CORPORATE OFFICE PROPERTIES TRUST
Form 10-K
February 10, 2012

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CORPORATE OFFICE PROPERTIES TRUST AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2011

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

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

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

(Title of Each Class)

	(Name of Exchange on Which Registered)
Common Shares of beneficial interest, $0.01 par value	New York Stock Exchange
Series G Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	New York Stock Exchange
Series H Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	New York Stock Exchange
Series J Cumulative Redeemable Preferred Shares of beneficial interest, $0.01 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý 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 ý 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. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý 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. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately $2.2 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, 2011. 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, $0.01 par value. At January 27, 2012, 72,019,987 of the registrant's common shares of beneficial interest were outstanding.

Portions of the annual shareholders' report of the registrant for the year ended December 31, 2011 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 2012 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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Form 10-K

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," "could," "believe," "anticipate," "expect," "estimate," "plan" 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:

- general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- governmental actions and initiatives, including risks associated with the impact of a government shutdown and budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases and/or a curtailment of demand for additional space by our strategic customers;
- our ability to sell properties included in our Strategic Reallocation Plan;
- our ability to borrow on favorable terms;
- risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development and operating costs may be greater than anticipated;
- risks of investing through joint venture structures, including risks that our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of impairment losses;
- our ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares; 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 an office real estate investment trust ("REIT") that focuses primarily on serving the specialized requirements of strategic customers in the United States Government and defense information technology sectors. We acquire, develop, manage and lease office and data center properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in office markets that we believe possess growth opportunities. As of December 31, 2011, our investments in real estate included the following:

- 238 operating office properties totaling 20.5 million square feet that were 86% occupied;
- seven office properties under construction or redevelopment that we estimate will total approximately 903,000 square feet upon completion, including one partially operational property included above;
- land held or under pre-construction totaling 2,330 acres (including 583 acres controlled but not owned) that we believe are potentially developable into approximately 20.6 million square feet; and
- a partially operational, wholesale data center which upon completion and stabilization is expected to have a critical load of 18 megawatts.

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 managing general partner. The Operating Partnership owns real estate both directly and through subsidiary partnerships and limited liability companies ("LLCs"). The Operating Partnership also owns 100% of a number of entities that provide real estate services such as property management, construction and development services primarily for our properties but also for third parties.

Interests in our Operating Partnership are in the form of common and preferred units. As of December 31, 2011, we owned 94.4% of the outstanding common units and 95.8% 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. Provided we continue to 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.

Our Internet address is www.copt.com. We make available on our Internet website free of charge our annual reports 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably possible after we file such material with the Securities and Exchange Commission (the "SEC"). In addition, we have made available on our Internet website under the heading "Corporate Governance" the charters for our Board of Trustees' Audit, Nominating and Corporate Governance, Compensation and Investment Committees, as well as our Corporate Governance Guidelines, Code of Business Conduct and Ethics

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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 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, located at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

Significant 2011 Developments

During 2011, we:

- finished the period with our portfolio of office properties 86.2% occupied and our Same Office Properties 89.9% occupied;
- placed into service an aggregate of 566,000 square feet in seven newly constructed office properties;
- implemented a plan to dispose of office properties and land that are no longer closely aligned with our strategy. The properties included in the Strategic Reallocation Plan had an aggregate fair value of approximately $562 million at December 31, 2011 (the "Strategic Reallocation Plan"). We expect to complete the office property dispositions by the end of 2013 and use the proceeds to invest in properties that will serve customers in the United States Government, defense information technology and related data sectors, to repay borrowings and for general corporate purposes. We completed sales under the Strategic Reallocation Plan totaling $76.7 million in 2011;
- entered into a credit agreement providing for an unsecured revolving credit facility (the "Revolving Credit Facility") with an aggregate lender commitment of $1.0 billion, with a right for us to further increase such commitment during the term to a maximum of $1.5 billion, subject to certain conditions. The facility matures on September 1, 2014, and may be extended by one year at our option, subject to certain conditions;
- entered into an unsecured term loan agreement (the "Term Loan Agreement") under which we borrowed $400.0 million, with a right for us to borrow an additional $100.0 million, subject to certain conditions. The Term Loan Agreement matures on September 1, 2015, and may be extended by one year at our option, subject to certain conditions;
- repaid and extinguished our previously existing unsecured Revolving Credit Facility and a secured construction loan agreement (the "Revolving Construction Facility") and repaid two variable rate secured loans totaling $270.3 million upon our entry into the new Revolving Credit Facility and Term Loan Agreement;
- repurchased our 3.5% Exchangeable Senior Notes due 2026 at 100% of their principal amount of $162.5 million after the holders of the notes surrendered them for repurchase pursuant to the terms of the notes and the related indenture;
- issued 4.6 million common shares at a public offering price of $33.00 per share for net proceeds of $145.7 million after underwriting discounts but before offering expenses; and
- announced that Randall M. Griffin, our Chief Executive Officer ("CEO"), will retire from his role as CEO effective March 31, 2012 and that Roger A. Waesche, Jr., our President, will serve

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as CEO and as a member of our Board of Trustees effective April 1, 2012. We expect Mr. Griffin to continue to serve as a member of our Board of Trustees. We also appointed Stephen E. Budorick as Executive Vice President and Chief Operating Officer effective September 29, 2011.

Business and Growth Strategies

Our primary objectives are to achieve sustainable long-term growth in results of operations and to maximize long-term shareholder value. This section sets forth key components of our business and growth strategies that we have in place to support these objectives.

Business Strategies

Customer Strategy: We believe that we differentiate ourselves by being a real estate company that does not view space in properties merely as a commodity. We focus on providing a level of service that exceeds customer expectations both in terms of the quality of the space we provide and our level of responsiveness to their needs. We believe that operating with such an emphasis on service enables us to be the landlord of choice with high quality customers and contributes to high levels of customer loyalty and retention.

