

CORPORATE OFFICE PROPERTIES TRUST  
 Form 424B5  
 August 07, 2003

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PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED NOVEMBER 1, 2000

2,000,000 Shares

## Corporate Office Properties Trust

### 8% Series G Cumulative Redeemable Preferred Shares (Liquidation Preference \$25.00 Per Share)

Corporate Office Properties Trust is a real estate investment trust that owns and operates suburban office properties located in the Mid-Atlantic region. As of June 30, 2003, we owned a total of 113 suburban office properties, including three properties owned through joint ventures, encompassing 9.5 million square feet.

We will pay quarterly cumulative dividends, in arrears, on the Series G Preferred Shares from the date of original issue. These dividends will be payable on January 15, April 15, July 15 and October 15 of each year, when and as declared, beginning on October 15, 2003, at a yearly rate of 8% of the \$25.00 liquidation preference, or \$2.00 per Series G Preferred Share per year. We may not redeem the Series G Preferred Shares prior to August 11, 2008, except as necessary to preserve our status as a real estate investment trust. On or after August 11, 2008, we may, at our option, redeem the Series G Preferred Shares, in whole or from time to time in part, for \$25.00 per Series G Preferred Share in cash plus any accrued and unpaid dividends through the date of redemption. The Series G Preferred Shares have no stated maturity, are not subject to any sinking fund and will remain outstanding indefinitely unless we redeem them.

The underwriters have an option to purchase a maximum of 200,000 additional Series G Preferred Shares to cover over-allotments.

We anticipate that the Series G Preferred Shares will be listed on the New York Stock Exchange under the symbol "OFCPRG." We expect that trading on the New York Stock Exchange will commence within 30 days after initial delivery of the Series G Preferred Shares.

**Investing in the Series G Preferred Shares involves risks. See "Risk Factors" beginning on page S-2 of this prospectus supplement.**

	<u>Price to Public<sup>(1)</sup></u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Company<sup>(1)</sup></u>
Per Share	\$25.00	\$0.66	\$24.34
Total	\$50,000,000	\$1,320,000	\$48,680,000

(1) Plus accrued dividends, if any, from August 11, 2003.

Delivery of the Series G Preferred Shares in book-entry form only will be made on or about August 11, 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse First Boston**

**Raymond James**

**Ferris, Baker Watts**  
Incorporated

The date of this prospectus supplement is August 6, 2003.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus may only be accurate as of the date of such documents.

In connection with an underwritten offering, rules of the Securities and Exchange Commission (SEC) permit underwriters to engage in transactions that stabilize the price of our Series G Preferred Shares being offered. These transactions may include purchases for the purpose of fixing or maintaining the price of our Series G Preferred Shares being offered at a level that is higher than the

market would dictate in the absence of such transactions. See "Underwriting" in this prospectus supplement and "Plan of Distribution" in the accompanying base prospectus.

The terms "COPT," "Company," "we," "our" and "us" refer to Corporate Office Properties Trust and its subsidiaries, as well as Corporate Office Properties, L.P., referred to as our operating partnership, Corporate Office Management, Inc., referred to as COMI, Corporate Development Services, LLC, Corporate Office Services, LLC, Corporate Realty Management, LLC, and Corporate Cooling & Controls, LLC, unless the context suggests otherwise. The term "you" refers to a prospective investor.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing information to you about this offering of our Series G Preferred Shares in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering. The second part is the accompanying base prospectus, which provides general information. Generally, when we refer to this "prospectus," we are referring to both documents combined. Some of the information in the base prospectus may not apply to this offering. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

## FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and our documents incorporated by reference in this prospectus supplement and the accompanying prospectus contain "forward-looking" statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition of our business. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are not guarantees of future performance, events or results and involve potential risks and uncertainties. Accordingly, actual results may differ materially from those addressed in the forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Important factors that may affect the expectations, estimates or projections expressed in forward-looking statements 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, competition with other companies;

risks of real estate acquisition and development;

governmental actions and initiatives;

environmental requirements; and

the other factors described in this prospectus supplement beginning on page S-2 under the heading "Risk Factors."

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**RISK FACTORS**

*You should carefully consider the risks and uncertainties described below before purchasing our Series G Preferred Shares. While our most significant risks and uncertainties are described below, these are not the only risks that we face. In addition to the risks and uncertainties described below, you should carefully consider all of the other information in this prospectus supplement, the accompanying prospectus and the documents we refer you to in the section in this prospectus supplement called "Where You Can Find More Information."*

**We may suffer adverse consequences as a result of our reliance on rental revenues for our income.**

We earn revenue from renting our properties. Our operating costs do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline and may increase even if our revenues decline.

For new tenants or upon lease expiration for existing tenants, we generally must make improvements and pay other tenant-related costs for which we may not receive increased rents. We also make building-related capital improvements for which tenants may not reimburse us.

If our properties do not generate revenue sufficient to meet our operating expenses and capital costs, we may have to borrow additional amounts to cover these costs. In such circumstances, we would likely have lower profits or possibly incur losses. We may also find in such circumstances that we are unable to borrow to cover such costs, in which case our operations could be adversely affected. Moreover, there may be less or no cash available for distributions to our shareholders.

**Adverse developments concerning some of our key tenants could have a negative impact on our revenue.**

As of June 30, 2003, ten tenants accounted for approximately 49.4% of our total annualized rental revenue, and five of these tenants accounted for approximately 36.0% of our total annualized rental revenue. Information regarding our five largest tenants is set forth below:

Tenant	Total Annualized Rental Revenue at June 30, 2003	Percentage of Total Annualized Rental Revenue	Number of Buildings in Which Tenant Leased Space
(in thousands)			
United States Government <sup>(1)</sup>	\$ 22,104	13.6%	21
Computer Sciences Corporation <sup>(2)</sup>	10,600	6.5%	3
AT&T Local Services <sup>(2)</sup>	9,100	5.6%	6
VeriSign, Inc. <sup>(3)</sup>	8,985	5.5%	1
Unisys <sup>(4)</sup>	7,593	4.7%	3

- (1) Generally, the leases with the United States Government provide for 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. Congress has appropriated funds for these leases through September 2003.
- (2) Includes affiliated companies and organizations.
- (3) VeriSign, Inc. has the right to terminate the lease with respect to a maximum of 232,268 rentable square feet at designated times from June 2005 through September 2006.
- (4) Unisys subleases some of its space to Merck and Co., Inc. Revenue from this subleased space is not included in total annualized rental revenue for Unisys.

If any of our five largest tenants fail to make rental payments to us, or if the United States Government elects to terminate several of its leases and the space cannot be re-leased on satisfactory

terms, there would be an adverse effect on our financial performance and ability to make distributions to our shareholders.

We classify the revenue from our leases into industry groupings based solely on management's knowledge of the tenants' operations in leased space. Occasionally, classifications require subjective and complex judgments. For example, we have a tenant that is considered by many to be in the computer industry; however, since the nature of that tenant's operations in the space leased from us is focused on providing service to the United States Government's defense department, we classify the revenue we earn from the lease as United States Government defense/defense contractor industry revenue. We do not use independent sources such as Standard Industrial Classification codes for classifying our revenue into industry groupings and if we did, the resulting groupings would be materially different. As of June 30, 2003, the United States defense industry (comprised of the United States Government and defense contractors) accounted for approximately 39.2% of our total annualized rental revenue. Most of the 13.6% of our total annualized rental revenue that we derived from leases with agencies of the United States Government as of June 30, 2003 is included in the 39.2% of our total annualized revenue from the United States defense industry.

We have become increasingly reliant on defense industry tenants, particularly due to the increased activity in that sector following the events of September 11, 2001. Furthermore, we expect that the percentage of our total annualized rental revenue derived from the defense industry will continue to increase. A reduction in government spending for defense could affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that these tenants will renew their leases. In the case of the United States Government, a reduction in government spending could result in the early termination of leases. Such occurrences could have an adverse effect on our results of operations, financial condition, cash flows and ability to make distributions to our shareholders.

**We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so.**

Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. We believe that the recent economic slowdown in the United States has, and could continue to, adversely affect a number of our tenants. In addition, as noted above, we rely on a few major tenants for a large percentage of our total rental revenue. If one of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency or general downturn of business, there could be an adverse effect on our financial performance and distributions to shareholders.

**Our properties are geographically concentrated in the Mid-Atlantic region, particularly in the Baltimore/Washington corridor. We believe that our occupancy rates have been affected as a result of adverse conditions in that region, as well as in the United States generally, and we may suffer economic harm if these conditions continue.**

All of our properties are located in the Mid-Atlantic region of the United States. As of June 30, 2003, our properties located in the Baltimore/Washington corridor accounted for 55.3% of our total annualized rental revenue. Our properties are also typically concentrated in office parks in which we own most of the properties. Consequently, we do not have a broad geographic distribution of our properties. As a result, a decline in the real estate market or general economic conditions in the Mid-Atlantic region, the Baltimore/Washington corridor or the office parks in which our properties are located could have an adverse effect on our financial position, results of operations, cash flows and ability to make distributions to our shareholders.

We believe that the recent economic slowdown in the United States has adversely affected occupancy rates in the Mid-Atlantic region and our properties and, in turn, led to downward pressure on rental rates. Occupancy in our portfolio decreased from 94.1% at June 30, 2002 to 91.6% at June 30, 2003; this decrease reflected a somewhat larger decline in our Baltimore/Washington corridor properties, where occupancy decreased from 93.3% at June 30, 2002 to 90.3% at June 30, 2003. Lower

occupancy rates and the resulting increased competition for tenants in our operating regions placed downward pressure on rental rates in most of these regions, a trend that we believe will affect us further as we attempt to lease vacant space and renew leases scheduled to expire on occupied space. If occupancy rates in our regions do not improve or further decline, we may have difficulty leasing both existing vacant space and space associated with future lease expirations at rental rates that are sufficient to meet our short term capital needs, which could adversely affect our financial position, results of operations, cash flows and ability to make distributions to shareholders.

