County, MD	Campbell Boulevard II Business Trust
A.17	Nottingham Ridge/Phila. Rd. (9.14 acres) (L) (Tax Parcel No. 11-2300012656)	5361 Nottingham Drive, Baltimore County, MD	Nottingham Ridge III Business Trust
A.18	Intentionally Deleted		
A.19	Franklin Ridge Open Space (Tax Parcel No. 14-2300006823) and (Tax Parcel No. 14-2300006822)	.174 Ac Pvt Op Sp., NSR Franklin Square Drive and .539 Ac Pvt Op Sp., NSR Franklin Square Drive	Franklin Ridge Open Space Business Trust
A.20	8027 Corporate Drive	8027 Corporate Drive, Baltimore County, MD Lot 13 – Adjacent to Tyler Ridge I	8027 Corporate Drive Business Trust
A.21	Tyler Ridge Water Management (Tax Parcel No. 14-220001624) and (Tax Parcel No. 14-220001623)	Flood Plain and Storm Water Management Area adjacent to Tyler Ridge.	Tyler Ridge Water Management Business Trust
C.1	10552 Philadelphia Road – Fee Interest	10552 Philadelphia Road, Baltimore County, MD	Honeygo Run Holdings, LLC
C.2	Corporate Place II	8110 Corporate Drive, Baltimore County, MD	Corporate Place B Equity Affiliates, LLC
C.3	Franklin Ridge I	9940 Franklin Square Drive, Baltimore County, MD	Franklin Ridge No. 1 Business Trust
C.4	Franklin Ridge II	9930 Franklin Square Drive, Baltimore County, MD	Franklin Ridge No. 2 Business Trust
C.5	Franklin Ridge IV	9910 Franklin Square Drive, Baltimore County, MD	Franklin Ridge No. 4 Business Trust
C.6	Nottingham Ridge C	5355 Nottingham Drive, Baltimore County, MD	Nottingham Ridge No. 20 Business Trust
C.7	Nottingham Ridge D	5325 Nottingham Drive, Baltimore County, MD	Nottingham Ridge No. 30 Business Trust
E.1	Intentionally Deleted		
F.1	White Marsh Commerce Center I	10001 Franklin Square (10001 – 10049), Baltimore County, MD	White Marsh Commerce Center I Business Trust
F.2	McLean Ridge I	8012 - 8020 Corporate Drive, Baltimore County, MD	McLean Ridge I Business Trust
F.3	McLean Ridge II	8002 - 8010 Corporate Drive, Baltimore County, MD	McLean Ridge II Business Trust
F.4	McLean Ridge III	7920 Corporate Drive, Baltimore County, MD	McLean Ridge III Business Trust
F.5	McLean Ridge IV	8098 Sandpiper Cir., Baltimore County, MD	McLean Ridge IV Business Trust

F.6	White Marsh Commerce Center II (L)	9951 Franklin Square Drive (9951-9999 Franklin Sq.), Baltimore County, MD	White Marsh Commerce Center II Business Trust
G.1	Campbell Corporate Center I and Parcel A (.630 acres-Tax Parcel No. 14-2200005926)	4940 Campbell Boulevard, Baltimore County, MD	Corporate Center I Limited Partnership (Campbell Corporate Center I) and Campbell Corporate Center I-2 Business Trust (Tax Parcel No. 14-2200005926)
G.2	Franklin Ridge III	9920 Franklin Square Drive, Baltimore County, MD	Franklin Ridge No. 3 Business Trust
G.3	7272 Park Circle Drive	7272 Park Circle Drive, Anne Arundel County, MD	Park Circle Equities, LLC
G.8	1.14 acres Tax Parcel No. 14-2000000284	Campbell Boulevard, Baltimore County, MD	White Marsh Business Center 2 Business Trust (Tax Parcel No. 14-2000000284)
G.9	Nottingham Centre	502 Washington Avenue, Baltimore County, MD	Nottingham Associates Limited Partnership
G.10	White Marsh Health Center	8114 Sandpiper Circle, Baltimore County, MD	White Marsh Health Center Limited Partnership, LLLP
G.12	White Marsh Hi-Tech I and II	4969 Mercantile Road (Bldg 1) 4979 Mercantile Road (Bldg 2) 4981 Mercantile Road (Parking)	White Marsh Hi-Tech 1 Business Trust (49%) and White Marsh Hi-Tech 2 Business Trust (51%)

Notes

1. All are improved by buildings, except for those marked with an "L" which are land only.
2. Target shall own 100% of the ownership interests in each of the Property Owners in the last column, except as shown below.

G.1. Corporate Center I Limited Partnership shall be owned by Corporate Center I, LLC (1% general partner), Acquiror OP (50% limited partner) and Target (49% limited partner). Target shall own 100% of Corporate Center I, LLC. Target shall also own 100% of Campbell Corporate Center I-2 Business Trust.

G.9. Nottingham Associates Limited Partnership shall be owned by Nottingham Center, LLC (1% general partner) Acquiror OP (43.7% limited partner) and Target (55.3% limited partner). Target shall own 100% of Nottingham Center, LLC.

G.10. White Marsh Health Center Limited Partnership, LLLP shall be owned by Sandpiper Limited Partnership (72.5% general partner) and Target (27.5% limited partner). Target shall own a 40% general partnership interest in Sandpiper Limited Partnership and Acquiror OP shall own a 60% limited partnership interest in Sandpiper Limited Partnership.

G.12. Target shall own 100% of White Marsh Hi-Tech I Business Trust (which shall own a 49% tenancy-in-common interest in White Marsh Hi-Tech property) and Acquiror OP shall own 100% of White Marsh Hi-Tech 2 Business Trust (which shall own a 51% tenancy-in-common interest in White Marsh Hi-Tech property).