Our focus on customers in the United States Government and defense information technology sectors is a key aspect of our customer strategy. A high percentage of our revenue is concentrated with these customers, and we expect to further increase this concentration level through our:

- strong relationships and reputation for high service levels that we have forged over the years and continue to emphasize;
- properties' proximity to government demand drivers (such as military installations) in various regions of the country and our willingness to expand to other regions where demand exists;
- depth of collective team knowledge, experience and capabilities in developing and operating single user data centers and securing properties that meet the United States Government's Force Protection requirements; and
- property dispositions under the Strategic Reallocation Plan.

Market Strategy: We focus on owning properties where our tenants need to be, which in the case of the United States Government and defense information technology customers is mostly near government demand drivers. We also concentrate our operations in markets and submarkets that are located where we believe we already possess, or can effectively achieve, the critical mass necessary to maximize management efficiencies, operating synergies and competitive advantages through our acquisition, property management, leasing and development activities. The attributes we look for in selecting markets and submarkets include, among others: (1) proximity to large demand drivers; (2) strong demographics; (3) attractiveness to high quality tenants; (4) potential for growth and stability in economic down cycles; (5) future acquisition and development opportunities; and (6) minimal competition from other property owners. We typically focus on owning and operating office properties in large business parks located outside of central business districts. We believe that such parks generally attract long-term, high-quality tenants seeking to attract and retain quality work forces because they are typically situated along major transportation routes with easy access to support services, amenities and residential communities.

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Capital Strategy: Our capital strategy is aimed at maintaining a flexible capital structure in order to facilitate growth and performance in the face of differing market conditions in the most cost-effective manner by:

- using debt comprised primarily of fixed-rate debt from banks and institutional lenders (including the effect of interest rate swaps) along with debt available from public debt markets, such as our exchangeable senior notes;
- using equity raised through issuances of common and preferred shares of beneficial interest, issuances of common and preferred units in our Operating Partnership and, to a lesser extent, joint venture structures for certain investments;
- managing our debt by monitoring, among other things: (1) our debt levels relative to our overall capital structure; (2) the relationship of certain measures of earnings to certain financing cost requirements (commonly referred to as coverage ratios); (3) the relationship of our total variable-rate debt to our total debt; and (4) the timing of debt maturities to ensure that maturities in any year do not exceed levels that we believe we can refinance;
- selling properties and other investments to fund our development pipeline; and
- continuously evaluating the ability of our capital resources to accommodate our plans for future growth.

Sustainability Strategy: We are focused on developing and operating our properties in a manner that minimizes global impact for the environment and have been committed to this effort since 2003. Our strategy includes:

- constructing new buildings that are designed to use resources with a higher level of efficiency and lower impact on human health and the environment during their life cycles than conventional buildings. An example of our focus in this area is our participation in the U.S. Green Building Council's Leadership in Energy and Environmental Design ("LEED") program, which has a rigorous certification process for evaluating and rating buildings in order for such buildings to qualify for the program's Certified, Silver, Gold and Platinum ratings;
- retrofitting select existing office properties to also become certified LEED-Existing Building ("LEED-EB");
- registering our property portfolio in Energy Star, a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that focuses on protecting the environment through energy efficient products and practices;
- implementing LEED-EB prerequisites as standard operating procedure for key aspects of our property operations and management; and
- selling properties not meeting LEED certification standards under the Strategic Reallocation Plan.

We believe that our commitment to sustainability is evident in that as of December 31, 2011, we had 15 buildings certified LEED Gold, 13 buildings certified LEED Silver, two buildings certified LEED and three buildings certified LEED-EB, and all of our buildings that were under construction or redevelopment were registered in the LEED program. In addition, we had 18 professionals on staff who hold the LEED Accredited Professional designation at December 31, 2011. We believe that this strategy is important not just because our customers will demand it, but also because it is the right thing to do.

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Growth Strategies

Acquisition and Property Development Strategy: We pursue acquisition and property development opportunities for properties that support our customer and market strategies discussed above. As a result, the focus of our acquisition and development activities includes properties that are either: (1) located near demand drivers that we believe are attractive to customers in the United States Government and defense information technology sectors or (2) located in markets or submarkets that we believe meet the criteria set forth above in our market strategy. We may also acquire or develop properties that do not align with our customer or market strategies but which we believe provide opportunity for favorable returns on investment given the associated risks.

We typically seek to make acquisitions at attractive yields and below replacement cost, or that otherwise meet our strategic objectives. We also seek to increase operating cash flow of certain acquisitions by repositioning the properties and capitalizing on existing below market leases and expansion opportunities. We pursue development activities as market conditions and leasing opportunities support favorable risk-adjusted returns on investment.

Disposition Strategy: In 2011, we implemented our Strategic Reallocation Plan to dispose of office properties and land that are no longer closely aligned with our strategy. We believe that the timely disposition of assets that no longer meet our strategic objectives is important for us to maximize our return on invested capital and be better positioned for long term growth.

Internal Growth Strategy: 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; and (3) renewing tenant leases and re-tenanting at increased rents where market conditions permit.

Industry Segments

We operate in two primary industries: commercial office properties and our wholesale data center. We classify our properties containing data center space as commercial office real estate when tenants significantly funded the data center infrastructure costs. At December 31, 2011, our commercial office real estate operations were in geographical segments, as set forth below:

- Baltimore/Washington Corridor (generally defined as the Maryland counties of Howard and Anne Arundel);
- Northern Virginia (defined as Fairfax County, Virginia);
- San Antonio, Texas;
- Washington, DC Capitol Riverfront;
- St. Mary's & King George Counties (in Maryland and Virginia, respectively);
- Greater Baltimore, Maryland (generally defined as the Maryland counties of Baltimore and Harford and Baltimore City);
- Suburban Maryland (defined as the Maryland counties of Montgomery, Prince George's and Frederick);
- Colorado Springs, Colorado; and

Greater Philadelphia, Pennsylvania.