**We would suffer economic harm if we were unable to renew our leases on favorable terms.**

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When leases for our properties expire, our tenants may not renew or may renew on terms less favorable to us than the terms of their original leases. If a tenant leaves, we can expect to experience a vacancy for some period of time as well as higher capital costs than if a tenant renews. As a result, our financial performance and ability to make distributions to our shareholders could be adversely affected if we experience a high volume of tenant departures at the end of their lease terms. Set forth below are the percentages of total annualized rental revenue as of June 30, 2003 that were subject to scheduled lease expirations for the six month period from July 1, 2003 through December 31, 2003 and in each of the next four calendar years:

2003 (from July 1, 2003)	2.3%
2004	9.4%
2005	11.0%
2006	11.1%
2007	15.0%

Our government leases generally provide for early termination rights; the percentages reported above assume no exercise of such early termination rights. Government leases that provide for early termination rights accounted for 13.6% of our total annualized rental revenue at June 30, 2003.

### **We may not be able to compete successfully with other entities that operate in our industry.**

The commercial real estate market is highly competitive. We compete for the purchase of commercial property with many entities, including other publicly traded commercial REITs. Many of our competitors have substantially greater financial resources than we do. If our competitors prevent us from buying properties that we target for acquisition, we may not be able to meet our property acquisition and development goals. Moreover, numerous commercial properties compete for tenants with our properties. Some of the properties competing with ours may have newer or more desirable locations, or the competing properties' owners may be willing to accept lower rates than are acceptable to us. Competition for property acquisitions, or for tenants in properties that we own, could have an adverse effect on our financial performance and distributions to our shareholders.

### **We may be unable to execute our plans to develop and construct additional properties.**

Although the majority of our investments are in currently leased properties, we also develop and construct properties, including some that are not fully pre-leased. When we develop and construct properties, we assume the risk that actual costs will exceed our budgets, that we will experience construction or development delays and that projected leasing will not occur, any of which could adversely affect our financial performance and our ability to make distributions to our shareholders. In addition, we generally do not obtain construction financing commitments until the development stage of a project is complete and construction is about to commence. We may find that we are unable to obtain financing needed to continue with the construction activities for such projects.

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### **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 June 30, 2003, we owned a total of 113 properties, three of which were held through joint ventures. Aside from our inability to unilaterally control the operations of these joint ventures, our investments entail the additional risks that (1) the other parties to these investments may not fulfill their financial obligations as investors, in which case we may need to fund such parties' share of additional capital requirements and (2) the other parties to these investments may take actions that are inconsistent with our objectives, either of which could have an adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our shareholders.

### **We are subject to possible environmental liabilities.**

We are subject to various federal, state and local environmental laws. These laws can impose liability on property owners or operators for the costs of removal or remediation of hazardous substances released on a property, even if the property owner was not responsible for the release of the hazardous substances. Costs resulting from environmental liability could be substantial. The presence of hazardous substances on our properties may also adversely affect occupancy and our ability to sell or borrow against those properties. In addition to the costs of government claims under environmental laws, private plaintiffs may bring claims for personal injury or other reasons. Additionally, various laws impose liability for the costs of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances at such a facility is potentially liable under such laws. These laws often impose liability on an entity even if the facility was not owned or operated by the entity.

**Real estate investments are illiquid, and we may not be able to sell our properties on a timely basis when we determine it is appropriate to do so.**

Equity real estate investments such as our properties are relatively difficult to sell and convert to cash quickly, especially if market conditions are depressed. Such illiquidity will tend to limit our ability to vary our portfolio of properties promptly in response to changes in economic or other conditions. Moreover, under certain circumstances, the Internal Revenue Code imposes certain penalties on a REIT that sells property held for less than four years. In addition, for certain of our properties that we acquired by issuing units in our operating partnership, we are restricted for a certain period of time from entering into transactions (such as the sale or refinancing of the acquired property) that will result in a taxable gain to the sellers without the sellers' consent. Due to all of these factors, we may be unable to sell a property at an advantageous time.

**Our methodology for accounting for property acquisitions with in-place leases may be affected by future interpretive guidance issued by the SEC, which could have an adverse impact on our operating results and our funds from operations.**

We believe that the SEC has expressed concerns regarding the application by many public companies of Financial Accounting Standards Board ("FASB") Statement No. 141, Business Combinations, to acquisitions of properties with in-place leases. We further believe that the SEC is in the process of proposing additional interpretive guidance relating to the application of Statement No. 141. While we, in consultation with our independent auditors, believe that our approach to accounting for property acquisitions is consistent with the current methodology suggested by FASB under Statement No. 141, as well as with industry-wide practice, any additional interpretive guidance issued by the SEC regarding Statement No. 141 may result in a modification of our accounting for property acquisitions, which modification could have an adverse impact on our operating results and determination of funds from operations, or FFO.

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**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 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 2003. Due largely to the terrorist attacks on September 11, 2001, the insurance industry has changed its risk assessment approach and cost structure. We renew our insurance policies on an annual basis, and experienced an increase in our policy premiums in October 2002, at which time we maintained our coverage relating to terrorism. Continuing changes in the insurance industry may increase the cost of insuring our properties and decrease the scope of insurance coverage, either of which could adversely affect our financial position and operating results.

**We may suffer adverse effects as a result of the indebtedness that we carry and the terms and covenants that relate to this debt.**

Our strategy is to operate with higher debt levels than most REITs. However, these high debt levels could make it difficult to obtain additional financing when required and could also make us more vulnerable to an economic downturn. Most of our properties have been mortgaged to collateralize indebtedness. In addition, we rely on borrowings to fund some or all of the costs of new property acquisitions, construction and development activities and other items. Our organizational documents do not limit the amount of indebtedness that we may incur.

As of June 30, 2003, our total outstanding debt was \$736.1 million, and our debt to undepreciated book value of real estate assets was 60.4%. We define debt to undepreciated book value of real estate assets as mortgage loans payable divided by gross investment in real estate as computed by adding accumulated depreciation to the net investment in real estate as presented on our balance sheet. Our debt to total market capitalization was 49.4% based upon the \$16.93 closing per share market price of our common shares on June 30, 2003. Total market capitalization is the sum of (1) total debt, (2) the value of all outstanding common shares and common units in our operating partnership not owned by us at the \$16.93 market price and (3) the total liquidation value of preferred shares.

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Payments of principal and interest on our debt may leave us with insufficient cash to operate our properties or pay distributions to our shareholders as required to maintain our qualification as a REIT. We are also subject to the risks that:

we may not be able to refinance our existing indebtedness or refinance on terms as favorable as the terms of our existing indebtedness;

certain debt agreements of our operating partnership could restrict the ability of our operating partnership to make cash distributions to us, which could result in reduced distributions to our shareholders or the need to incur additional debt to fund these distributions; and

if we are unable to pay our debt service on time or are unable to comply with restrictive financial covenants in certain of our mortgage loans, our lenders could foreclose on our properties securing such debt and in some cases other properties and assets that we own.

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A number of our loans are cross-collateralized, which means that separate groups of properties from our portfolio secure each of these loans. More importantly, many of our loans are cross-defaulted, which means that failure to pay interest or principal on any of our loans will create a default on certain of our other loans. Any foreclosure of our properties would result in loss of income and asset value that would negatively affect our financial condition, results of operations, cash flows and ability to make distributions to our shareholders. In addition, if we are in default and the value of the properties securing a loan is less than the loan balance, the lender may require payment from our other assets.

We use interest rate swap agreements to reduce the impact of changes in interest rates. As of June 30, 2003, we had two interest rate swap agreements in place, each of which is for a notional amount of \$50.0 million. These agreements expire in January 2004 and January 2005. Decreases in interest rates would result in increased interest payments due under interest rate swap agreements in place and could result in the Company recognizing a loss and remitting a payment to unwind such agreements. As of June 30, 2003, approximately 32.9% of our total debt had variable interest rates, excluding effects of the outstanding interest rate swap agreements. This percentage decreases to 19.3% when including the effect of the interest rate swap agreements in effect at June 30, 2003. If short-term interest rates were to rise, our debt service payments on adjustable rate debt would increase, which would lower our net income and could decrease our distributions to our shareholders.

We must refinance our mortgage debt in the future. Our scheduled debt payments for the six month period from July 1, 2003 through December 31, 2003 and in each of the next four calendar years, including maturities, are as follows:

<b>Year</b>	<b>Amount</b>
	<b>(in thousands)</b>
2003 (from July 1, 2003)	\$ 59,925 <sup>(1)</sup>
2004	185,256 <sup>(2)</sup>
2005	69,611 <sup>(3)</sup>
2006	73,281
2007	65,898

(1) Includes a \$36.0 million maturity in November, which may be extended for a one-year period, subject to certain conditions.

(2) Includes maturities of \$89.0 million in March and \$25.8 million in August, each of which may be extended for a one-year period, subject to certain conditions.

(3) Includes a \$40.0 million maturity in January, which may be extended for two six-month periods, subject to certain conditions.



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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 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;

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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 that may prevent a change of control or otherwise affect the ownership of our common and preferred shares.**

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 has exempted the foreign trust owning all of our 4% Series D Cumulative Convertible Redeemable Preferred Shares from the Ownership Limit.

### **Our Declaration of Trust includes other provisions that may prevent or delay a change of control.**

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Subject to the requirements of the New York Stock Exchange, our Board of Trustees has the authority, without shareholder approval, to issue additional securities on terms that could delay or prevent a change in control. In addition, our Board of Trustees has the authority to reclassify any of our unissued common shares into preferred shares. Our Board of Trustees may issue preferred shares with such preferences, rights, powers and restrictions as our Board of Trustees may determine, which could also delay or prevent a change in control.