SCHEDULE 3

RETAIL PROPERTIES

Property	Address	Property Owner Immediately Prior To Effective Time
Avenue at White Marsh Parking	8207 Town Center Drive, Baltimore County, MD	Retail Properties Business Trust
8019 Honeygo Blvd – groundlease – Bertucci's	8019 Honeygo Blvd, Baltimore County, MD	Retail Properties Business Trust
8132 Corporate Drive – groundlease – Red Lobster	8132 Corporate Drive, Baltimore County, MD	Retail Properties Business Trust
4921 Campbell Blvd – groundlease – TGI Friday's	4921 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
4924 Campbell Blvd – groundlease – Johns Hopkins	4924 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
4930 Campbell Blvd – groundlease – JHU – Phase 2	4930 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5302 Campbell Blvd – groundlease – McDonald's II	5302 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
4965-4967 Campbell Blvd – groundlease – Hilton Garden Inn	4965-4967 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5100 Campbell Blvd – groundlease – M&T Bank	5100 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5154 Campbell Blvd – groundlease – Chick-fil-A	5154 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5250 Campbell Blvd – groundlease – BP/Subway	5250 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5260 Campbell Blvd – groundlease – SunTrust Bank	5260 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5340 Campbell Blvd – groundlease – BCSB	5340 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5300 Campbell Blvd – groundlease – Lowe's	5300 Campbell Blvd, Baltimore County, MD	Retail Properties Business Trust
5110 Campbell Blvd – groundlease – Panera Bread	5110 Campbell Blvd, Baltimore County, MD	Nottingham Square Business Trust

Property	Address	Property Owner Immediately Prior To Effective Time
Shoppes at Nottingham Square 1	5270 Campbell Boulevard, Baltimore County, MD	Shoppes at Nottingham Square Business Trust
Shoppes at Nottingham Square 2	5350 Campbell Boulevard, Baltimore County, MD	Campbell-Philadelphia Business Trust
White Marsh Plaza	District 14, Acct. No. 1900001897, Perry Hall Boulevard Baltimore County, MD	White Marsh Plaza Business Trust White Marsh Plaza Limited Partnership White Marsh Plaza, LLC
The Avenue at White Marsh*	8101 Honeygo Boulevard, Baltimore County, MD	The Avenue at White Marsh Business Trust

Notes

1. All are improved by buildings.
2. NVI owns 100% of the ownership interests in each of the Property Owners in the last column, except as shown below.

* NVI owns 100% of The Avenue at White Marsh Business Trust. However, The Avenue at White Marsh Business Trust owns only a 30% tenancy-in-common interest in The Avenue at White Marsh.

SCHEDULE 4

NPI EXCHANGE PROPERTIES

Property Class	Property1	Address	Property Owner Immediately Prior To Effective Time
D.1	Tyler Ridge II – Leasehold Interest	8007 Corporate Drive, Baltimore County, MD	Tyler Ridge II Improvements Business Trust
D.2	Tyler Ridge III – Leasehold Interest	7941 Corporate Drive, Baltimore County, MD	Tyler Ridge III Improvements Business Trust
D.3	Allegheny Parking Facility and (Tax Parcel No. 09-0914652094) (L)	111 West Allegheny Avenue, Baltimore County, MD and 117 West Allegheny Avenue, Baltimore County, MD	Allegheny Parking Business Trust
D.4	Campbell Building	100 West Pennsylvania Avenue, Baltimore County, MD	Campbell Building Business Trust
D.5	Royston Building	102 West Pennsylvania Avenue, Baltimore County, MD	Royston Building Business Trust
D.6	Lot 3A – In front of Residence Inn (L)	4960 Mercantile Road, Baltimore County, MD	Lot 3A Business Trust
D.7	Philadelphia Rd./Rt. 43 (28.53 acres) (L) (Tax Parcel No. 11-1114066244)	Philadelphia Road, Baltimore County, MD	Philadelphia Road Business Trust

E.2	Riverwood Business Center	7150 Riverwood Drive, Howard County, MD	Riverwood Business Center Equity Affiliates, LLC
E.3	216 Schilling Center	216 Schilling Circle, Baltimore County, MD	Schilling 216 Investors, LLC
E.4	Ridgely's Choice	8623 Ridgely's Choice Drive, Baltimore County, MD	Ridgely's Choice Business Trust
G.4	Schilling Center	222 Schilling Circle (222-224 Schilling Cir.), Baltimore County, MD	Schilling Center Equities, LLC
G.5	Professional Center I	7939 Honeygo Boulevard, Baltimore County, MD	Honeygo Limited Partnership I, LLLP
G.6	Professional Center II	7923 Honeygo Boulevard, Baltimore County, MD	Honeygo Limited Partnership II, LLLP
G.7	Professional Center III	8133 Perry Hall Boulevard, Baltimore County, MD	Honeygo Limited Partnership III, LLLP

G.8	White Marsh Business Center	5020 Campbell Boulevard (WMBC I) 5022 Campbell Boulevard (WMBC II) 5026 Campbell Boulevard (WMBC III) 5024 Campbell Boulevard (WMBC IV), Baltimore County, MD	White Marsh Business Center Limited Partnership (White Marsh Business Center)
G.11	Tyler Ridge I	8011 Corporate Drive, Baltimore County, MD	Tyler Ridge I Business Trust

Notes

1. All are improved by buildings, except for those marked with an "L" which are land only.
2. NPI owns 100% of the ownership interests in each of the Property Owners in the last column, except as shown below.

G.5. Honeygo Limited Partnership I, LLLP shall be owned by Professional Center I, LLC (1% general partner) and NPI (99% limited partner). NPI shall own 100% of Professional Center I, LLC.

G.6. Honeygo Limited Partnership II, LLLP shall be owned by White Marsh Professional Center II, LLC (1% general partner) and NPI (99% limited partner). NPI shall own 100% of White Marsh Professional Center II, LLC.

G.7. Honeygo Limited Partnership III, LLLP shall be owned by Professional Center III, LLC (1% general partner) and NPI (99% limited partner). NPI shall own 100% of Professional Center III, LLC.

G.8. White Marsh Business Center Limited Partnership shall be owned by White Marsh Business Center, LLC (1% general partner) and NPI (99% limited partner). NPI shall own 100% of White Marsh Business Center, LLC. NPI shall also own 100% of White Marsh Business Center 2 Business Trust.

SCHEDULE 5

ASSUMED LOANS

Lender/ Origination Date/ Loan Amount	Property Securing Loan	Property Owner	Loan Balance December 1, 2006
State Farm Bank 6/24/2005 $6,000,000	Franklin Ridge IV (Property C.5)	Franklin Ridge No. 4 Business Trust	$ 5,884,138
State Farm Life Insurance Co. 7/28/2006 $6,000,000	7272 Park Circle (Property G.3)	Park Circle Equities, LLC	$ 5,966,778
State Farm Life Insurance Co. 4/30/2004 $6,042,655	Nottingham Center (Property G.9)	Nottingham Associates Limited Partnership	$ 5,631,974 *

* This figure represents 100% of the outstanding loan balance at December 1, 2006 and the entire loan constitutes an Assumed Loan, even though a 43.7% interest in the partnership will have been purchased pursuant to the PSA.

Exhibit 10.30

PURCHASE AND SALE AGREEMENT OF
OWNERSHIP INTERESTS IN NPI ENTITIES

THIS PURCHASE AND SALE AGREEMENT is made this 21st day of December, 2006, by and between Nottingham Properties, Inc., a Maryland corporation ("Seller"), and Corporate Office Properties, L.P., a Delaware limited partnership ("Buyer").