As of December 31, 2011, 203 of our office properties, or 83% of our square feet in operations, were located in the Greater Washington, DC/Baltimore region, which includes all the segments set forth

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above except for San Antonio, Colorado Springs and Greater Philadelphia. Our wholesale data center, which is comprised of one property in Manassas, Virginia, is reported as a separate segment.

For information relating to our segments, you should refer to Note 16 to our consolidated financial statements, which is included in a separate section at the end of this Annual Report on Form 10-K beginning on page F-1.

Employees

As of December 31, 2011, we had 428 employees, none of whom were parties to collective bargaining agreements. We believe that our relations with our employees are good.

Competition

The commercial real estate market is highly competitive. Numerous commercial properties compete with our properties for tenants. Some of the properties competing with ours may be newer or in more desirable locations, or the competing properties' owners may be willing to accept lower rents than are acceptable to us. We also compete with our own tenants, many of whom have the right to sublease their space. The competitive environment for leasing is affected considerably by a number of factors including, among other things, changes in economic factors and supply of and demand for 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 acquisition of commercial properties with many entities, including other publicly-traded commercial REITs. Many of our competitors for such acquisitions 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 goals.

In addition, we also compete with other sellers of commercial properties for a limited number of buyers of properties. This competition could adversely affect our ability to complete property dispositions under the Strategic Reallocation Plan.

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 these risks and uncertainties and all of the information in this Annual Report on Form 10-K and its Exhibits, including our consolidated financial statements and notes thereto for the year ended December 31, 2011, which are included in a separate section at the end of this report beginning on page F-1.

Our performance and value are subject to risks associated with our properties and with the real estate industry. Real estate investments are subject to various risks and fluctuations in value and demand, many of which are beyond our control. Our economic performance and the value of our real estate assets may decline due to conditions in the general economy and the real estate business which, in turn, could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders. These conditions include, but are not limited to:

- downturns in national, regional and local economic environments, including increases in the unemployment rate and inflation or deflation;
- competition from other properties;
- deteriorating local real estate market conditions, such as oversupply, reduction in demand and decreasing rental rates;

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- declining real estate valuations;
- increasing vacancies and the need to periodically repair, renovate and re-lease space;
- adverse developments concerning our tenants, which could affect our ability to collect rents and execute lease renewals;
- government actions and initiatives, including risks associated with the impact of government shutdowns and budgetary reductions or impasses, such as a reduction of rental revenues or non-renewal of leases.
- increasing operating costs, including insurance expense, utilities, real estate taxes and other expenses, much of which we may not be able to pass through to tenants;
- increasing interest rates and unavailability of financing on acceptable terms or at all;
- trends in office real estate that may adversely affect future demand, including telecommuting and flexible workplaces that increase the population density per square foot;
- adverse changes in taxation or zoning laws;
- potential inability to secure adequate insurance;
- adverse consequences resulting from civil disturbances, natural disasters, terrorist acts or acts of war; and
- potential liability under environmental or other laws or regulations.

We may suffer adverse consequences as a result of adverse economic conditions. Our business may be affected by adverse economic conditions in the United States economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the impact of high unemployment and constrained credit. Adverse economic conditions could increase the likelihood of tenants encountering financial difficulties, including bankruptcy, insolvency or general downturn of business, and as a result could increase the likelihood of tenants defaulting in their lease obligations to us. Such conditions also could increase the likelihood of our being unsuccessful in renewing tenants, renewing tenants on terms less favorable to us or being unable to lease newly constructed properties. In addition, such conditions could increase the level of risk that we may not be able to obtain new financing for development activities, acquisitions, refinancing of existing debt or other capital requirements at reasonable terms, if at all. As a result, adverse economic conditions could collectively have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

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 leasing 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.

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In addition, the competitive environment for leasing is affected considerably by a number of factors including, among other things, changes due to economic factors such as supply and demand. 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 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. If one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, government shutdown, or general downturn of business, there could be an adverse effect on financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be adversely affected by developments concerning some of our major tenants and sector concentrations, including shutdowns of the United States Government and actual, or potential, reductions in government spending targeting tenants in the United States Government and defense information technology sectors. As of December 31, 2011, our 20 largest tenants accounted for 60.3% of the total annualized rental revenue of our office properties, and the four largest of these tenants accounted for 65% 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 office properties as of December 31, 2011. Information regarding our four largest tenants is set forth below:

Tenant		Annualized Rental Revenue at December 31, 2011 (in thousands)	Percentage of Total Annualized Rental Revenue of Office Properties	Number of Leases
United States of America	$	104,517	22.2%	79
Northrop Grumman Corporation(1)		32,326	6.9%	17
Booz Allen Hamilton, Inc.		24,178	5.1%	8
Computer Sciences Corporation(1)		22,355	4.8%	7

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

Most of our leases with the United States Government provide for a series of one-year terms or provide for early termination rights. The United States Government may terminate its leases if, among other reasons, the United States Congress fails to provide funding. If any of our four largest tenants fail to make rental payments to us, including as a result of a government shutdown, or if the United States Government elects to terminate some or all 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, 2011, our properties that were occupied primarily by tenants in the United States Government and defense information technology sectors accounted for 59.9% of the total annualized rental revenue of our office properties. We expect to increase our reliance on these sectors for revenue. A reduction in government spending targeting these sectors could affect the ability of these tenants to fulfill lease obligations, decrease the likelihood that these tenants will renew their leases or enter into new leases and limit our future growth from these sectors. Moreover, uncertainty regarding the potential for future reduction in government spending targeting these sectors could also decrease or delay leasing activity from tenants in these sectors. The Budget Control Act passed in 2011, which imposed caps on the Federal budget in order to achieve targeted spending levels over the 2013-2021 fiscal years, has fueled further uncertainty regarding future government spending reductions. A reduction in government spending targeting the United States Government and defense information technology sectors and/or uncertainty regarding the potential for future spending reductions could have an adverse effect on our results of operations, financial condition, cash flows and ability to make distributions to our shareholders.