### **Our Board of Trustees is divided into three classes of Trustees, which could delay a change of control.**

Our Declaration of Trust divides our Board of Trustees into three classes. The term of one class of the Trustees expires each year, at which time a successor class is elected for a term ending at the third succeeding annual meeting of shareholders. Such staggered terms make it more difficult for a third party to acquire control of us.

### **The Maryland business statutes also impose potential restrictions on a change of control of our company.**

Various Maryland laws may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to shareholders. Our bylaws exempt us from such laws, but our Board of Trustees can change our bylaws at any time to make these provisions applicable to us.

### **Our failure to qualify as a REIT would have adverse tax consequences.**

We believe that since 1992 we have qualified for taxation as a REIT for federal income tax purposes. We plan to continue to meet the requirements for qualification 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

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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 IRS 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 IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our shareholders. This would likely have a significant adverse effect on the value of our securities. In addition, we would no longer be required to make any distributions to our shareholders.

### **We have certain distribution requirements that reduce cash available for other business purposes.**

As a REIT, we must distribute 90% of our annual taxable income (excluding capital gains), which limits the amount of cash we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time that we actually receive revenue or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement. We may become subject to tax liabilities that adversely affect our operating cash flow 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;

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market perception of REITs relative to other investment opportunities;

the level of institutional investor interest in our company;

general economic and business conditions;

prevailing interest rates; and

market perception of our financial condition, performance, dividends and growth potential.

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

The average daily trading volume of our common shares during the three months ended June 30, 2003 was approximately 121,000 shares, and the average trading volume of our publicly-traded

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preferred shares was generally insignificant. As a result, relatively small volumes of transactions could have a pronounced effect on the market price of such shares.

### **We are dependent on external sources of capital for future growth.**

As noted above, because we are a REIT, we must distribute 90% of our annual taxable income. Due to this requirement, we will not be able to fund our acquisition, construction and development activities using cash flow from operations. Therefore, our ability to fund these activities is dependent on our ability to access capital funded by third parties. Such capital could be in the form of new loans, equity issuances of common shares, preferred shares, common and preferred units in our operating partnership or joint venture funding. Such capital may not be available on favorable terms or at all. Moreover, additional debt financing may substantially increase our leverage and subject us to covenants that restrict management's flexibility in directing our operations, and additional equity offerings may result in substantial dilution of our shareholders' interests. Our inability to obtain capital when needed could have a material adverse effect on our ability to expand our business and fund other cash requirements.

### **Certain of our officers and Trustees have potential conflicts of interest.**

Certain of our officers and members of our Board of Trustees own partnership units in our operating partnership. These individuals may have personal interests that conflict with the interests of our shareholders. For example, if our operating partnership sells or refinances certain of the properties that these officers or Trustees contributed to the operating partnership, the officers or Trustees could suffer adverse tax consequences. Their personal interest 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 address conflicts of interest. We cannot guarantee, however, that these policies will be successful in eliminating the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of all of our shareholders.

### **We are dependent on our key personnel, and the loss of any key personnel could have an adverse effect on our operations.**

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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 guarantee 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 securities or 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.

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### THE COMPANY

We are a fully-integrated and self-managed real estate investment trust, or REIT, that focuses on the ownership, management, leasing, acquisition and development of suburban office properties located in the Mid-Atlantic region. 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 June 30, 2003, we owned 113 operating properties, including three properties owned through joint ventures, encompassing 9.5 million square feet.

We focus on leasing our office properties to large, financially sound entities with significant, long-term space requirements. As of June 30, 2003, our portfolio was 92.0% leased. Our top twenty tenants, which represented 63.2% of our total annualized revenue as of June 30, 2003 had a weighted average lease term of 5.9 years and an average lease size of 58,544 square feet.

We believe our extensive experience, market knowledge and network of industry contacts within the Mid-Atlantic region provide us with an important competitive advantage in establishing, maintaining and enhancing our prominence within our targeted submarkets. Our six executive officers have an average of 26 years of real estate experience, specifically in the Mid-Atlantic region. In addition, as of June 30, 2003, our executive officers and trustees collectively owned 22.0% of our common equity interests, on a fully diluted basis.

We are organized as a REIT under the laws of the State of Maryland. Our principal executive offices are located at 8815 Centre Park Drive, Suite 400, Columbia, Maryland 21045 and our telephone number is (410) 730-9092.

### Recent Developments

Between April 1 and August 6, 2003, we completed the following transactions:

sold 5,290,000 common shares in an underwritten public offering on May 27, 2003, raising \$79.4 million in net proceeds. We used the net proceeds from this offering to purchase our Waterview property, as described below, with the balance held as cash reserves;

acquired an office building with 404,665 square feet located in Herndon, Virginia and referred to as our Waterview property, for \$71.4 million on June 2, 2003. The property is 100% leased to VeriSign, Inc. through July 2014, subject to the tenant's rights to terminate the lease with respect to up to 232,268 square feet at various times from June 2005 through September 2006;

obtained a \$50.5 million mortgage loan on June 16, 2003, from which we currently have drawn \$40.0 million. The loan is secured by the Waterview property, bears interest at LIBOR plus 1.85% and matures on January 1, 2005, unless we elect to extend the maturity date for up to an additional year. The loan proceeds were used to repurchase Series C preferred units of our operating partnership, as described below, with the balance plus cash reserves used to pay down \$5.0 million of outstanding indebtedness under our secured revolving credit facility;

repurchased all of the outstanding 1,016,662 Series C preferred units of our operating partnership on June 16, 2003 for \$36.1 million, or \$14.90 per common share on an as-converted basis. As a result of the repurchase, we recognized an

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\$11.2 million reduction to net income available to common shareholders associated with the excess of the repurchase price over our recorded book value which contributed (\$0.44) per common share in the three months ended June 30, 2003.

acquired a five office property portfolio in Northern Virginia on July 25 2003, which was 96.3% occupied as of June 30, 2003 and contains 433,814 square feet, for \$75.5 million. We funded this acquisition using proceeds from a \$45.0 million mortgage loan, \$30.0 million in borrowings under

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our secured revolving credit facility and cash reserves for the balance. The \$45.0 million mortgage loan closed simultaneously with the acquisition, bears interest at an annual rate of LIBOR plus 2.0% and matures in July 2004, subject to our ability to extend the maturity date pursuant to two six-month extension options.

### Recent Operating Results

On July 30, 2003 we reported unaudited operating results for the second quarter and for the six months ended June 30, 2003. Net loss available to common shareholders for the three months ended June 30, 2003 was (\$7.5 million), or (\$0.30) per diluted share, as compared to net income available to common shareholders for three months ended June 30, 2002 of \$3.3 million or \$0.14 per diluted share. Net loss available to common shareholders for the six months ended June 30, 2003 was (\$2.1) million, or (\$0.08) per diluted share, as compared to net income available to common shareholders for the six months ended June 30, 2002 of \$6.1 million or \$0.27 per diluted share. The net loss available to common shareholders for the three months ended June 30, 2003 resulted from a one time, non-operating reduction of approximately \$11.2 million associated with our repurchase of the Series C preferred units in excess of recorded book value which contributed (\$0.44) per diluted share in the three months ended June 30, 2003. Revenues from real estate operations were \$40.9 million and \$37.2 million, respectively, for the three months ended June 30, 2003 and 2002. Revenues from real estate operations were \$82.4 million and \$70.9 million, respectively, for the six months ended June 30, 2003 and 2002.

Funds from operations ("FFO") for the three months ended June 30, 2003 was \$14.9 million, or \$0.38 per diluted share, as compared to \$13.5 million, or \$0.37 per diluted share, for the three months ended June 30, 2002. FFO for the six months ended June 30, 2003 was \$28.5 million, or \$0.75 per diluted share, as compared to \$25.1 million, or \$0.70 per diluted share, for the six months ended June 30, 2002. FFO means net income available to common shareholders computed using generally accepted accounting principles ("GAAP"), excluding gains (or losses) from sales of real estate, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Gains from sales of newly-developed properties less accumulated depreciation, if any, required under GAAP are included in FFO on the basis that development services are the primary revenue generating activity; we believe that inclusion of these development gains is in accordance with the National Association of Real Estate Investment Trusts ("NAREIT") definition of FFO, although others may interpret the definition differently. Additionally, the repurchase of the Series C preferred units in our operating partnership for an amount in excess of their recorded book value is not an event contemplated in the NAREIT definition of FFO, and we believe that the exclusion of such an amount from FFO is appropriate.