WITNESSETH

A. Seller is, or prior to Closing shall be, the owner of 100% of the membership interests (the "Membership Interests") in:

(1) Philadelphia Road Operating Company, LLC, a Maryland limited liability company and the owner of a leasehold interest in the property known as 10552 Philadelphia Road, Baltimore County, Maryland, as more fully described on Exhibit A-1 attached hereto;

(2) 9020 Mendenhall, LLC, a Maryland limited liability company and the owner of the land and improvements known as 9020 Mendenhall Court, Howard County, Maryland, as more fully described on Exhibit A-2, attached hereto;

(3) Woods Investors, LLC, a Maryland limited liability company and the owner of the land and improvements known as Woods at Brokenland located at 9700, 9710, 9720, 9730 and 9740 Patuxent Woods Drive, Howard County, Maryland, as more fully described on Exhibit A-3 attached hereto (the "Woods Property"); and

(4) Rivers Center III Investors LLC, a Maryland limited liability company and the owner of the land and improvements known as Rivers Center III, located at 10270, 10280, 10290 Old Columbia Road, Howard County, Maryland, as more fully described on Exhibit A-4 attached hereto (the "Rivers Property").

B. Seller is the owner of 100% of the beneficial trust interests (the "Trust Interests") in:

(1) White Marsh Hi-Tech 2 Business Trust, a Maryland business trust which owns a 51% tenancy-in-common interest in the land and improvements

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known as White Marsh Hi-Tech I and II, Baltimore County, Maryland, as more fully described on Exhibit A-5 attached hereto; and

(2) 37 Allegheny Business Trust, a Maryland business trust which owns the land and improvements known as 37 Allegheny Avenue, Baltimore County, Maryland, as more fully described on Exhibit A-6 attached hereto.

C. Seller is, or prior to Closing shall be, the owner of the following partnership interests (the "Partnership Interests"):

(1) 50% limited partnership interest in Corporate Center I Limited Partnership, a Maryland limited partnership which is the owner of the land and improvements known as Campbell Corporate Center I, Baltimore County, Maryland, as more fully described on Exhibit A-7 attached hereto;

(2) 43.7% limited partnership interest in Nottingham Associates Limited Partnership, a Maryland limited partnership which is the owner of the land and improvements known as Nottingham Centre, Baltimore County, Maryland, as more fully described on Exhibit A-8 attached hereto (the "Nottingham Associates Property"); and

(3) 60% limited partnership interest in Sandpiper Limited Partnership, a Maryland limited partnership which owns a 72.5% general partnership interest in White Marsh Health Center Limited Partnership, LLLP which, in turn, is the owner of the land and improvements known as White Marsh Health Center, Baltimore County, Maryland, as more fully described on Exhibit A-9 attached hereto.

D. As used in this Agreement, (1) the term "NPI Entities" means, collectively, Philadelphia Road Operating Company, LLC, 9020 Mendenhall, LLC, Woods Investors, LLC, 37 Allegheny Business Trust, Rivers Center III Investors LLC, White Marsh Hi-Tech 2 Business Trust, Corporate Center I Limited Partnership, Nottingham Associates Limited Partnership and White Marsh Health Center Limited Partnership, LLLP, (2) the term "Ownership Interests" means, collectively, the Membership Interests, the Trust Interests and the Partnership Interests, and (3) the term "Property" means each of, and the term "Properties" means collectively, the properties owned by the NPI Entities and described herein.

E. Pursuant to Article I of the Purchase Agreement and Plan of Merger (the "Merger Agreement") of even date herewith by and among Corporate Office Properties Trust, Buyer, W&M Business Trust, and Nottingham Village, Inc.

("NVI"), Buyer has agreed to purchase from Seller 100% of the Ownership Interests pursuant to the terms and conditions set forth in the Merger Agreement and this Agreement.

NOW, THEREFORE, in consideration of $5.00 paid by Seller to Buyer and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledge, Seller and Buyer hereby agree as follows:

1. Recitals. The Recitals are incorporated herein by reference.

2. Sale of Ownership Interests. Subject to and upon the terms and conditions set forth in the Merger Agreement and in this Agreement, Seller agrees to sell to Buyer (and/or its assigns) 100% of the Ownership Interests; and Buyer agrees to purchase from Seller 100% of the Ownership Interests.

3. Purchase Price for the Ownership Interests. The purchase price (the "Purchase Price") for 100% of the Ownership Interests shall be payable in cash by Buyer to Seller at Closing in an amount equal to (a) $59,077,876, reduced by (b) the balance due under all mortgage indebtedness encumbering the Woods Property and the Rivers Property as of the date of Closing, further reduced by (c) all other indebtedness and liabilities of the NPI Entities as of the date of Closing, further reduced by (d) the 9020 Mendenhall Adjustment (as defined in Section 17 hereof), and further reduced by (e) any applicable adjustments under Section 12. The Nottingham Associates Property may be encumbered by mortgage indebtedness not to exceed $5,631,974. The Purchase Price allocable to Nottingham Associates in Section 4 has taken into account the mortgage indebtedness on the Nottingham Associates Property and, thus, such mortgage indebtedness shall not be a further reduction under this Section 3.

4. Allocation of Purchase Price. The Purchase Price, prior to the adjustments set forth in Sections 3(b), (c), (d) and (e) above, shall be allocated to each of the Ownership Interests as follows:

Ownership Interests		**Purchase Price Prior to Adjustments**
Philadelphia Road	$	6,440,333
9020 Mendenhall	$	6,022,927
Woods Investors	$	23,354,945

37 Allegheny	$	500,000
Rivers Center III	$	6,655,855
Campbell Corporate Center I	$	3,472,976
Nottingham Associates	$	2,307,999
Sandpiper (White Marsh Health Center)	$	3,320,500
White Marsh Hi-Tech I and II	$	7,002,341

5. Closing. The Closing (the "Closing") of the purchase and sale of the Ownership Interests under this Agreement shall occur simultaneously with the Merger, as defined in the Merger Agreement, at 10:00 a.m., Eastern Time, at the offices of DLA Piper US LLP at 6225 Smith Avenue, Baltimore, Maryland 21209, or at such other place, at such other time, or on such other date as the parties may mutually agree upon in writing (such date, the "Closing Date").

6. Closing Documents. At the Closing, Seller and Buyer shall each execute and deliver to the other an Assignment of Membership/Beneficial/ Partnership Interests and Amendment to Operating Agreement/Declaration of Trust/Partnership Agreement with respect to each of the NPI Entities in the form attached hereto as Exhibit B and, upon request of either party, such other documents as may be reasonably necessary or requested to consummate the transaction contemplated by this Agreement.

7. Prorations and Adjustments. At Closing, income and expenses with respect to the Membership Interests and Trust Interests shall be adjusted and prorated as of midnight of the day prior to the Closing Date in the manner provided for in Section 8.04 of the Merger Agreement. There shall be no adjustment with respect to the Partnership Interests, as the adjustments for the underlying properties shall occur at the Closing under the Merger Agreement not under this Agreement.