We generally classify the revenue from our leases into this sector grouping based solely on our management's knowledge of the tenants' operations in leased space. Occasionally, classifications require subjective and complex judgments. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into sector groupings and if we did, the resulting groupings would be materially different.

We may be unable to successfully execute plans to dispose of properties, such as our Strategic Reallocation Plan. In 2011, we implemented our Strategic Reallocation Plan to dispose of office properties and land that are no longer closely aligned with our strategy. We expect to complete the office property dispositions by the end of 2013 and use the proceeds to invest in properties that will serve customers in the United States Government, defense information technology and related data sectors, to repay borrowings and for general corporate purposes. Current economic conditions overall, and for suburban office properties in particular, could make it difficult for us to locate buyers for the properties on favorable terms, if at all. We also do not have significant experience in completing property disposition plans of the scale contemplated under the Strategic Reallocation Plan. Our failure to successfully execute the Strategic Reallocation Plan, and other similar property disposition plans, could adversely affect our ability to effectively execute our business strategy, which in turn could affect our financial position, results of operations, cash flows and ability to make expected distributions to shareholders.

We may suffer adverse consequences due to our inexperience in developing, managing and leasing wholesale data centers. We have significant experience in developing, managing and leasing single user data center space. However, we do not have the same depth and length of experience in relation to wholesale data centers, having acquired our one existing wholesale data center in 2010 and having completed no new leasing on that center through December 31, 2011. This may increase the likelihood of us being unsuccessful in executing our plans with respect to our existing wholesale data center or any such centers that we may acquire or develop in the future. If we are unsuccessful in executing our wholesale data center plans, it could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

Most of our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Greater Washington, DC/Baltimore region, or in particular office parks. We may suffer economic harm in the event of a decline in the real estate market or general economic conditions in those regions or parks. Most of our properties are located in the Mid-Atlantic region of the United States and, as of December 31, 2011, our properties located in the Greater Washington, DC/Baltimore region accounted for a combined 84.7% of our total annualized rental revenue from office 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, DC region or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We would suffer economic harm if we were unable to renew our leases on favorable terms. When leases expire, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant vacates a property, we can expect to experience a vacancy for some period of time, as well as incur higher leasing costs than we would likely incur 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.

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We may be adversely affected by trends in the office real estate industry. Some businesses are rapidly evolving to make employee telecommuting, flexible work schedules, open workplaces and teleconferencing increasingly common. These practices enable businesses to reduce their space requirements. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations, each of which could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may encounter a decline in the value of our real estate. The value of our real estate could be adversely affected by general economic and market conditions connected to a specific property, a market or submarket, a broader economic region or the office real estate industry. Examples of such conditions include a broader economic recession, declining demand and decreases in market rental rates and/or market values of real estate assets. If our real estate assets decline in value, it could result in our recognition of impairment losses. Moreover, a decline in the value of our real estate could adversely affect the amount of borrowings available to us under credit facilities and other loans, which could, in turn, adversely affect our cash flows and financial condition.

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 goals. Moreover, numerous commercial properties compete for tenants with our properties. Some of the properties competing with ours may be newer or in 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 for properties that we own, could have an adverse effect on our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We are dependent on external sources of capital for future growth. Because we are a REIT, we must distribute at least 90% of our annual taxable income to our shareholders. Due to this requirement, we are not able to significantly 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. These capital sources 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.

We use our Revolving Credit Facility to initially finance much of our investing and financing activities. We also use other credit facilities to fund a significant portion of our construction activities. Our lenders under these and other facilities could, for financial hardship or other reasons, fail to honor their commitments to fund our requests for borrowings under these facilities. In the event that one or more lenders under these facilities are not able or willing to fund a borrowing request, it would adversely affect our ability to access borrowing capacity under these facilities, which would in turn adversely affect our financial condition, cash flows and ability to make expected 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

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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/or that such acquisitions will fail to perform as expected. The failure of our acquisitions to perform as expected could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be exposed to unknown liabilities from acquired properties. We may acquire properties that are subject to liabilities in situations where we have no recourse, or only limited recourse, against the prior owners or other third parties with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Examples of unknown liabilities with respect to acquired properties include, but are not limited to:

- liabilities for clean-up of disclosed or undisclosed environmental contamination;
- claims by tenants, vendors or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may suffer economic harm as a result of making unsuccessful acquisitions in new markets. We may pursue selective acquisitions of properties in regions where we have not previously owned properties. These acquisitions may entail risks in addition to those we face in other acquisitions where we are familiar with the regions, such as the risk that we do not correctly anticipate conditions or trends in a new market and are therefore not able to operate the acquired property profitably. If this occurs, it could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may be unable to execute our plans to develop and construct additional properties. Although the majority of our investments are in currently leased properties, we also develop, construct and redevelop properties, including some that are not fully pre-leased. When we develop, construct and redevelop properties, we assume the risk that actual costs will exceed our budgets, that we will experience conditions which delay or preclude project completion and that projected leasing will not occur, any of which could adversely affect our financial performance, results of operations 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.

