CORPORATE OFFICE PROPERTIES TRUST
Form 10-K
March 01, 2007

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)

x	**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

o	**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	**23-2947217**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6711 Columbia Gateway Drive, Suite 300 Columbia, MD	**21046**
(Address of principal executive offices)	(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. x Yes o 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. o Yes x 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. x Yes o 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. x

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 x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) o Yes x 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;

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- 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.

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PART I

Item 1. Business

OUR COMPANY

General. We are a fully-integrated and self-managed real estate investment trust (REIT) that focuses on the 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

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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.

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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.

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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:

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
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

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)		Annualized Rental Revenue (2)	Annualized Rental Revenue Per Occupied Square Foot (2) (3)
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

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue Per Occupied Square Foot (2) (3)
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

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue Per Occupied Square Foot (2) (3)
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
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:						
	St. Mary s County	1984/1997	98,860	100.0 %	$ 1,414,697	$ 14.31

22309 Exploration Drive *Lexington Park, MD*						
46579 Expedition Drive *Lexington Park, MD*	St. Mary s County	2002	61,156	94.0	%1,180,743	20.54

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue Per Occupied Square Foot (2) (3)
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

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy (1)	Annualized Rental Revenue (2)	Annualized Rental Revenue Per Occupied Square Foot (2) (3)
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**

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(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.

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(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 (in thousands)	Percentage of Total Occupied Square Feet		Annualized Rental Revenue of Expiring Leases (2)	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**

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(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**	**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**	**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		