8. Representations and Warranties. It is intended by Seller and Buyer that the representations and warranties contained in the Merger Agreement shall be the sole representations and warranties relating to the Properties and the NPI Entities, that such representations and warranties shall remain in full force and effect and binding upon the parties to the Merger Agreement as provided under Merger Agreement, and that Seller is not making any representations or warranties in respect thereof.

9. Termination. This Agreement shall automatically terminate if the Merger Agreement shall have terminated for any reason prior to the Closing Date.

10. Conditions to Closing. The Buyer's obligations to be performed at the Closing shall be subject to the satisfaction of the following conditions:

(a) There shall not have been a breach of any warranty, representation or covenant as given by NVI in the Merger Agreement relating to the NPI Entities or the Properties;

(b) The NPI Entities shall own good and marketable title to the Properties free and clear of all liens and encumbrances, other than the Permitted Liens (as defined in the Merger Agreement);

(c) NPI shall own all of the Ownership Interests free and clear of all liens and encumbrances; and

(d) None of the Properties shall be encumbered by any mortgage indebtedness other than the Woods Property (in which case the maximum amount of indebtedness as of Closing shall be $11,391,579) and the Rivers Property (in which case the maximum amount of indebtedness as of Closing shall be $3,213,010) and the Nottingham Associates Property (in which case the maximum amount of indebtedness as of Closing shall be $5,631,974).

If any condition precedent to Closing set forth above is not satisfied prior to or on the Closing Date, Buyer may elect to terminate this Contract by written notice to Seller. Upon such notice, this Agreement shall then be of no further force and effect and neither party shall have any obligations or liabilities to the other.

11. Real Estate Commissions. The parties mutually represent to each other that none of them employed or had any negotiations or dealings in connection with this transaction with any brokers or finders. Seller agrees to defend, indemnify and hold Buyer harmless from and against any claims of any other person, firm or corporation claiming any brokerage commission, finder's fee or similar compensation base on any alleged negotiations or dealings with or employment by Seller, together with all expenses incurred including court costs and attorneys' fees. Buyer agrees to defend, indemnify and hold Seller harmless from and against any claims of any other person, firm or corporation other than Broker claiming any brokerage commission, finder's fee or similar compensation based on any alleged negotiations or dealings with or employment by Buyer,

together with all expenses incurred including court costs and attorneys' fees. This paragraph shall survive any termination of this Agreement.

12. Risk of Loss. The Seller assumes the risk of loss or damage to the Properties by fire or other casualty prior to Closing. The Seller shall, at its expense, keep the Properties insured until Closing pursuant to a standard, all risk, fire and extended coverage insurance policy in an amount not less than the replacement cost thereof and shall have such policy endorsed to protect the interest of Buyer. As of the date hereof, Buyer will be named as a "loss payee" under the foregoing insurance policy of Seller. In the event of the destruction or damage to any of the Properties, this Agreement shall remain in full force and effect, but (a) all insurance awards, regardless of amount, shall remain the property of the NPI Entities, (b) the Purchase Price shall be reduced by the amount of any deductible applicable to the insurance policy insuring such destruction or damage, and (c) Buyer shall have the authority to adjust all claims with the applicable insurance company. Thus, Seller shall not be entitled to any such insurance proceeds unless this Agreement is terminated.

13. Assignment. This Agreement and the rights of Buyer hereunder may be assigned by Buyer upon notice thereof to Seller.

14. Like-Kind Exchange. Seller acknowledges that Buyer may choose to engage in a like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended. Seller agrees to execute, upon Buyer's request, one or more Assignment and Assumption Agreements pursuant to which Buyer's rights under this Agreement as to any or all of the Ownership Interest will be assigned to a qualified intermediary ("QI") or exchange accommodation titleholder ("EAT") and the QI or EAT will take title to all or any of the Ownership Interests. No additional liability will be incurred by Seller as a result of any such Assignment and Assumption Agreement.

15. Time of Essence. Time shall be of the essence with respect to each and every provision of this Agreement.

16. Further Assurances. The parties hereto agree to take such further actions and to execute and deliver such further documents, agreements and instruments as may be reasonably necessary or appropriate to carry out the purposes of this Agreement.

17. 9020 Mendenhall Adjustment. Seller and Buyer acknowledge that structural defects have been discovered at 9020 Mendenhall Court property. Seller

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shall engage a structural engineer to determine the extent of the structural defects at such property and the estimated cost to repair such defects, subject to Buyer's approval of such engineer and the methodology suggested by the engineer to correct the defects. To the extent the repairs of the structural defects have not been completed by the Closing, the Purchase Price shall be reduced by the estimated cost to complete the repairs (the "9020 Mendenhall Adjustment").

(Signatures on next page)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers, as of the day and year first above written.

WITNESS:	NOTTINGHAM PROPERTIES, INC.
/S/ Illegible	By: /s/ J. JOSEPH CREDIT J. Joseph Credit, President and CEO
WITNESS:	CORPORATE OFFICE PROPERTIES, L.P.
	By: Corporate Office Properties Trust, its sole general partner
/S/ Illegible	By: /s/ ROGER A. WAESCHE, JR. Name: Roger A. Waesche, Jr Title: Chief Operating Officer and Executive Vice President

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Exhibits A-1 through A-9

Descriptions of the Properties

Exhibit A-1

10552 Philadelphia Road – Leasehold Interest

Leasehold interest in the property being known and designated as Lot No. 1 on a plat entitled "Subdivision of Wayne B. Knight Property"which plat is recorded among the

Land Records of Baltimore County, MD in Plat Book S.M. No. 67, Folio 39; containing 6.8027 acres, more or less. The improvements thereon being known as 10552 Philadelphia Road.

Exhibit A-2

9020 Mendenhall Court

Being Known and Designated as Parcel X-1", as shown on the Plat entitled "Columbia, Sieling Industrial Center, Section 1, Area 1, Parcel X-1, A Resubdivision of Parcel X and W-3", which Plat is recorded among the Land Records of Howard County, Maryland, as Plat CMP No. 4842. The improvements thereon being known as No. 9020 Mendenhall Court.

Together With certain easements for ingress and egress described in a Deed and Agreement by Columbia Industrial Development Corporation et al dated January 27, 1982 and recorded in Liber CMP No. 1088, folio 165 and a Confirmatory Deed of Easement and Agreement dated October 25, 2005 and recorded in Liber MDR No. 9614, folio 643 from The Columbia Association, Inc. fka The Columbia Parks and Recreation Association, Inc. to 9020 Mendenhall, L.L.C.