Our data centers may become obsolete. Data centers are much more expensive investments on a per square foot basis than office properties due to the level of infrastructure required to operate the centers. At the same time, technology, industry standards and service requirements for data centers are rapidly evolving and, as a result, the risk of investments we make in data centers becoming obsolete is higher than office properties. Our data centers may become obsolete due to the development of new systems to deliver power to or eliminate heat from the servers housed in the properties. Our data centers could also become obsolete from new server technology that requires less critical load and heat removal than our facilities are designed to provide. In addition, we may not be able to efficiently upgrade or change power and cooling systems to meet new demands or industry standards without incurring significant costs that we may not be able to pass on to our tenants. The obsolescence of our data centers could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

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Certain of our properties containing data centers contain space not suitable for lease other than as data centers, which could make it difficult or impractical to reposition them for alternative use. Certain of our properties contain data center space, which is highly specialized space containing extensive electrical and mechanical systems that are designed uniquely to run and maintain banks of computer servers. As a result, in the event that we needed to reposition such data center space for another use, major renovations and expenditures could be required.

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 not favorable, and we may find that to be increasingly the case under the current economic conditions due to a lack of credit availability for potential buyers. Such illiquidity could limit our ability to quickly change our portfolio of properties 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 two years and limits the number of properties it can sell in a given year. 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 these factors, we may be unable to sell a property at an advantageous time.

We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt. Some of our properties are pledged 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.

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 may refinance on terms that are less favorable to us than the terms of our existing indebtedness;

- in the event of our default under the terms of our Revolving Credit Facility, our Operating Partnership could be restricted from making cash distributions to us, which could result in reduced distributions to our shareholders or the need for us to incur additional debt to fund these distributions;

- 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.

Some of our debt is cross-defaulted, which means that failure to pay interest or principal on the debt above a threshold value will create a default on certain of our other debt. In addition, some of our debt which is cross-defaulted also contains cross-collateralization provisions, which means that the collateral of the debt can also be used as collateral for certain of our other debt. Any foreclosure of our properties could 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, we may be required to pay the resulting shortfall to the lender using other assets.

If short-term interest rates were to rise, our debt service payments on debt with variable interest rates 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, in the event we decided to unwind such agreements, could result in our recognizing a loss and remitting a payment.

We must refinance our debt in the future. As of December 31, 2011, our scheduled debt payments over the next five years, including maturities, were as follows:

Year	Amount(1) (in thousands)
2012	$ 66,063
2013	163,003
2014	820,780
2015	806,104
2016	278,642

(1) Represents principal maturities only and therefore excludes net discounts of $12.2 million. Maturities include $16.8 million in 2012, $17.9 million in 2013, $662.0 million in 2014 and $405.6 million in 2015 that may each be extended for one year, subject to certain conditions.

Our operations likely will not generate enough cash flow to repay some or all of this debt without additional borrowings, equity issuances and/or property sales. If we cannot refinance our debt, extend the repayment dates, or raise additional equity prior to the dates 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 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 can retain for other business purposes, including amounts to fund acquisitions and development activity. 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 be unable to continue to make shareholder distributions at expected levels. We declared a first quarter 2012 common share dividend to shareholders of record on March 31, 2012 of $0.275 per share, a 33% decrease from the fourth quarter 2011 dividend of $0.4125 per share, and expect to continue to pay dividends at this reduced rate at least through the remainder of 2012. We expect to make regular quarterly cash distributions to our shareholders. However, our ability to make such distributions depends on a number of factors, some of which are beyond our control. Some of our loan agreements contain provisions that could restrict future distributions. Our ability to make distributions at expected levels will also be dependent, in part, on other matters, including, but not limited to:

- continued property occupancy and timely receipt 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;
- our ability to compete;
- our costs of compliance with environmental and other laws;

our corporate overhead levels;

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our 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 ability to pay dividends may be limited, and we cannot provide assurance 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 will depend almost entirely on payments and distributions 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 distributions 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 that may in the future be issued for financing acquisitions, share-based compensation arrangements or otherwise would have a similar effect.

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, 2011, we had $2.4 billion of 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.

Our ability to pay dividends on preferred shares is further limited by the requirements of Maryland law. As a Maryland REIT, we may not under applicable Maryland law make a distribution if either of the following conditions exist after giving effect to the distribution: (1) the REIT would not be able to pay its debts as the debts become due in the usual course of business; or (2) 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. Therefore, we may not make a distribution on any series of preferred shares if either of the above described conditions exists after giving effect to the distribution.

We may issue additional common or preferred shares that dilute our shareholders' interests. We may issue additional common shares and preferred shares without shareholder approval. Similarly, we may cause the Operating Partnership to issue its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or our shareholders. Our existing shareholders' interests could be diluted if such additional issuances were to occur.

We may suffer economic harm as a result of the actions of our partners in real estate joint ventures and other investments. We invest in certain entities in which we are not the exclusive investor or principal decision maker. Investments in such entities may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that the other parties to these investments might become bankrupt or fail to fund their share of required capital contributions. Our partners in these entities may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also lead to impasses, for example, as to whether to sell a property, because neither we nor the other parties to these investments may have full control over the entity. In addition, we may in certain circumstances be liable for the actions of the other parties to these investments. Each of these factors could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

We may need to make additional cash outlays to protect our investment in loans we make that are subordinate to other loans. We have made and may in the future make loans under which we have a secured interest in the ownership of a property that is subordinate to other loans on the property. If a default were to occur under the terms of any such loans with us or under the first mortgage loans related to the properties on such loans, we may be in a position where, in order to protect our investment, we would need to either (1) purchase the other loan or (2) foreclose on the ownership interest in the property and repay the first mortgage loan, 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 may be subject to possible environmental liabilities. We are subject to various Federal, state and local environmental laws, including air and water quality, hazardous or toxic substances and health and safety. These laws can impose liability on current and prior 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, or even aware of, 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.