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

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FFO and a beginning reconciliation of FFO to net income available to common shareholders has been provided in the table on page S-14:

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Unaudited

Three Months Ended		Six Months Ended	
June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002

(in thousands except per share data)

**Real Estate Operations**

Revenues

Rental revenue	\$ 36,722	\$ 33,668	\$ 72,711	\$ 63,559
Tenant recoveries and other revenue	4,156	3,516	9,685	7,338
Revenue from real estate operations	40,878	37,184	82,396	70,897

Expenses

Property operating	11,101	10,026	24,755	19,902
Interest	10,037	9,008	20,172	17,583
Depreciation and amortization	9,824	8,575	18,457	15,818
Expenses from real estate operations	30,962	27,609	63,384	53,303

Earnings from real estate operations before equity in loss of unconsolidated real estate joint ventures

Equity in loss of unconsolidated real estate joint ventures	9,916	9,575	19,012	17,594
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Earnings from real estate operations	9,883	9,553	18,826	17,590
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Losses from service operations	(81)	(104)	(162)	(194)
General and administrative expense	(1,766)	(1,940)	(3,714)	(4,110)

Income before gain on sales of real estate, minority interests, income taxes and discontinued operations

Gain on sales of real estate	8,036	7,509	14,950	13,286
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Income before minority interests, income taxes and discontinued operations	21	425	946	
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Income before minority interests, income taxes and discontinued operations

Minority interests	8,057	7,509	15,375	14,232
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Income before income taxes and discontinued operations	(1,815)	(1,935)	(3,602)	(3,706)
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Income tax benefit, net	6,242	5,574	11,773	10,526
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Income before discontinued operations	19	25	40	52
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Discontinued operations, net	6,261	5,599	11,813	10,578
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Net income	(23)	285	2,412	601
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Preferred share dividends	6,238	5,884	14,225	11,179
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Repurchase of preferred units in excess of recorded book value	(2,534)	(2,534)	(5,067)	(5,067)
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Net (loss) income available to common shareholders	(11,224)		(11,224)	
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Net (loss) income available to common shareholders	\$ (7,520)	\$ 3,350	\$ (2,066)	\$ 6,112
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**Earnings per share ("EPS") computation:**

Numerator:

Net (loss) income available to common shareholders	\$ (7,520)	\$ 3,350	\$ (2,066)	\$ 6,112
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Unaudited

Dividends on convertible preferred shares	136		272	
Numerator for dilutive EPS	\$ (7,520)	\$ 3,486	\$ (2,066)	\$ 6,384

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Denominator:				
Weighted average common shares-basic	25,443	22,704	24,389	21,801
Dilutive options		971		850
Assumed conversion of preferred shares		1,197		1,197
Weighted average common shares-diluted	25,443	24,872	24,389	23,848

Earnings (loss) per common share

Basic	\$ (0.30)	\$ 0.15	\$ (0.08)	\$ 0.28
Diluted(1)	\$ (0.30)	\$ 0.14	\$ (0.08)	\$ 0.27

Unaudited

Three Months Ended		Six Months Ended	
June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002

(in thousands)

Net (loss) income available to common shareholders	\$ (7,520)	\$ 3,350	\$ (2,066)	\$ 6,112
Add: Real estate related depreciation and amortization	9,108	7,918	17,052	14,682
Add: Depreciation and amortization on unconsolidated real estate entities	61	22	97	86
Add: Minority interests-common units in the Operating Partnership	1,338	1,489	3,571	2,826
Less: Gain on sales of real estate, excluding development portion(2)	(8)		(2,851)	(93)
Add: Repurchase of preferred units in excess of recorded book value	11,224		11,224	
Funds from Operations basic ("Basic FFO")	14,203	12,779	27,027	23,613
Add: Preferred Unit distributions	477	572	1,049	1,144
Add: Convertible Preferred Share dividends	136	136	272	272
Add: Restricted common share dividends	90		173	
Add: Expense associated with dilutive options	3	12	9	26
Funds from Operations diluted ("Diluted FFO")	\$ 14,909	\$ 13,499	\$ 28,530	\$ 25,055

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Unaudited

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	Unaudited			
	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	(in thousands except per share data)			
Basic weighted average shares				
Weighted average common shares	25,443	22,704	24,389	21,801
Weighted average common units	8,963	9,391	8,976	9,499
Basic weighted average common shares/units	34,406	32,095	33,365	31,300
Conversion of preferred units	2,022	2,421	2,220	2,421
Conversion of weighted average conv. preferred shares	1,197	1,197	1,197	1,197
Assumed conversion of share options	1,274	1,040	1,189	915
Restricted common shares	334		314	
Diluted weighted average common shares	39,233	36,753	38,285	35,833
Diluted FFO per common share	\$ 0.38	\$ 0.37	\$ 0.75	\$ 0.70

- (1) The effect of the conversion of preferred units and common units is antidilutive in calculating dilutive earnings per share for the three and six months ended June 30, 2003 and 2002. The effect of the conversion of the convertible preferred shares and exercise of share options are also antidilutive in calculating dilutive earnings per share for the three and six months ended June 30, 2003.
- (2) Gains from sales of newly-developed properties less accumulated depreciation, if any, required under GAAP are included in FFO on the basis that development services are the primary revenue generating activity; we believe that inclusion of these development gains is in compliance with the NAREIT definition of FFO, although others may interpret the definition differently.

	Unaudited	
	June 30, 2003	December 31, 2002
	(in thousands)	
<b>Balance Sheet Data (as of period end):</b>		
Real estate investments, net of accumulated depreciation	\$ 1,129,942	\$ 1,067,536
Total assets	1,216,874	1,138,229
Mortgages payable	736,117	705,056
Total liabilities	785,357	748,846
Minority interests	81,274	100,886
Shareholders' equity	350,243	288,497

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CAPITALIZATION



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The following table sets forth our capitalization as of June 30, 2003:

on a historical basis,

as adjusted for our acquisition on July 25, 2003 of a five office property portfolio located in Northern Virginia for \$75.5 million using proceeds of a \$45.0 million mortgage loan, borrowings of \$30.0 million under our secured revolving credit facility and cash reserves for the balance; and

as further adjusted to give effect to the sale of the Series G Preferred Shares and the application of the net proceeds from this offering as described under "Use of Proceeds."

The information set forth in the following table should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2002, and our Quarterly Report on Form 10-Q for the period ended March 31, 2003, each of which is incorporated by reference herein.

	Unaudited		
	As of June 30, 2003		
	Historical	As Adjusted <sup>(1)</sup>	As Further Adjusted <sup>(2)</sup>
	(in thousands)		
Mortgage and other loans payable	\$ 736,117	\$ 811,117	\$ 762,662
Minority interests:			
Common Units	81,274	81,274	81,274
	81,274	81,274	81,274
Total minority interests	81,274	81,274	81,274
Shareholders' equity:			
Preferred Shares of beneficial interest (\$0.01 par value; 10,000,000 shares authorized)			
10.0% Series B Cumulative Redeemable Preferred Shares (\$0.01 par value; 1,725,000 shares authorized, 1,250,000 shares issued and outstanding on a historical, as adjusted and as further adjusted basis)	13	13	13
4.0% Series D Cumulative Convertible Redeemable Preferred Shares (\$0.01 par value; 544,000 shares authorized, issued and outstanding on a historical, as adjusted and as further adjusted basis)	5	5	5
10.25% Series E Cumulative Redeemable Preferred Shares (\$0.01 par value; 1,265,000 shares authorized, 1,150,000 issued and outstanding on a historical, as adjusted and as further adjusted basis)	11	11	11
9.875% Series F Cumulative Redeemable Preferred Shares (\$0.01 par value; 1,425,000 shares authorized, issued and outstanding on a historical, as adjusted and as further adjusted basis)	14	14	14
8% Series G Cumulative Redeemable Preferred Shares (\$0.01 par value; no shares authorized, issued and outstanding on a historical and as adjusted basis, 2,200,000 shares authorized and 2,000,000 shares issued and outstanding on an as further adjusted basis)			20

Unaudited

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Common Shares (\$0.01 par value; 45,000,000 shares authorized, 29,344,231 shares issued and outstanding on a historical, as adjusted and as further adjusted basis) <sup>(3)</sup>	293	293	293
Additional paid-in capital	390,794	390,794	439,229
Cumulative distributions in excess of net income	(34,595)	(34,595)	(34,595)
Value of unearned restricted common share grants	(4,185)	(4,185)	(4,185)
Treasury Shares, at cost (166,600 shares on a historical, as adjusted and as further adjusted basis)	(1,415)	(1,415)	(1,415)
Accumulated other comprehensive loss	(692)	(692)	(692)
<b>Total shareholders' equity</b>	<b>350,243</b>	<b>350,243</b>	<b>398,698</b>
<b>Total capitalization</b>	<b>\$ 1,167,634</b>	<b>\$ 1,242,634</b>	<b>\$ 1,242,634</b>

- (1) We acquired a five office property portfolio in Northern Virginia for \$75.5 million on July 25, 2003 with proceeds from a \$45.0 million mortgage loan, \$30.0 million in borrowings under our secured revolving credit facility and cash reserves for the balance. The \$45.0 million mortgage loan, which we closed simultaneously with the acquisition, bears interest at an annual rate of LIBOR plus 2.0% and matures in July 2004, subject to our ability to extend the maturity date pursuant to two six-month extension options.
- (2) Excludes 200,000 Series G Preferred Shares that may be issuable upon exercise of the underwriters' over-allotment option.
- (3) Excludes (i) 8,946,869 common shares that may be issuable under certain circumstances upon conversion or redemption of outstanding common units as of July 1, 2003 and (ii) 3,343,459 common shares issuable upon the exercise of options issued under our option plan and incentive plan outstanding as of July 1, 2003.

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#### CALCULATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED SHARE DIVIDENDS

Our ratio of earnings to combined fixed charges and preferred share dividends was less than 1.0x for the six months ended June 30, 2003. During the six months ended June 30, 2003, our preferred share dividends included a nonrecurring deemed distribution of approximately

\$11.2 million in connection with our repurchase of the Series C preferred units of our operating partnership at an amount in excess of the recorded book value. As a result, earnings were inadequate to cover combined fixed charges and preferred share dividends by an amount of approximately \$3.1 million in the six months ended June 30, 2003.

This financial ratio measures our ability to repay interest, any preferred share dividends and Series C Preferred Unit distributions from our earnings. Earnings were computed by adding fixed charges (excluding preferred share dividends and capitalized interest) and minority interest of holders of common units in our operating partnership to income before minority interests, income taxes, and discontinued operations. Fixed charges consist of interest costs, debt issuance costs and distributions to preferred shareholders and unitholders.

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### USE OF PROCEEDS

We intend to contribute to our operating partnership the net proceeds from the sale of the Series G Preferred Shares, expected to be approximately \$48.5 million after payment of our expenses related to this offering, or approximately \$53.3 million if the underwriters' over-allotment option is exercised in full. Our operating partnership intends to use all of the net proceeds from this offering to repay borrowings under our \$150.0 million secured revolving credit facility and for general corporate purposes. The weighted average interest rate on our secured revolving credit facility was 3.07% as of June 30, 2003, and \$89.0 million was outstanding as of that date. The secured revolving credit facility matures in March 2004, unless we exercise our option to extend the maturity to March 2005. We may reborrow amounts repaid under the secured revolving credit facility for general corporate purposes.