Exhibit A-3

Woods At Broken Land

Being Known and Designated as Parcel B as shown on Plat entitled "Columbia, Village of OwenBrown, Parcels A, B, C, D and Lot 1, Section 6, Area 1, Sheet 2 of 4", which plat is recorded among the Land Records of Howard County, Maryland as Plat CMP No. 6126; containing 14.623 acres of land, more or less.

The street addresses of the improvements situate on the above described parcel of land are 9700, 9710, 9720, 9730 and 9740 Patuxent Woods Drive.

Exhibit A-4

Rivers Center III
10270, 10280 and 10290 Old Columbia Road

Being Known and Designated as Parcel D as shown on plat entitled "Rivers Corporate Park, Section I, Area I, Parcels B thru E, H thru P, and Lot 2, Sheet 4 of 6", which plat is recorded among the Land Records of Howard County, Maryland as Plat CMP No. 5078; containing 5.0031 acres of land, more or less.

Exhibit A-5

White Marsh Hi-Tech I and II

White Marsh Hi-Tech I:

Being known and designated as Lot 5A on a plat entitled "Resubdivision of Lots 4&5 - Section B, White Marsh Business Community" which plat is recorded among the Land Records of Baltimore County, Maryland in Plat Book E.H.K. Jr. No. 49, folio 87; containing 3.3715 acres of land, more or less. The improvements thereon known as 4969 Mercantile Road. Together with and subject to the legal operation and effect of a Declaration of Easement of White Marsh Hi - Tech Associates Limited Partnership dated April 27, 1989 and recorded in Liber S.M. No. 8163, folio 704.

White Marsh Hi-Tech II:

Being known and designated as Lot 5B on a plat entitled "Resubdivision of Lots 4&5 - Section B, White Marsh Business Community" which plat is recorded in Plat Book E.H.K. Jr., No. 49, folio 87; containing 3.1724 acres of land, more or less. The improvements being known as 4979 Mercantile Road. Together with and subject to the legal operation and effect of a Declaration of Easement of White Marsh Hi - Tech Associates Limited Partnership dated April 27, 1989 and recorded in Liber S.M. No. 8163, folio 704.

White Marsh Hi - Tech Parking:

Being known and designated as Parcel A on a plat entitled "Amended Resubdivision Plat of Lot 4 - Section B, White Marsh Business Community, previously recorded on Plat of Resubdivisaion of Lot 4, Section B, White Marsh Business Community E.H.K. Jr. 55/65" recorded in Plat Book E.H.K.Jr. No. 55, folio 124; containing 1.1906 acres of land, more or less. The improvements thereon to be known as 4981 Mercantile Road. Together with and subject to the legal operation and effect of a Declaration of Easement-of White Marsh Hi - Tech Associates Limited Partnership dated April 27, 1989 and recorded in Liber S.M. No. 8163, folio 704.

Exhibit A-6

37 West Allegheny Ave.

Parking Lot

BEGINNING for the same at the intersection formed by the southern side of Allegheny Avenue with the eastern side of Washington Avenue, said place of beginning being at

the beginning of the 1st or Easterly 81 foot 3 inch line of that parcel of land described .in a Deed dated October 28, 1953, between Annarose C. Sleeth and R. Dalton Berry et ux, recorded among the Land Records of Baltimore County, Maryland in Liber G.L.B. 2381 folio 132, running thence leaving said place of beginning binding on the southern side of said Allegheny Avenue and binding on said 1st line, as now surveyed, 1) South 82 degrees 51 minutes 26 seconds East 81.29 feet, running thence leaving said Allegheny Avenue and binding on the 2nd line of said Deed, as now surveyed, 2) South 07 degrees 16 minutes 03 seconds west 150.00 feet to the northern aide of a 20 foot alley, running thence binding on the northern side of said 20 foot alley, with the use and privilege thereof in common and binding on the 3rd line of said Deed, as now surveyed, 3) North 82 degrees 51 minutes 26 seconds West 80.80 feet to the eastern side of said Washington Avenue, running thence binding on the eastern side of said Washington Avenue and binding on the 4th line of said Deed, as now surveyed, 4) North 07 degrees 04 minutes 44 seconds East 150.00 feet to said place of beginning. Containing 0.279 acres of land, more or less.

Exhibit A-7

Campbell Corporate Center 1

BEGINNING for the same on the northern side of Campbell Boulevard, variable width, at the point designated 35, shown on a plat entitled “Campbell Corporate Center, Amended Resubdivision of Lot 1, IA, lB (S.M. 60 Folio 70), Whitemarsh Business Community Section C”, dated November 2, 1989, recorded among the Land Records of Baltimore County, Maryland in Plat Book S.M. 63 folio 002, said point of beginning also being the southernmost common corner of Lot 1 and Lot IA shown on said plat, running thence leaving said point of beginning and leaving said northern side of Campbell Boulevard, binding on the division line between said Lot 1 and Lot IA, all shown on said plat,

1) By a radial line, North 06 degrees 07 minutes 17 seconds West 58.87 feet tothe point designated 34 on said plat, running thence, for part of the distance continuing to bind on said division line between said Lot 1 and said Lot IA, and for part of the distance binding on the division line between Lot 1D and said Lot IA, shown on said plat, in all,

2) North 26 degrees 23 minutes 00 seconds East 600.79 feet to the pointdesignated 63 on said plat, running thence binding on the division line between said Lot 1D and Lot 1B, shown on saidplat, reversing the bearing shown on said plat,

3) South 73 degrees 59 minutes 25 seconds East 304.82 feet to a point designated 64 on the western side of Town Center Court, all being shown on said plat, running thence binding on said western side of Town Center Court, 60 feet wide, for part of the distance binding on the eastern side of said Lot 1D and for part of the distance binding on part of the eastern side of said Lot 1, shown on said plat, in all,

4) Southwesterly by a non-radial curve to the left having a radius of 1030.00 feet for a distance of 139.38 feet, said curve being subtended by a chord bearing South 16 degrees 01 minutes 00 seconds West 139.27 feet to the point designated 209 on said plat, running thence continuing to bind on said western side of Town Center Court and continuing to bind on part of said eastern side of said Lot 1, shown on said plat,

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5) By a line tangent to said curve, South 12 degrees 08 minutes 25 secondsWest 338.29 feet to the point designated 208 at the beginning of the cut-off leading to Campbell Boulevard, all being shown on said plat, running thence binding on said cut-off leading to said Campbell Boulevard, shown on said plat,

6) South 55 degrees 27 minutes 51 seconds West 27.44 feet to the point designated 207 on the northern side of said Campbell Boulevard, all being shown on said plat, running thence binding on said northern side of Campbell Boulevard, 70 feet wide, shown on saidplat,