Although most of our properties have been subject to varying degrees of environmental assessment, many of these assessments are limited in scope and may not include or identify all potential environmental liabilities or risks associated with the property. Identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in cleanup or compliance requirements could result in significant costs to us that could have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

Terrorist attacks, such as those of September 11, 2001, may adversely affect the value of our properties, our financial position and cash flows. We have significant investments in properties located in large metropolitan areas and near military installations. Future terrorist attacks could directly or indirectly damage our properties or cause losses that materially exceed our insurance coverage. After such an attack, tenants in these areas may choose to relocate their businesses to areas of the United States that may be perceived to be less likely targets of future terrorist activity, and fewer customers may choose to patronize businesses in these areas. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease space on less favorable terms. As a result, the occurrence of terrorist attacks could adversely affect our financial position, results of operations, cash flows and ability to make expected distributions to our shareholders.

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We may be 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, state or local laws relating to zoning, construction, fire and life safety requirements and other matters. These laws may require significant property modifications in the future 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, as mentioned above, 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.

We may be subject to increased costs of insurance and limitations on coverage, particularly regarding acts of terrorism. Our portfolio of properties is insured for losses under our property, casualty and umbrella insurance policies through September 30, 2012. 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. Most of our loan agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs, or at all, in the future. In addition, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance and/or refinance our properties and execute our growth strategies, which, in turn, would have an adverse effect on our financial condition, results of operations, cash flows and ability to make expected distributions to our shareholders.

Our business could be adversely affected by a negative audit by the United States Government. Agencies of the United States, including the Defense Contract Audit Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. The United States Government also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the United States Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

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. The Ownership Limit and the restrictions on ownership of our common shares may delay or prevent a transaction or a change of control that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders.

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.

The Maryland business statutes impose potential restrictions that may discourage 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, which would substantially reduce funds available to make distributions to our shareholders. 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 specified 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. In addition, if we fail to qualify as a REIT, we will no longer be required to pay dividends. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital and would likely have a significant adverse effect on the value of our securities.

We could face possible adverse changes in tax laws, which may result in an increase in our tax liability. From time to time changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

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 regarding our major tenants and sector concentrations;
- the level of institutional investor interest in our Company;
- general economic and business conditions;
- prevailing interest rates;
- our financial performance;

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- our underlying asset value;
- market perception of our financial condition, performance, dividends and growth potential; and
- adverse changes in tax laws.

We may experience significant losses and harm to our financial condition if financial institutions holding our cash and cash equivalents file for bankruptcy protection. We believe that we maintain our cash and cash equivalents with high quality financial institutions. We have not experienced any losses to date on our deposited cash. However, we may incur significant losses and harm to our financial condition in the future if any of these financial institutions files for bankruptcy protection.

Certain of our Trustees have potential conflicts of interest. Certain 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 Trustees contributed to the Operating Partnership, the 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, provide assurance 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.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

The following table provides certain information about our office properties as of December 31, 2011:

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*	National Business Park	1990	238,007	100.0%	$ 8,745,038	$ 36.74
300 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2009	193,296	98.6%	6,205,914	32.57
304 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2005	162,483	100.0%	5,149,530	31.69
2720 Technology Drive *Annapolis Junction, MD*	National Business Park	2004	158,929	100.0%	5,289,305	33.28
306 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2006	155,367	100.0%	4,838,585	31.14
302 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2007	153,566	99.6%	5,250,120	34.34
2711 Technology Drive *Annapolis Junction, MD*	National Business Park	2002	152,209	100.0%	5,013,808	32.94
308 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2010	151,207	100.0%	5,002,689	33.09
318 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2005	125,635	100.0%	4,385,786	34.91
322 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2006	125,487	100.0%	5,064,611	40.36
320 Sentinel Drive *Annapolis Junction, MD*	National Business Park	2007	125,325	100.0%	5,058,121	40.36
316 Sentinel Way *Annapolis Junction, MD*	National Business Park	2011	125,150	0.0%		
324 Sentinel Way *Annapolis Junction, MD*	National Business Park	2010	125,118	100.0%	3,638,688	29.08
140 National Business Parkway *Annapolis Junction, MD*	National Business Park	2003	119,466	100.0%	4,219,827	35.32
132 National Business Parkway *Annapolis Junction, MD*	National Business Park	2000	118,150	100.0%	3,906,628	33.06
2721 Technology Drive *Annapolis Junction, MD*	National Business Park	2000	117,242	100.0%	3,821,020	32.59
2701 Technology Drive *Annapolis Junction, MD*	National Business Park	2001	117,068	100.0%	3,833,914	32.75
2691 Technology Drive	National Business Park	2005	103,578	100.0%	3,588,956	34.65

Annapolis Junction, MD						
134 National Business Parkway *Annapolis Junction, MD*	National Business Park	1999	92,327	100.0%	2,982,958	32.31
133 National Business Parkway *Annapolis Junction, MD*	National Business Park	1997	88,057	100.0%	2,883,341	32.74
141 National Business Parkway *Annapolis Junction, MD*	National Business Park	1990	87,364	100.0%	2,760,773	31.60
135 National Business Parkway *Annapolis Junction, MD*	National Business Park	1998	86,437	100.0%	3,023,246	34.98
131 National Business Parkway *Annapolis Junction, MD*	National Business Park	1990	69,702	100.0%	2,291,554	32.88
430 National Business Pkwy *Annapolis Junction, MD*	National Business Park	2011	61,299	100.0%	2,094,317	34.17
114 National Business Parkway *Annapolis Junction, MD*	National Business Park	2002	10,113	100.0%	234,857	23.22
314 Sentinel Way *Annapolis Junction, MD*	National Business Park	2008	4,462	100.0%	237,872	53.31