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### DESCRIPTION OF SERIES G PREFERRED SHARES

*The following summary of the terms and provisions of the Series G Preferred Shares does not purport to be complete and is qualified in its entirety by reference to the pertinent sections of our Declaration of Trust and the Articles Supplementary to the Declaration of Trust establishing the Series G Preferred Shares, each of which is available from us as described in "Where You Can Find More Information." This description of the particular terms of the Series G Preferred Shares supplements, and to the extent it is inconsistent, replaces, the description of the general terms and provisions of our preferred shares set forth in the accompanying prospectus.*

#### General

Under our Declaration of Trust, we are authorized to issue up to 45,000,000 common shares and 10,000,000 preferred shares. As of June 30, 2003, 1,725,000 preferred shares were classified as 10% Series B Cumulative Redeemable Preferred Shares ("Series B Preferred Shares"), 1,250,000 of which were issued and outstanding; 544,000 preferred shares were classified as 4% Series D Cumulative Convertible Redeemable Preferred Shares ("Series D Preferred Shares"), all of which were issued and outstanding; 1,265,000 preferred shares were classified as 10.25% Series E Cumulative Redeemable Preferred Shares ("Series E Preferred Shares"), 1,150,000 of which were issued and outstanding; and 1,425,000 preferred shares were classified as 9.875% Series F Cumulative Redeemable Preferred Shares ("Series F Preferred Shares"), all of which were issued and outstanding. Our Board of Trustees may increase the authorized number of common shares and preferred shares without shareholder approval.

We are authorized to issue preferred shares in one or more classes or subclasses, with the designations, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption, in each case, as are permitted by Maryland law and as our Board of Trustees may determine by resolution. We are authorized to issue up to 2,200,000 Series G Preferred Shares. The Series B Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares and the Series F Preferred Shares, are the only other classes or series of preferred shares authorized and outstanding.

We conduct almost all of our operations through our operating partnership, for which COPT is the managing general partner. Interests in our operating partnership are in the form of common and preferred units. As of June 30, 2003, we owned approximately 75.2% of the outstanding common units, 1,250,000 Series B Preferred Units, 544,000 Series D Preferred Units, 1,150,000 Series E Preferred Units and 1,425,000 Series F Preferred Units issued by our operating partnership. Each series of preferred units has economic terms substantially

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equivalent to the economic terms of the corresponding Series B Preferred Shares, Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares, respectively, that we have issued.

We intend to contribute the proceeds of this offering to our operating partnership in exchange for a number of Series G Preferred Units equal to the number of Series G Preferred Shares that we sell in this offering. The economic terms of the Series G Preferred Units will be substantially equivalent to the economic terms of the Series G Preferred Shares. The Series B, Series D, Series E, and Series F Preferred Units are treated equally (i.e., are *pari passu*) in priority over the common units in our operating partnership with respect to quarterly distributions. Distributions on these preferred units are the source of funds for the payment of dividends on our preferred shares.

### Series G Preferred Shares

#### *Ranking*

The Series G Preferred Shares, as to dividend rights and rights upon our liquidation, dissolution or winding up, rank (i) prior or senior to our common shares and any other class or series of our equity securities authorized or designated in the future if, by the terms of such class or series, the holders of

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the Series G Preferred Shares are entitled to receive dividends or amounts distributable upon liquidation, dissolution or winding up in preference or priority to the holders of shares of that class or series ("Junior Shares"); (ii) on a parity with the Series B Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares, the Series F Preferred Shares and any other class or series of our equity securities authorized or designated in the future if, by the terms of such class or series, the holders of those securities and the holders of Series G Preferred Shares are entitled to the receipt of dividends and of amounts distributable upon liquidation, dissolution or winding up in proportion to their respective amounts of accrued and unpaid dividends per share or liquidation preferences, without preference or priority of one over the other ("Parity Shares"); and (iii) junior to any class or series of our equity securities authorized or designated in the future if, by the terms of such class or series, the holders of that class or series are entitled to the receipt of dividends and amounts distributable upon liquidation, dissolution or winding up in preference or priority to the holders of the Series G Preferred Shares ("Senior Shares").

#### *Dividends*

Holders of Series G Preferred Shares are entitled to receive, when and as declared by our Board of Trustees, out of our funds legally available for payment, quarterly cash dividends on the Series G Preferred Shares at the rate of 8% per year of the \$25.00 liquidation preference (equivalent to \$2.00 per year per Series G Preferred Share). These dividends are cumulative from the date of original issue, whether or not in any dividend period or periods these dividends have been declared or there are funds legally available for the payment of such dividends, and are payable quarterly on January 15, April 15, July 15 and October 15 of each year (or, if not a business day, the next succeeding business day) (each, a "Dividend Payment Date"), and beginning on October 15, 2003. Any dividend payable on the Series G Preferred Shares for any partial dividend period will be computed ratably on the basis of twelve 30-day months and a 360-day year. The initial quarterly dividend payable on the Series G Preferred Shares will be approximately \$0.36 per share. Dividends are payable in arrears to holders of record as they appear on our share records at the close of business on the applicable record date, which is fixed by our Board of Trustees and which can be no more than 60 nor less than 10 days prior to the related Dividend Payment Date. Holders of Series G Preferred Shares are not entitled to receive any dividends in excess of cumulative dividends on the Series G Preferred Shares. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series G Preferred Shares that may be in arrears.

When dividends are not paid in full upon the Series G Preferred Shares or any other class or series of Parity Shares, or a sum sufficient for this payment is not set apart, all dividends declared upon the Series G Preferred Shares and any Parity Shares will be declared ratably in proportion to the respective amounts of dividends accrued and unpaid on the Series G Preferred Shares and accrued and unpaid on such Parity Shares. Except as set forth in the preceding sentence, unless dividends on the Series G Preferred Shares equal to the full amount of accrued and unpaid dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for such payment, for all past dividend periods, no dividends will be declared or paid or set apart for payment by us and no other distribution of cash or other property may be declared or made, directly or indirectly, by us with respect to any Parity Shares. Unless dividends equal to the full amount of all accrued and unpaid dividends on the Series G Preferred Shares have been paid, or declared and set apart for payment, for all past dividend periods, no dividends (other than dividends or distributions paid in Junior Shares or options, warrants or rights to subscribe for or purchase Junior Shares) may be declared or paid or set apart for payment by us and no other distribution of cash or other property may be declared or made, directly or indirectly, by us with respect to any Junior Shares, nor will any Junior Shares be redeemed, purchased or otherwise acquired (except for a redemption, purchase or other acquisition of common shares made for purposes of our employee incentive or benefit plan or any such plan of any of our subsidiaries) for any

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consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such Junior Shares), directly or indirectly, by us (except by conversion into or exchange for Junior Shares, or options, warrants or rights to subscribe for or purchase Junior Shares), nor will any other cash or other property be paid or distributed to or for the benefit of holders of Junior Shares. Regardless of the provisions described above, we will not be prohibited from (i) declaring or paying or setting apart for payment any dividend or distribution on any Parity Shares or (ii) redeeming, purchasing or otherwise acquiring any Parity Shares, in each case, if this declaration, payment, redemption, purchase or other acquisition is necessary to maintain our qualification as a REIT.

#### *Liquidation Preference*

Upon any voluntary or involuntary liquidation, dissolution or winding up, before any payment or distribution by us will be made to or set apart for the holders of any Junior Shares, the holders of Series G Preferred Shares will be entitled to receive a liquidation preference of \$25.00 per share (the "Series G Liquidation Preference"), plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) to the date of final distribution to such holders. Such holders will not be entitled to any further payment. Until the holders of the Series G Preferred Shares have been paid the Series G Liquidation Preference in full, plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) to the date of final distribution to such holders, no payment will be made to any holder of Junior Shares upon our liquidation, dissolution or winding up. If upon any liquidation, dissolution or winding up, our assets, or proceeds thereof, distributable among the holders of Series G Preferred Shares will be insufficient to pay in full the above described preferential amount and liquidating payments on any other shares of any class or series of Parity Shares, then our assets, or the proceeds thereof, will be distributed among the holders of Series G Preferred Shares and any such other Parity Shares ratably in the same proportion as the respective amounts that would be payable on such Series G Preferred Shares and any such other Parity Shares if all amounts payable thereon were paid in full. A voluntary or involuntary liquidation, dissolution or winding up will not include a consolidation or merger of us with or into one or more other entities, a sale or transfer of all or substantially all of our assets, or a statutory share exchange. Upon any liquidation, dissolution or winding up, after payment has been made in full to the holders of Series G Preferred Shares and any Parity Shares, any other series or class or classes of Junior Shares will be entitled to receive any and all of our assets remaining to be paid or distributed, and the holders of the Series G Preferred Shares and any Parity Shares will not be entitled to share in that payment or distribution.

#### *Optional Redemption*

The Series G Preferred Shares will not be redeemable by us prior to August 11, 2008 (except in certain limited circumstances relating to our maintenance of our ability to qualify as a REIT as described in "Restrictions on Ownership and Transfer" below). On or after August 11, 2008, we may, at our option, redeem the Series G Preferred Shares, in whole or from time to time in part, at a cash redemption price equal to 100% of the Series G Liquidation Preference, plus all accrued and unpaid dividends, if any, to the redemption date.