7) Northwesterly by a non-radial curve to the left having a radius of 835.00. Feetfor a distance of 165.86 feet, said curve being subtended by a chord bearing North 86 degrees 54 minutes 14 seconds West 165.59 feet to the point designated 52 on said plat, running thence leaving said Campbell Boulevard, binding on the division line between said Lot 1 and Parcel A, shown on said plat, reversing the bearings shown on said plat, the eight following courses;

8) By a non-radial line, North 06 degrees 07 minutes 17 seconds West 51.64 feet tothe point designated 50 on said plat,

9) North 74 degrees 35 minutes 57 seconds West 36.00 feet to the point designated51 on said plat,

10) North 69 degrees 23 minutes 33 seconds West 86.21 feet to the point designated 49 on said plat,

11) North 29 degrees 35 minutes 57 seconds West 20.00 feet to the point designated 47 on said plat,

12) North 15 degrees 24 minutes 03 seconds East 150.00 feet to the point designated 48 on said plat,

13) North 74 degrees 35 minutes 57 seconds West 24.11 feet to the point designated 45 on said plat,

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14) South 26 degrees 23 minutes 00 seconds West 248.00 feet to the point designated39 on said plat and

15) South 06 degrees 07 minutes 17 seconds East 73.70 feet to the point designated46 on said northern side of Campbell Boulevard, all being shown on said plat, running thence binding on part of said northern. side of Campbell Boulevard, shown on said plat,

16) Southwesterly by a non radial curve to the right having a radius of 565.00 feet fora distance of 40.03 feet, said curve being subtended by a chord bearing South 81 degrees 50 minutes 56 seconds West 40.03 feet to the point of beginning.

Containing 4.049 acres of land more or less.

The Improvements thereon being known as 4940 Campbell Boulevard.

BEING all those two parcels of land containing 3.647 acres of land, more or less, and 0.402 acres of land, more or less, and shown and designated, respectively, as Lot 1 and Lot 1D on a plat entitled “Campbell Corporate Center,” which plat is recorded among the Land Records of BaltimoreCounty, Maryland in Plat Book SM No. 63, folio 2.

BEING the same two parcels of land conveyed to Corporate Center I Limited Partnershipby the following deeds:

1. Deed dated September 27, 1989, and recorded among the Land Records of Baltimore County, Maryland in Liber 8285, folio 229 from Nottingham Village, Inc. to Corporate Center I Limited Partnership; and

2. Deed dated December 21, 1994, and recorded among the Land Records of Baltimore County, Maryland in Liber 10879, folio 743 from Nottingham Village, Inc. to Corporate Center I Limited Partnership.

TOGETHER WITH THE BENEFIT AND SUBJECT TO the legal operation and effect of a Declaration of Easements dated August 19, 1994, and recorded among the Land Records of Baltimore County, Maryland in Liber 10716, folio 51 made by Nottingham Village, Inc., et al.

Exhibit A-8

Nottingham Centre

Beginning for the same at the intersection of the west side of Washington Avenue as widened and. shown on Baltimore County Bureau of Land Acquisition Drawing RW 83-417-1 and recorded in a deed from Nottingham Associates Limited Partnership et al to Baltimore County, Maryland. dated June 20, 1984 and recorded among the Land Records of Baltimore County in. Liber E.H.K., Jr. No. 6748, folio 300 and the north side of a 20 Foot Alley there situate, said place of beginning being in the second line of a parcel of land which by a deed dated June 1, 1983 and recorded among the Land Records of Baltimore County in Liber E.H.K., Jr. No. 6533, folio 581 was conveyed by Nottingham Properties, Inc. to Nottingham Associates Limited Partnership, distant North 82 degrees 59 minutes 56 seconds West 11.81 feet . Measured along said second line from the beginning thereof and running thence with and binding on a part of said second line and binding on the north side of said 20 Foot Alley, North 82 degrees 59 minutes 56 seconds West 88.19 feet to the end of said second line, thence leaving said 20 Foot Alley and running with and binding on the third, fourth, fifth,. Sixth and: seventh lines of said parcel of land which was conveyed by Nottingham Properties, Inc. to Nottingham Associates Limited Partnership, the five following courses and distances via: North 7 degrees 00 minutes 04 seconds East 15.04 feet, North 82 degrees 59 minutes 56 seconds West 9.67 feet, North 7 degrees 00 minutes 04 seconds East, binding for a part on the outside extremity of the panels on the east side of the parking garage erected on the property adjoining on the west, 121.16 feet, South 82 degrees 59 minutes 56 seconds East 2.00 feet and North 7 degrees 00 minutes 04 seconds East 13.80 feet to the south side of Allegheny Avenue, thence binding on the south side of Allegheny Avenue and running with and binding on a part of the last line of the last mentioned .parol of land which was conveyed by Nottingham Properties, Inc. to Nottingham Associates Limited Partnership, South 82 degrees 59 minutes 56 seconds East 85.97 feet and thence leaving Allegheny Avenue and binding on the right of way lines as shown on the aforesaid Land Acquisition Drawing RW 83-417-1, the two following courses and distances viz: South 38 degrees 01 minutes 14 seconds East, binding on a line which connects the south side of Allegheny Avenue with the west side of Washington Avenue, 14.14 feet to the west side of Washington Avenue as widened and South 7 degrees 02 minutes 34 seconds West, binding on the west side of Washington Avenue as widened, 140 feet to the place of beginning. Containing 0.332 of an acre of land, more or less. The improvements thereon known as 502 Washington Avenue.

Exhibit A-9

White Marsh Health Center

Being known and designated as Lot No. 2 on a plat entitled “A Resubdivision of White Marsh Business Community, Section A, Lots 2 and 3” which plat is recorded among the Land Records of Baltimore County, Maryland in Plat Book E.H.K. Jr., No. 52, folio 80; containing 3.996 acres of land, more or less.

The improvements thereon known as 8114 Sandpiper Circle.

Exhibit B

Assignment of Interests

EXHIBIT B

ASSIGNMENT OF MEMBERSHIP/BENEFICIAL/PARTNERSHIP INTERESTS
AND AMENDMENT TO OPERATING AGREEMENT/
DECLARATION OF TRUST/PARTNERSHIP AGREEMENT

(Insert Name of LLC or Business Trust)

THIS ASSIGNMENT OF MEMBERSHIP/BENEFICIAL/PARTNERSHIP INTERESTS AND AMENDMENT TO OPERATING AGREEMENT/ DECLARATION OF TRUST/PARTNERSHIP AGREEMENT is made as of the day of , 2006 by and among Nottingham Properties, Inc., a Maryland corporation (“Seller”) and Corporate Office Properties, L.P., a Delaware limited partnership (“Buyer”).