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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)
7740 Milestone Parkway(4) *Hanover, MD*	Arundel Preserve	2009	144,610	6.0%	283,691	32.77
1550 West Nursery Road *Linthicum, MD*	Airport Square	2009	161,689	100.0%	3,457,038	21.38
1306 Concourse Drive *Linthicum, MD*	Airport Square	1990	116,259	66.3%	1,853,742	24.05
870 Elkridge Landing Road *Linthicum, MD*	Airport Square	1981	105,456	100.0%	2,506,436	23.77
920 Elkridge Landing Road *Linthicum, MD*	Airport Square	1982	103,415	100.0%	2,010,637	19.44
1304 Concourse Drive *Linthicum, MD*	Airport Square	2002	101,124	79.0%	2,152,439	26.95
900 Elkridge Landing Road *Linthicum, MD*	Airport Square	1982	101,005	100.0%	2,447,840	24.23
1199 Winterson Road *Linthicum, MD*	Airport Square	1988	100,104	100.0%	2,741,631	27.39
1302 Concourse Drive *Linthicum, MD*	Airport Square	1996	83,717	78.5%	1,748,380	26.61
881 Elkridge Landing Road *Linthicum, MD*	Airport Square	1986	75,385	100.0%	2,005,117	26.60
1099 Winterson Road *Linthicum, MD*	Airport Square	1988	71,675	34.8%	580,362	23.28
849 International Drive *Linthicum, MD*	Airport Square	1988	69,018	70.7%	1,276,037	26.14
1190 Winterson Road *Linthicum, MD*	Airport Square	1987	69,016	100.0%	1,838,589	26.64
911 Elkridge Landing Road *Linthicum, MD*	Airport Square	1985	68,373	100.0%	1,610,324	23.55
1201 Winterson Road *Linthicum, MD*	Airport Square	1985	67,903	100.0%	1,485,615	21.88
999 Corporate Boulevard *Linthicum, MD*	Airport Square	2000	67,083	34.8%	603,933	25.83
891 Elkridge Landing Road *Linthicum, MD*	Airport Square	1984	57,987	80.0%	1,277,213	27.52
901 Elkridge Landing Road *Linthicum, MD*	Airport Square	1984	57,872	51.7%	870,301	29.09
900 International Drive *Linthicum, MD*	Airport Square	1986	57,140	100.0%	920,936	16.12
930 International Drive *Linthicum, MD*	Airport Square	1986	56,685	99.8%	1,090,061	19.27
800 International Drive *Linthicum, MD*	Airport Square	1988	56,585	59.9%	760,515	22.43
921 Elkridge Landing Road *Linthicum, MD*	Airport Square	1983	56,452	0.0%		
938 Elkridge Landing Road *Linthicum, MD*	Airport Square	1984	56,270	100.0%	1,269,166	22.55
939 Elkridge Landing Road *Linthicum, MD*	Airport Square	1983	54,224	86.9%	834,431	17.71
5520 Research Park Drive *Catonsville, MD*	UMBC	2009	103,333	91.0%	2,378,463	25.31
5522 Research Park Drive *Catonsville, MD*	UMBC	2007	23,925	100.0%	841,112	35.16
7467 Ridge Road *Hanover, MD*	BWI South	1990	74,545	65.5%	1,156,254	23.70
7240 Parkway Drive *Hanover, MD*	BWI South	1985	74,475	92.8%	1,447,466	20.94
7272 Park Circle Drive *Hanover, MD*	BWI South	1991/1996	60,041	79.8%	1,011,682	21.11

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Property and Location	Submarket	Year Built/ Renovated	Rentable Square Feet	Occupancy(1)	Annualized Rental Revenue(2)	Annualized Rental Revenue per Occupied Square Foot(2)(3)
7318 Parkway Drive *Hanover, MD*	BWI South	1984	59,204	100.0%	1,372,041	23.17
7320 Parkway Drive *Hanover, MD*	BWI South	1983	56,964	0.0%		
1340 Ashton Road *Hanover, MD*	BWI South	1989	45,867	100.0%	860,760	18.77
1362 Mellon Road *Hanover, MD*	BWI South	2006	43,232	86.5%	865,221	23.14
1334 Ashton Road *Hanover, MD*	BWI South	1989	38,128	100.0%	868,745	22.78
1331 Ashton Road *Hanover, MD*	BWI South	1989	28,906	29.1%	150,416	17.87
1341 Ashton Road *Hanover, MD*	BWI South	1989	15,314	100.0%	331,569	21.65
1343 Ashton Road *Hanover, MD*	BWI South	1989	9,903	100.0%	140,047	14.14
2500 Riva Road *Annapolis, MD*	Annapolis	2000	155,000	100.0%	2,262,067	14.59
7125 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1973/1999	479,976	70.1%	6,522,562	19.40
9140 Route 108 *Columbia, MD*	Howard County Perimeter	1974/1985	171,436	100.0%	7,389,857	43.11
7200 Riverwood Road *Columbia, MD*	Howard County Perimeter	1986	160,000	100.0%	4,756,599	29.73
7000 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	145,386	100.0%	2,440,493	16.79
6721 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2009	131,451	100.0%	3,970,916	30.21
6711 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2006 - 2007	124,048	100.0%	3,654,044	29.46
6731 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2002	123,576	87.5%	3,152,831	29.17
6950 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1998	112,861	100.0%	2,344,172	20.77
6940 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1999	108,652	81.0%	2,434,265	27.66
7067 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2001	85,393	98.3%	2,042,058	24.33
8621 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2005 - 2006	83,734	100.0%	1,919,859	22.93
6700 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	76,359	75.8%	1,416,089	24.45
6750 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	75,328	86.4%	1,774,692	27.27
6740 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1992	63,161	100.0%	1,834,668	29.05
7015 Albert Einstein Drive *Columbia, MD*	Howard County Perimeter	1999	62,216	100.0%	1,309,964	21.06
7160 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	62,041	94.6%	1,709,961	29.14
8671 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	55,688	100.0%	916,624	16.46
6716 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1990	52,114	66.8%	914,617	26.28