In the event of a redemption of any Series G Preferred Shares, if the redemption date occurs after a dividend record date and on or prior to the related Dividend Payment Date, the dividend payable on such Dividend Payment Date in respect of such Series G Preferred Shares called for redemption will be payable on such Dividend Payment Date to the holders of record at the close of business on such dividend record date, and will not be payable as part of the redemption price for such Series G Preferred Shares. The redemption date will be selected by us and will not be less than 30 days nor more than 60 days after the date notice of redemption is sent by us. If full cumulative dividends on all outstanding Series G Preferred Shares have not been paid or declared and set apart for payment, no Series G Preferred Shares may be redeemed unless all outstanding Series G Preferred Shares are

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simultaneously redeemed and neither we nor any of our affiliates may purchase or acquire Series G Preferred Shares otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of Series G Preferred Shares.

If fewer than all the outstanding Series G Preferred Shares are to be redeemed, we will select those Series G Preferred Shares to be redeemed pro rata in proportion to the numbers of Series G Preferred Shares held by holders (with adjustment to avoid redemption of fractional shares) or by lot or in such other manner as the Board of Trustees may determine.

Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two consecutive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us not less than 30 days nor more than 60 days prior to the redemption date to each holder of record of the Series G Preferred

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Shares to be redeemed by first class mail, postage prepaid at such holder's address as it appears on our share records. Any notice that was mailed as described above will be conclusively presumed to have been duly given on the date mailed whether or not the holder receives the notice. Each notice will state: (i) the redemption date, (ii) the number of Series G Preferred Shares to be redeemed, (iii) the place or places where certificates for such Series G Preferred Shares are to be surrendered for cash and (iv) the redemption price payable on such redemption date, including, without limitation, a statement as to whether or not accrued and unpaid dividends will be (x) payable as part of the redemption price or (y) payable on the next Dividend Payment Date to the record holder at the close of business on the relevant record date as described above. From and after the redemption date (unless we default in the payment of our redemption obligation), dividends on the Series G Preferred Shares to be redeemed will cease to accrue, such shares will no longer be deemed to be outstanding and all rights of the holders of the Series G Preferred Shares to be redeemed will cease (except (a) the right to receive the cash payable upon such redemption, without interest and (b) if the redemption date occurs after a dividend record date and on or prior to the related Dividend Payment Date, the right of record holders at the close of business on such record date to receive the dividend payable on such Dividend Payment Date). The full dividend payable on the Dividend Payment Date with respect to the Series G Preferred Shares called for redemption will be payable on such Dividend Payment Date to the holders of record of such shares at the close of business on the corresponding dividend record date notwithstanding the prior redemption of the shares.

The Series G Preferred Shares have no stated maturity and are not subject to any sinking fund or mandatory redemption provisions except as provided under "Restrictions on Ownership and Transfer" below.

Subject to applicable law and the limitation on purchases when dividends on the Series G Preferred Shares are in arrears, we may, at any time and from time to time, purchase any Series G Preferred Shares in the open market, by tender or by private agreement.

### *Voting Rights*

Holders of Series G Preferred Shares will not have any voting rights, except as set forth below and except as otherwise required by applicable law.

If and whenever dividends on any Series G Preferred Shares or any series or class of Parity Shares are in arrears for six or more quarterly periods (whether or not consecutive), the number of trustees then constituting our Board of Trustees will be increased by two (if not already increased by reason of similar types of provisions with respect to Parity Shares of any other class or series which is entitled to similar voting rights (the "Voting Parity Shares")), and the holders of Series G Preferred Shares, together with the holders of all other Voting Parity Shares then entitled to exercise similar voting rights, voting as a single class regardless of series or class, will be entitled to vote for the election of the two additional trustees at any annual meeting of shareholders or at a special meeting of the holders of the Series G Preferred Shares and of the Voting Parity Shares called for that purpose. At any time when

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the right to elect trustees separately has so vested, we must call a special meeting upon the written request of the holders of record of not less than 20% of the total number of Series G Preferred Shares and shares of any series or class of Voting Parity Shares then outstanding. The special meeting will be held, in the case of a written request, within 90 days after the delivery of the request, provided that we will not be required to call a special meeting if the request is received less than 120 days before the date fixed for the next annual meeting of shareholders and the holders of Series G Preferred Shares and the other Voting Parity Shares are offered the opportunity to elect such trustees at the annual meeting of shareholders. If, prior to the end of the term of any trustee so elected, a vacancy in the office of such trustee occurs by reason of death, resignation, or disability, a successor will be elected to the Board of Trustees, upon the nomination by the remaining trustee elected by the holders of the Series G Preferred Shares and the Voting Parity Shares or the successor to the remaining trustee, to serve until the next annual meeting of shareholders or special meeting held in place of the annual meeting if such office has not previously been terminated as described below. Whenever dividends in arrears on outstanding Series G Preferred Shares and Voting Parity Shares have been paid and dividends for the current dividend period have been paid or declared and set apart for payment, then the right of the holders of the Series G Preferred Shares and Voting Parity Shares to elect two additional trustees will cease, the terms of office of such trustees will terminate and the number of trustees constituting our Board of Trustees will be reduced accordingly.

The affirmative vote or consent of at least two-thirds of the votes entitled to be cast by the holders of the outstanding Series G Preferred Shares and the holders of all other classes or series of Voting Parity Shares entitled to vote on the matter, voting as a single class, will be required to (i) authorize, create, increase the authorized amount of, or issue any shares of any class of Senior Shares or any security convertible or exchangeable into shares of any class of Senior Shares or (ii) amend, alter or repeal any provision of, or add any provision to, our Declaration of Trust or Bylaws, if such action would materially adversely affect the voting powers, rights or preferences of the holders of the Series G Preferred Shares; provided, however, that no vote of the holders of Series G Preferred Shares will be required if, at or prior to the time the amendment, alteration or repeal is to take effect or the issuance of any Senior Shares or convertible or exchangeable security is to be made, as the case may be, provisions are made for the redemption of all outstanding Series G Preferred Shares. The amendment of or supplement to our Declaration of Trust to authorize, create, increase or decrease the authorized amount of or to issue Junior Shares, Series G Preferred Shares or

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any shares of any class of Parity Shares will not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series G Preferred Shares.

With respect to the exercise of the above-described voting rights, each Series G Preferred Share will have one vote per share, except that when any other class or series of preferred shares will have the right to vote with the Series G Preferred Shares as a single class, then the Series G Preferred Shares and such other class or series will have one quarter of one (0.25) vote per \$25.00 of liquidation preference.

### *New York Stock Exchange Listing*

Before this offering, there has been no public trading market for the Series G Preferred Shares. We intend to file an application to list the Series G Preferred Shares on the NYSE under the symbol "OFCPRG." If approved for listing, trading of the Series G Preferred Shares is expected to begin within 30 days of the original issuance of the Series G Preferred Shares. The representatives of the underwriters have advised us that they intend to make a market in the Series G Preferred Shares prior to the commencement of trading on the NYSE. However, the representatives of the underwriters are not obligated to do so and may discontinue market-making at any time without notice. We cannot give any assurance about the liquidity of any trading market for the Series G Preferred Shares which may exist.

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### *Conversion*

The Series G Preferred Shares are not convertible into or exchangeable for any other property or securities.

### *Transfer Agent*

The registrar and transfer agent for the Series G Preferred Shares will be Wells Fargo & Company.

### *Book Entry Delivery and Form*

The Series G Preferred Shares will be issued in book-entry form. The transfer agent will electronically register the Series G Preferred Shares on the date of original issuance with, or on behalf of, The Depository Trust Company (the "Depository") and the Series G Preferred Shares will be registered in the name of Cede & Co., as nominee of the Depository (such nominee being referred to herein as the "Nominee").

The Depository is a limited-purpose trust company that was created to hold securities for its participating organizations (collectively, the "Participant" or the "Depository's Participants") and to facilitate the clearance and settlement of transactions in securities between Participants through electronic book-entry changes in accounts of its Participants. The Depository's Participants include securities brokers and dealers (including the underwriters), banks and trust companies, clearing corporations and certain other organizations. Access to the Depository's system is also available to other entities such as other banks, brokers, dealers and trust companies (collectively, the "Indirect Participants" or the "Depository's Indirect Participants") that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of the Depository only through the Depository's Participants or the Depository's Indirect Participants.

We expect that under procedures established by the Depository (i) upon issuance and registration of the Series G Preferred Shares, the Depository will credit the accounts of Participants designated by the underwriters with portions of the principal amount of the Global Certificate and (ii) ownership of the Series G Preferred Shares will be shown on, and the transfer of ownership of the Series G Preferred Shares will be effected only through, records maintained by the Depository (with respect to the interests of the Depository's Participants), the Depository's Participants and the Depository's Indirect Participants. Prospective purchasers of the Series G Preferred Shares are advised that the laws of some states require that certain persons, such as insurance companies, take physical delivery in definitive form of securities that they own. Consequently, these laws may limit your ability to transfer Series G Preferred Shares to these persons, such as insurance companies.

So long as the Nominee is the registered owner of any Series G Preferred Shares, the Nominee will be considered the sole owner or holder of such Series G Preferred Shares. Except as provided below, owners of Series G Preferred Shares will not be entitled to have Series G Preferred Shares registered in their names and will not receive or be entitled to receive physical delivery of Series G Preferred Shares in certificated form. As a result, the ability of a person having a beneficial interest in any Series G Preferred Shares to pledge such interest to persons or entities that do not participate in the Depository's system or to otherwise take actions in respect of such interest may be affected by the lack of a physical certificate evidencing such interest.

Neither we nor the transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of Series G Preferred Shares by the Depository or any of the Depository's Participants, or for maintaining, supervising or reviewing any records of the Depository or any of the Depository's Participants relating to the Series G Preferred Shares.