RECITALS:

A. (the “Company/Trust/Partnership”) is a limited liability company/business trust/limited partnership created by the filing of a certificate of limited liability company/business trust/limited partnership in the records of the Maryland State Department of Assessments and Taxation on and governed by the Operating Agreement/Declaration of Trust/Partnership Agreement dated as of (the “Operating Agreement/Declaration of Trust/Partnership Agreement”).

B. Sellers own all of the membership/beneficial/partnership interests in the Company/Business Trust/Limited Partnership (the “Interest”).

C. By a Purchase and Sale Agreement dated , 2006 (the “Purchase Agreement”), Seller agreed to sell to Buyer the Interest.

D. The purpose of this Assignment and Amendment is to evidence the transfer and assignment to Buyer by Seller of the Interest in the Company/Business Trust/ Limited Partnership pursuant to the Purchase Agreement and to amend the Operating Agreement/Declaration of Trust of the Company/Business Trust/ Limited Partnership to reflect the transfer of the Interest.

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

1. Recitals. The recitals are incorporated herein by reference.

2. Assignment of Interest to Buyer. For value received, Seller hereby grants, transfers and assigns to Buyer the Interest in the Company/Business Trust/ Limited Partnership, free and clear of all liens, charges and encumbrances.

3. Acceptance of Assignment. Buyer hereby accepts the grant and assignment of the Interest.

4. Amendment to Operating Agreement/Declaration of Trust/Partnership Agreement. The Operating Agreement/Declaration of Trust of the Company/Business Trust/ Limited Partnership is hereby amended to provide that, as a result of the foregoing grant and assignment to Buyer, as of the date hereof, (a) Seller is no longer a member/beneficial owner of the Company/Business Trust Limited Partnership, (b) Buyer is the sole member/beneficial owner/limited partner of the Company/Business Trust, (c) Buyer is the owner of all of the membership/beneficial/partnership interests in the Company/Business Trust/ Limited Partnership, and (d) Seller has withdrawn as Manager of the Company/trustee of the Business Trust/limited partner of the Limited Partnership.

5. Further Assurances. Seller hereby agrees to execute and deliver promptly upon request of Buyer such further agreements or instruments and do, or cause to be done, such further acts and things as may be necessary or reasonably desired by Buyer to complete the assignment and transfer of the Interest to Buyer as contemplated hereby.

6. Ratification. As amended herein, the Operating Agreement/ Declaration of Trust/Limited Partnership Agreement is ratified and affirmed.

IN WITNESS WHEREOF, the parties have executed this Assignment and Amendment as of the day and year of first above written.

Seller: Nottingham Properties, Inc.

By: ______________________________
J. Joseph Credit
President and CEO

Buyer: Corporate Office Properties, L.P.

By: Corporate Office Properties Trust, its sole general partner

By: ______________________________
Name: Roger A. Waesche, Jr.
Title: Chief Operating Officer and Executive Vice President

Exhibit 10.31

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	$28,000
Annual committee chairman fees	
Audit committee	10,000
Compensation committee	7,000
Investment committee	8,500
Nominating/corporate governance	5,000
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 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 Executive 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.

Exhibit 12.1

Corporate Office Properties Trust

Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
(Dollars in thousands)

	Years Ended December 31,				
Earnings:	2006	2005	2004	2003	2002
Income from continuing operations before equity in loss of unconsolidated entities, income taxes and minority interests	$ 39,681	$ 40,083	$ 42,074	$ 33,317	$ 24,798
Gain (loss) on sales of real estate, excluding discontinued operations	889	366	(150)	472	2,564
Combined fixed charges and preferred share dividends (from below)	110,541	85,240	70,627	71,541	57,894
Amortization of capitalized interest	527	337	285	254	195
Distributed income (loss) of equity investees	26	(164)	(83)	(181)	295
Subtract:					
Capitalized interest (from below)	(14,559)	(9,871)	(5,112)	(2,846)	(3,091)
Preferred share dividends included in fixed charges	(15,404)	(14,615)	(16,329)	(12,003)	(10,134)
Preferred unit distributions included in fixed charges	(660)	(660)	(179)	(1,049)	(2,287)
Repurchase of preferred units in excess of recorded book value	—	—	—	(11,224)	—
Issuance costs associated with redeemed preferred shares	(3,896)	—	(1,813)	—	—
Total earnings	$ 117,145	$ 100,716	$ 89,320	$ 78,281	$ 70,234
Combined fixed charges and preferred share dividends:					
Interest expense on continuing operations	$ 71,378	$ 54,872	$ 42,148	$ 38,730	$ 36,501
Interest expense on discontinued operations	1,042	2,272	2,115	2,449	2,855
Capitalized interest (internal and external)	14,559	9,871	5,112	2,846	3,091
Amortization of debt issuance costs on continuing operations-expensed	2,847	2,229	2,420	2,756	2,490
Amortization of debt issuance costs on discontinued operations-expensed	134	11	11	11	11
Amortization of debt issuance costs-capitalized	237	272	113	—	59
Interest included in rental expense	384	438	387	473	466
Preferred share dividends	15,404	14,615	16,329	12,003	10,134
Preferred unit distributions	660	660	179	1,049	2,287
Repurchase of preferred units in excess of recorded book value	—	—	—	11,224	—
Issuance costs associated with redeemed preferred shares	3,896	—	1,813	—	—
Total combined fixed charges and preferred share dividends	$ 110,541	$ 85,240	$ 70,627	$ 71,541	$ 57,894
Ratio of earnings to combined fixed charges and preferred share dividends	1.06	1.18	1.26	1.09	1.21

CORPORATE OFFICE PROPERTIES TRUST
SUBSIDIARIES OF REGISTRANT

Colorado
COPT Aerotech, LLC
COPT Interquest, LLC
COPT Interquest III, LLC
COPT Interquest IV, LLC
COPT Newport, LLC
COPT Newport C, LLC
COPT Newport D, LLC
COPT Northcreek, LLC
COPT Patriot Park at Galley, LLC
COPT Patriot Park I, LLC
COPT Patriot Park II, LLC
Patriot Park, LLC

Delaware
Airport Square Holdings I, LLC
Airport Square Holdings VI and VII, LLC
Blue Bell Investment Company, LP
COPT Acquisitions, Inc.
COPT Colgate General, LLC
COPT Concourse, LLC
COPT Gateway, LP
COPT Gateway Commerce, LLC
Corporate Gateway, LP
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.
Harrisburg Corporate Gateway Partners, LP
Opportunity Invest Ventures, LLC
Sterling York, LLC
South Brunswick Investors, LP
11800 Tech Road, LLC