8661 Robert Fulton Drive *Columbia, MD*	Howard County Perimeter	2002	48,666	100.0%	970,805	19.95
7142 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1994	47,668	100.0%	735,841	15.44

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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)
9020 Mendenhall Court *Columbia, MD*	Howard County Perimeter	1982/2005	47,603	88.2%	679,199	16.18
7130 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1989	45,882	100.0%	900,939	19.64
9140 Guilford Road *Columbia, MD*	Howard County Perimeter	1983	40,288	55.8%	343,054	15.25
7150 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	39,496	100.0%	799,144	20.23
9720 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	39,480	100.0%	727,532	18.43
6708 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1988	39,128	100.0%	948,041	24.23
7065 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	38,560	100.0%	790,810	20.51
7138 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	38,285	100.0%	906,894	23.69
9740 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	37,520	100.0%	581,409	15.50
9160 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	36,919	100.0%	751,420	20.35
7063 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	36,295	100.0%	981,167	27.03
6760 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	1991	36,227	64.4%	538,056	23.06
7150 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1991	34,734	85.0%	604,614	20.49
9700 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	31,117	100.0%	678,387	21.80
7061 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	2000	30,730	82.7%	609,680	24.00
9730 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	30,495	78.1%	407,350	17.09
6724 Alexander Bell Drive *Columbia, MD*	Howard County Perimeter	2001	28,107	80.3%	575,448	25.51
7170 Riverwood Drive *Columbia, MD*	Howard County Perimeter	2000	27,891	41.4%	187,906	16.29
7134 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter	1990	21,931	0.0%		
9150 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	18,405	100.0%	380,283	20.66
10280 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	16,145	90.2%	252,562	17.33
10270 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	15,914	60.6%	162,122	16.80
9710 Patuxent Woods Drive *Columbia, MD*	Howard County Perimeter	1986/2001	14,778	72.2%	202,964	19.02
9130 Guilford Road *Columbia, MD*	Howard County Perimeter	1984	13,647	0.0%		
10290 Old Columbia Road *Columbia, MD*	Howard County Perimeter	1988/2001	10,229	77.2%	163,482	20.70
		2008	4,592	100.0%	144,372	31.44

6741 Columbia Gateway Drive *Columbia, MD*	Howard County Perimeter							
Subtotal/Average			**8,859,080**	**87.9%**	**$**	**214,359,486**	**$**	**27.53**
Northern Virginia:								
15000 Conference Center Drive *Chantilly, VA*	Dulles South	1989	444,869	85.3%	$	9,652,813	$	25.42
15010 Conference Center Drive *Chantilly, VA*	Dulles South	2006	220,906	100.0%		7,296,046		33.03

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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)
15049 Conference Center Drive *Chantilly, VA*	Dulles South	1997	152,993	100.0%	4,708,200	30.77
15059 Conference Center Drive *Chantilly, VA*	Dulles South	2000	146,801	98.8%	4,551,549	31.37
14900 Conference Center Drive *Chantilly, VA*	Dulles South	1999	125,357	89.7%	3,174,811	28.24
14280 Park Meadow Drive *Chantilly, VA*	Dulles South	1999	112,916	100.0%	2,861,504	25.34
4851 Stonecroft Blvd. *Chantilly, VA*	Dulles South	2004	88,099	100.0%	2,666,224	30.26
14850 Conference Center Drive *Chantilly, VA*	Dulles South	2000	72,194	33.4%	334,537	13.89
14840 Conference Center Drive *Chantilly, VA*	Dulles South	2000	71,517	0.0%		
13200 Woodland Park Road *Herndon, VA*	Herndon	2002	396,837	100.0%	12,531,612	31.58
13454 Sunrise Valley *Herndon, VA*	Herndon	1998	112,284	86.1%	2,421,055	25.05
13450 Sunrise Valley *Herndon, VA*	Herndon	1998	53,572	100.0%	1,443,882	26.95
2900 Towerview Road *Herndon, VA*	Route 28 South	1982/2008	151,497	51.1%	1,491,098	19.25
1751 Pinnacle Drive *McLean, VA*	Tyson's Corner	1989/1995	260,150	91.6%	8,394,841	35.24
1753 Pinnacle Drive *McLean, VA*	Tyson's Corner	1976/2004	184,480	100.0%	7,171,364	38.87
1550 Westbranch Drive *McLean, VA*	Tyson's Corner	2002	160,461	100.0%	4,719,440	29.41
3120 Fairview Park Drive *Falls Church, VA*	Merrifield	2008	180,853	24.9%	1,649,957	36.58
Subtotal/Average			**2,935,786**	**84.8%**	**$ 75,068,931**	**$ 30.16**
San Antonio:						
7700 Potranco Road *San Antonio, TX*	San Antonio	1982/1985	508,412	100.0%	$ 17,636,099	$ 34.69
8000 Potranco Road *San Antonio, TX*	San Antonio	2010	125,157	100.0%	3,298,570	26.36
8030 Potranco Road *San Antonio, TX*	San Antonio	2010	125,155	100.0%	3,298,570	26.36
1101 Sentry Gateway *San Antonio, TX*	San Antonio	2011	94,920	1.2%	19,635	17.00
1560B Cable Ranch Road *San Antonio, TX*	San Antonio	1985/2006	77,040	100.0%	1,833,802	23.80
1560A Cable Ranch Road *San Antonio, TX*	San Antonio	1985/2007	45,935	100.0%	598,969	13.04
7700-5 Potranco Road *San Antonio, TX*	San Antonio	2009	25,056	100.0%	362,110	14.45