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Payments of distributions on any Series G Preferred Shares registered in the name of the Nominee on the applicable record date will be payable to or at the direction of the Nominee. Neither we nor the transfer agent will have any responsibility or liability for the payment of such amounts to beneficial owners of the Series G Preferred Shares. We believe, however, that it is currently the policy of the Depository to immediately credit the accounts of the relevant Participants with such payment, in amounts proportionate to their respective holdings in principal amount of beneficial interests in the relevant security as shown on the records of the Depository. Payments by the Depository's Participants and the Depository's Indirect Participants to the beneficial owner of Series G Preferred Shares will be governed by standing instructions and customary practice and will be the responsibility of the Depository's Participants or the Depository's Indirect Participants.

#### *Certificated Shares*

Any person having a beneficial interest in the Series G Preferred Shares may, upon request to us or the transfer agent, exchange such beneficial interest for physical delivery of Series G Preferred Shares in certificated form. Upon any such issuance, the transfer agent is required to register such Series G Preferred Shares in the name of, and cause the same to be delivered to, such person or such person's nominee. In addition, if (i) we notify the transfer agent in writing that the Depository is no longer willing or able to act as a depository and we are unable to locate a qualified successor within 90 days or (ii) we, at our option, may notify the transfer agent in writing that we elect to cause the issuance of the Series G Preferred Shares in certificated form, then Series G Preferred Shares in certificated form will be issued to each person that the Nominee and the Depository identify as the beneficial owner of Series G Preferred Shares.

Neither we nor the transfer agent will be liable for any delay by the Nominee or the Depository in identifying the beneficial owners of Series G Preferred Shares, and we and the transfer agent may conclusively rely on, and will be protected in relying on, instructions from the Nominee or the Depository for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of any Series G Preferred Shares to be certificated.

### **RESTRICTIONS ON OWNERSHIP AND TRANSFER**

For us to qualify as a REIT (as defined in the Internal Revenue Code of 1986, as amended (the "Code") to include certain entities), our shares of beneficial interest generally must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals, as defined in the Code, at any time during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). This test is applied by "looking through" certain shareholders which are not individuals (e.g., corporations or partnerships) to determine indirect ownership of us by individuals.

Our Declaration of Trust contains certain restrictions on the number of our shares of beneficial interest that a person may own, subject to certain exceptions. Our Declaration of Trust provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% (the "Aggregate Share Ownership Limit") of the number or value of our outstanding shares of beneficial interest. In addition, our Declaration of Trust prohibits any person from acquiring or holding, directly or indirectly, in excess of 9.8% of our total outstanding common shares, in value or in number of shares, whichever is more restrictive (the "Common Share Ownership Limit"). Our Board of Trustees, in its sole discretion, may exempt a proposed transferee from the Aggregate Share Ownership Limit and the Common Share Ownership Limit (an "Exempted Holder"). However, our Board of Trustees may not grant such an exemption to any person if such exemption would result in us being "closely held" within the meaning of Section 856(h) of the Code or otherwise would result in our

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failing to qualify as a REIT. In order to be considered by our Board of Trustees as a potential Exempted Holder, a person also must not own, directly or indirectly, an interest in a tenant of ours (or a tenant of any entity owned or controlled by us) that would cause us to own, directly or indirectly, more than a 9.9% interest in such a tenant. The person seeking an exemption must represent to the satisfaction of our Board of Trustees that it will not violate the two aforementioned restrictions. The person also must agree that any violation or attempted violation of any



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of the foregoing restrictions will result in the automatic transfer of the shares of stock causing such violation to the Share Trust (as defined below). Our Board of Trustees may require a ruling from the Internal Revenue Service or an opinion of counsel, in either case in form and substance satisfactory to our Board of Trustees, in its sole discretion, in order to determine or ensure our status as a REIT. Our Board of Trustees has exempted the foreign trust owning all of our Series D Cumulative Convertible Redeemable Shares from the Aggregate Share Ownership Limit and the Common Share Ownership Limit.

Our Declaration of Trust further prohibits (i) any person from beneficially or constructively owning our shares of beneficial interest that would result in us being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT and (ii) any person from transferring shares of our beneficial interest if such transfer would result in our shares of beneficial interest being owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares of beneficial interest that will or may violate any of the foregoing restrictions on transferability and ownership, or any person who would have owned our shares of beneficial interest that resulted in a transfer of shares to the Share Trust, is required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT. The foregoing restrictions on transferability and ownership will not apply if our Board of Trustees determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

If any transfer of our shares of beneficial interest occurs which, if effective, would result in any person beneficially or constructively owning shares of beneficial interest in us in excess or in violation of the above transfer or ownership limitations (a "Prohibited Owner"), then that number of our shares of beneficial interest, the beneficial or constructive ownership of which otherwise would cause such person to be in excess of the ownership limit (rounded to the nearest whole share) will automatically be transferred to a trust (the "Share Trust") for the exclusive benefit of one or more charitable beneficiaries (the "Charitable Beneficiary"), and the Prohibited Owner will not acquire any rights in such shares. Such automatic transfer will be deemed to be effective as of the close of business on the Business Day (as defined in our Declaration of Trust) prior to the date of such violative transfer. Shares of beneficial interest held in the Share Trust will be issued and outstanding shares of beneficial interest in us. The Prohibited Owner may not benefit economically from ownership of any shares of beneficial interest held in the Share Trust, may have no rights to dividends and may not possess any other rights attributable to the shares of beneficial interest held in the Share Trust. The trustee of the Share Trust (the "Share Trustee") will have all voting rights and rights to dividends or other distributions with respect to shares of beneficial interest held in the Share Trust, which rights will be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by us that shares of beneficial interest have been transferred to the Share Trust will be paid by the recipient of such dividend or distribution to the Share Trustee upon demand, and any dividend or other distribution authorized but unpaid will be paid when due to the Share Trustee. Any dividend or distribution so paid to the Share Trustee will be held in the Share Trust for the Charitable Beneficiary. The Prohibited Owner will have no voting rights with respect to shares of beneficial interest held in the Share Trust and, subject to Maryland law, effective as of the date that such shares of beneficial interest have been transferred to the Share Trust, the Share Trustee will have the authority (at the Share Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by us that such shares have been transferred to the Share Trust and (ii) to recast such vote in accordance with the desires of the Share Trustee acting for the benefit of the

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Charitable Beneficiary. However, if we have already taken irreversible trust action, then the Share Trustee will not have the authority to rescind and recast such vote.

Within 20 days after receiving notice from us that shares of beneficial interest in us have been transferred to the Share Trust, the Share Trustee will sell the shares of beneficial interest held in the Share Trust to a person, designated by the Share Trustee, whose ownership of the shares will not violate the ownership limitations set forth in the Declaration of Trust. Upon such sale, the interest of the Charitable Beneficiary in the shares sold will terminate and the Share Trustee will distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as described below. The Prohibited Owner will receive the lesser of (i) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Share Trust (e.g., a gift, devise or other such transaction), the Market Price (as defined in the Declaration of Trust) of such shares on the day of the event causing the shares to be received by the Share Trustee and (ii) the price per share received by the Share Trustee from the sale or other disposition of the common shares held in the Share Trust. Any net sale proceeds in excess of the amount payable to the Prohibited Owner will be paid immediately to the Charitable Beneficiary. If, prior to the discovery by us that shares of beneficial interest have been transferred to the Share Trust, such shares are sold by a Prohibited Owner, then (i) such shares will be deemed to have been sold on behalf of the Share Trust and (ii) to the extent that the Prohibited Owner received an amount for shares that exceeds the amount that such Prohibited Owner was entitled to receive as described above, such excess will be paid to the Share Trustee upon demand.

In addition, shares of beneficial interest in us held in the Share Trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Share Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date we, or our designee, accept such offer. We

will have the right to accept such offer until the Share Trustee has sold the shares of beneficial interest held in the Share Trust. Upon such a sale to us, the interest of the Charitable Beneficiary in the shares sold will terminate and the Share Trustee will distribute the net proceeds of the sale to the Prohibited Owner.

All certificates representing the Series G Preferred Shares will bear a legend referring to the restrictions described above.

Every owner of more than 5% (or such other percentage as required by the Code or the regulations promulgated thereunder) of all classes or series of our shares of beneficial interest, including the Series G Preferred Shares, is required to give written notice to us, within 30 days after the end of each taxable year, stating the name and address of such owner, the number of shares of each class and series of shares of beneficial interest of us which the owner beneficially owns and a description of the manner in which such shares are held. Each such owner will provide to us such additional information as we may request in order to determine the effect, if any, of such beneficial ownership on our status as a REIT and to ensure compliance with the Aggregate Share Ownership Limit. In addition, each shareholder will upon demand be required to provide to us such information as we may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limitations could delay, defer or prevent a change in control of us or other transaction that might involve a premium over the then prevailing market price for the Series G Preferred Shares or other attributes that the shareholders may consider to be desirable.

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## DESCRIPTION OF OUTSTANDING PREFERRED SHARES

*The following summary of the terms and provisions of our Series B Preferred Shares, Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares (collectively referred to as "Outstanding Preferred Shares") does not purport to be complete and is qualified in its entirety by reference to the pertinent sections of our Declaration of Trust and the Articles Supplementary to our Declaration of Trust relating to the designation of each series of the Outstanding Preferred Shares, each of which is available from us as described in "Where You Can Find More Information."*

### Outstanding Preferred Shares

The Series B Preferred Shares, Series E Preferred Shares and Series F Preferred Shares were issued in underwritten public offerings in July 1999, April 2001 and September 2001, respectively. The Series D Preferred Shares were issued in a private placement to a private investor in January 2001. We contributed the proceeds from each of these offerings to our operating partnership in exchange for a number of preferred units of our operating partnership equal in number to, and of a series having designations, rights and preferences substantially similar to, the preferred shares that we sold in the above-described public offerings and private placement. All previously issued and outstanding Series A Preferred Shares have been reacquired by us and have been restored to the status of undesignated preferred shares under our Declaration of Trust.

The terms of each series of the Outstanding Preferred Shares are substantially similar to one another; however, any differences among the terms are noted in the following summary.