Maryland
Aerotech Manager, LLC
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 XXII, LLC
Airport Square Partners, LLC
Airport Square Storms, LLC
Ambassador Center, LLC
ASI, LLC
Atrium Building, LLC
Brown’s Wharf, LLC
Centerpointe Limited Partnership
Clarks Hundred, LLC
Columbia Gateway S-28, LLC
Commons Office Research, LLC
Commons Office 6-B, LLC
Concourse 1304, LLC
COPT Arundel Preserve, LLC
COPT Baltimore County I, LLC
COPT Baltimore County II, LLC
COPT Development & Construction Services, LLC
COPT Environmental Systems LLC
COPT Gate 63, LLC

COPT Gate 6700-6708-6724, LLC
COPT General, LLC
COPT Hunt Valley GP, LLC
COPT Montpelier, LLC
COPT Opportunity Invest I, LLC
COPT Property Management Services, LLC
COPT Renovation, LLC
COPT Riverwood, LLC
COPT T-11, LLC
COPT-FD Indian Head, LLC
Corporate Development Services, LLC
Corporate Gatespring, LLC
Corporate Gatespring II, LLC
Corporate Office Management, Inc.
Corporate Office Services, LLC
Corporate Paragon, LLC
Corporate Property, LLC
Cornucopia Holdings, LLC
Cornucopia Holdings II, LLC
Enterprise Campus Developer, LLC
Fourth Exploration, L.L.C.
Fifth Exploration, L.L.C.
Ft. Ritchie I, LLC
Ft. Ritchie II, LLC
Ft. Ritchie III, LLC
Ft. Ritchie IV, LLC
Ft. Ritchie Holding, LLC
Gateway 44, LLC
Gateway 67, LLC
Gateway 70, LLC
Gateway 70 Holdings, LLC

Gateway Crossing 95, LLC
Governors Court, LLC
Governors Court 21, LLC
Honeyland 108, LLC
Hunt Valley 75 Limited Partnership
Jolly COPT I, LLC
Jolly COPT II, LLC
M Square NOAA, LLC
MOR Forbes, LLC
MOR Forbes 2, LLC
NBP One, LLC
NBP Huff & Puff, LLC
NBP Lot 3-A, LLC
NBP Retail, LLC
NBP 131-133-141, LLC
NBP 132, LLC
NBP 134, LLC
NBP 135, LLC
NBP 140, LLC
NBP 191, LLC
NBP 201, LLC
NBP 201 Holdings, LLC
NBP 211, LLC
NBP 211 Holdings, LLC
NBP 220, LLC
NBP 220 Holdings, LLC
NBP 221, LLC
NBP 302, LLC
NBP 304, LLC
NBP 306, LLC
NBP 318, LLC
NBP 320, LLC
NBP 322, LLC
Northcreek Manager, LLC
Pecan Court, L.L.C.
Red Cedar Building, LLC
RIVA Trustee, LLC
Rockville Corporate Center, LLC
Rutherford 2 Limited Partnership
Tech Park I, LLC
Tech Park II, LLC
Tech Park IV, LLC
Third Exploration, L.L.C.
67 Financing, LLC
110 Thomas Johnson, LLC
134, LLC
201 International Associates Limited Partnership
226 Schilling Circle, LLC
230 Schilling Circle, LLC

304 Sentinel, LLC
800 International, LLC
849 International, LLC
881 Elkridge Landing, LLC
900 International, LLC
930 International, LLC
999 Corporate, LLC

1099 Winterson, LLC
1190 Winterson, LLC
1199 Winterson, LLC
1460 Dorsey Road, LLC
2500 Riva Trust
2691 Technology, LLC
2900 Lord Baltimore Drive, LLC
6700 Alexander Bell, LLC
6711 Gateway, LLC
6711 Gateway Funding, LLC
6721 Gateway, LLC
6731 Gateway, LLC
6741 Gateway, LLC
6940 CGD, LLC
7000 CG, LLC
7000 Honeys, LLC
7015 Albert Einstein Drive, LLC
7130 Columbia Gateway, LLC
7200 Riverwood, LLC
7210 Ambassador Road, LLC
7240 Parkway Drive Enterprises, LLC
7253 Ambassador Road, LLC
7318 Parkway Drive Enterprises, LLC
7320 Parkway Drive Enterprises, LLC
7320 PD, LLC
7321 Parkway Drive Enterprises, LLC
7468 Candlewood Road, LLC
8621 RFD, LLC
8661 RFD, LLC
9690 Deereco Road, LLC
11011 McCormick Road, LLC
11101 McCormick Road, LLC

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

Pennsylvania
Bolivar Associates, LLC
Colgatedrive Associates, L.P.
COPT Pennlyn, L.P.

Texas
COPT San Antonio General, LLC
COPT San Antonio, LP

Virginia
COPT Chantilly, LLC
COPT Chantilly II, LLC
COPT Dahlgren, LLC
COPT Dahlgren I, LLC
COPT Dahlgren II, LLC
COPT Dahlgren IV, LLC

COPT Dahlgren Land, LLC
COPT Greens I, LLC
COPT Greens II, LLC
COPT Greens III, LLC
COPT Park Meadow, LLC
COPT Parkstone, LLC
COPT Richmond I, LLC
COPT Ridgeview I, LLC
COPT Ridgeview II & III, LLC
COPT Southwest VA, LLC
COPT Stonecroft, LLC
COPT Sunrise, LLC

COPT Waterview I, LLC
COPT Waterview III, LLC
TRC Pinnacle Towers, L.L.C.
2900 Towerview Road, LLC

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-59766, No. 333-36740, No. 333-60379, No. 333-85210, No. 333-108785, No. 333-132958, No. 333-137031 and No. 333-137894) and 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 1, 2007 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Baltimore, MD
March 1, 2007

EXHIBIT 31.1

CORPORATE OFFICE PROPERTIES TRUST

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

CERTIFICATIONS

I, Randall M. Griffin, certify that:

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

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

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

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

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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 1, 2007

/s/ RANDALL M. GRIFFIN
Randall M. Griffin
Chief Executive Officer

EXHIBIT 31.2

CORPORATE OFFICE PROPERTIES TRUST

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

CERTIFICATIONS

I, Stephen E. Riffee, 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;

d) 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 1, 2007

/s/ STEPHEN E. RIFFEE
Stephen E. Riffee
Chief Financial Officer

EXHIBIT 32.1

CORPORATE OFFICE PROPERTIES TRUST

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

In connection with the Annual Report of Corporate Office Properties Trust (the "Company") on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randall M. Griffin, 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/ RANDALL M. GRIFFIN
Randall M. Griffin
Chief Executive Officer

Date: March 1, 2007

EXHIBIT 32.2

CORPORATE OFFICE PROPERTIES TRUST

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

In connection with Annual Report of Corporate Office Properties Trust (the "Company") on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen E. Riffee, 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/ STEPHEN E. RIFFEE
Stephen E. Riffee
Chief Financial Officer

Date: March 1, 2007