#### Ranking

Each series of the Outstanding Preferred Shares, as to dividend rights and rights upon our liquidation, dissolution or winding up, ranks: (i) prior or senior to our common shares and any other class or series of our equity securities authorized or designated in the future if, by the terms of such class or series, the holders of the Outstanding Preferred Shares are entitled to receive dividends or amounts distributable upon liquidation, dissolution or winding up in preference or priority to the holders of shares of that class or series ("Junior Ranking Shares"); (ii) on a parity with one another and any other class or series of our equity securities authorized or designated in the future, including the Series G Preferred Shares, if, by the terms of such class or series, the holders of those securities and the holders of Outstanding Preferred Shares are entitled to the receipt of dividends and of amounts distributable upon liquidation, dissolution or winding up in proportion to their respective amounts of accrued and unpaid dividends per share or liquidation preferences, without preference or priority of one over the other ("Parity Ranking Shares"); and (iii) junior to any class or series of our equity securities authorized or designated in the future if, by the terms of such class or series, the holders of that class or series are entitled to the receipt of dividends and amounts distributable upon liquidation, dissolution or winding up in preference or priority to the holders of the Outstanding Preferred Shares ("Senior Ranking Shares").

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*Dividends*

Holders of Outstanding Preferred Shares are entitled to receive, when and as declared by our Board of Trustees, out of our funds legally available for payment, quarterly cash dividends on each series of the Outstanding Preferred Shares at the annual rates indicated in the table below.

Series	Annual Dividend Rate	Annual Per Share Dividend Payment	Aggregate Annual Dividend Payment
B	10.0%	\$ 2.50	\$ 3,125,000
D	4.0%	\$ 1.00	\$ 544,000
E	10.25%	\$ 2.5625	\$ 2,946,875
F	9.875%	\$ 2.46875	\$ 3,517,969

These dividends are cumulative from the date of original issue, whether or not in any dividend period or periods these dividends have been declared or there are funds legally available for the payment of such dividends, and are payable quarterly on January 15, April 15, July 15 and October 15 of each year, or, if not a business day, the next succeeding business day (each an "Outstanding Preferred Shares Dividend Payment Date" and collectively, the "Outstanding Preferred Shares Dividend Payment Dates"). Any dividend payable on any series of the Outstanding Preferred Shares for any partial dividend period will be computed ratably on the basis of twelve 30-day months and a 360-day year. Dividends are payable in arrears to holders of record as they appear on our share records at the close of business on the applicable record dates, which are fixed by our Board of Trustees and which are not more than 60 nor less than 10 days prior to the related Outstanding Preferred Shares Dividend Payment Dates. Holders of Outstanding Preferred Shares are not entitled to receive any dividends in excess of cumulative dividends on the particular series of Outstanding Preferred Shares. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on a series of Outstanding Preferred Shares that may be in arrears.

When dividends are not paid in full upon any series of Outstanding Preferred Shares or any other class or series of Parity Ranking Shares, or a sum sufficient for this payment is not set apart, all dividends declared upon such series of the Outstanding Preferred Shares and any Parity Ranking Shares will be declared ratably in proportion to the respective amounts of dividends accrued and unpaid on such series of Outstanding Preferred Shares and accrued and unpaid on such Parity Ranking Shares. Except as set forth in the preceding sentence, unless dividends on a series of the Outstanding Preferred Shares equal to the full amount of accrued and unpaid dividends have been or contemporaneously are declared and paid or declared, and a sum sufficient for the payment thereof has been or contemporaneously is set apart for such payment for all past dividend periods, no dividends will be declared or paid or set apart for payment by us and no other distribution of cash or other property may be declared or made, directly or indirectly, by us with respect to any Parity Ranking Shares. Unless dividends equal to the full amount of all accrued and unpaid dividends on the Outstanding Preferred Shares have been paid, or declared and set apart for payment, for all past dividend periods, no dividends (other than dividends or distributions paid on Junior Ranking Shares or options, warrants or rights to subscribe for or purchase Junior Ranking Shares) may be declared or paid or set apart for payment by us and no other distribution of cash or other property may be declared or made, directly or indirectly, by us with respect to any Junior Ranking Shares, and no Junior Ranking Shares will be redeemed, purchased or otherwise acquired (except for a redemption, purchase or other acquisition of common shares made for purposes of our employee incentive or benefit plan or any such plan of any of our subsidiaries) for any consideration (and no monies will be paid to or made available for a sinking fund for the redemption of any such Junior Ranking Shares, directly or indirectly, by us (except by conversion into or exchange for Junior Ranking Shares, or options, warrants or rights to subscribe for or purchase Junior Ranking Shares), nor will any other cash or other property be paid or distributed to or for the benefit of holders of Junior Ranking Shares. Regardless of the provisions described above, we will not be prohibited from (i) declaring or paying or setting apart for

payment any dividend or distribution on any Parity Ranking Shares or (ii) redeeming, purchasing or otherwise acquiring any Parity Ranking Shares, if this declaration, payment, redemption, purchase or other acquisition is necessary to maintain our qualification as a REIT.

*Liquidation Preference*

Upon any voluntary or involuntary liquidation, dissolution or winding up, before any payment or distribution by us will be made to or set apart for the holders of any Junior Ranking Shares, the holders of each series of Outstanding Preferred Shares will be entitled to receive a liquidation preference of \$25.00 per share (the "Outstanding Preferred Shares Liquidation Preference"), plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) to the date of final distribution to such holders. Such holders will not be entitled to any

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further payment. The aggregate amount of the liquidation preference for each series of Outstanding Preferred Shares, exclusive of accrued and unpaid dividends, is as follows:

Series	Liquidation Preference
B	\$ 31,250,000
D	\$ 13,600,000
E	\$ 28,750,000
F	\$ 35,625,000

Until all holders of each series of Outstanding Preferred Shares have been paid the Outstanding Preferred Shares Liquidation Preference in full, plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) to the date of final distribution to such holders, no payment will be made to any holder of Junior Ranking Shares upon our liquidation, dissolution or winding up. If upon any liquidation, dissolution or winding up, our assets, or proceeds thereof, distributable among the holders of Outstanding Preferred Shares will be insufficient to pay in full the above-described preferential amount and liquidating payments on any other shares of any class or series of Parity Ranking Shares, then our assets, or the proceeds thereof, will be distributed among all of the holders of Outstanding Preferred Shares and any such other Parity Ranking Shares ratably in the same proportion as the respective amounts that would be payable on such Outstanding Preferred Shares and any such other Parity Ranking Shares if all amounts payable thereon were paid in full. A voluntary or involuntary liquidation, dissolution or winding up will not include a consolidation or merger of us with or into one or more other entities, a sale or transfer of all or substantially all of our assets, or a statutory share exchange. Upon any liquidation, dissolution or winding up, after payment has been made in full to the holders of Outstanding Preferred Shares and any Parity Ranking Shares, any other series or class or classes of Junior Ranking Shares will be entitled to receive any and all of our assets remaining to be paid or distributed, and the holders of the Outstanding Preferred Shares and any Parity Ranking Shares will not be entitled to share in that payment or distribution.

### *Optional Redemption*

Each series of Outstanding Preferred Shares will not be redeemable by us prior to the date indicated in the table below (except in certain limited circumstances relating to our maintenance of our ability to qualify as a REIT as described under "Description of Shares-Restrictions on Ownership and Transfer").

Series	Redemption Date
B	July 15, 2004
D	January 25, 2006
E	July 15, 2006
F	October 15, 2006

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On or after the indicated redemption date, we may, at our option, redeem such series of Outstanding Preferred Shares, in whole or from time to time in part, at a cash redemption price equal to 100% of the Outstanding Preferred Shares Liquidation Preference for each series, plus all accrued and unpaid dividends, if any, to the redemption date. The redemption price for such series of Outstanding Preferred Shares (other than any portion of the redemption price consisting of accrued and unpaid dividends) will be payable solely with the proceeds from the sale of equity securities by us or our operating partnership (whether or not such sale occurs concurrently with such redemption). For purposes of the preceding sentence, "equity securities" means any common shares, preferred shares, depository shares, partnership or other interests, participations or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable at the option of the holder for equity securities (unless and to the extent such debt securities are subsequently converted into equity securities)) or options to purchase any of the foregoing in us or in our operating partnership.

In the event of a redemption of any series of Outstanding Preferred Shares, if the redemption date occurs after a dividend record date and on or prior to the related Outstanding Preferred Shares Dividend Payment Date, the dividend payable on such Outstanding Preferred Shares Dividend Payment Date in respect of such series of Outstanding Preferred Shares called for redemption will be payable on such Outstanding Preferred Shares Dividend Payment Date to the holders of record at the close of business on such dividend record date, and will not be payable as part of the redemption price for such series of Outstanding Preferred Shares. The redemption date will be selected by us and shall not be less than 30 days nor more than 60 days after the date that notice of redemption is sent by us. If full cumulative dividends on any series of Outstanding Preferred Shares have not been paid or declared and set apart for payment, no Outstanding Preferred Shares of such series may be redeemed unless all Outstanding Preferred Shares of such series are simultaneously redeemed and neither we nor any of our affiliates may purchase or acquire such series of Outstanding Preferred Shares otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of that series of Outstanding Preferred Shares.

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If fewer than all of a series of Outstanding Preferred Shares are to be redeemed, we will select the Outstanding Preferred Shares of such series to be redeemed pro rata in proportion to the number of Outstanding Preferred Shares of such series held by holders of such series (with adjustment to avoid redemption of fractional shares) or by lot or in such other manner as our Board of Trustees may determine.

Notice of redemption with respect to the Series B, E and F Preferred Shares will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two consecutive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. In addition, notice of redemption of any of the Outstanding Preferred Shares must be mailed by us not less than 30 days nor more than 60 days prior to the redemption date to each holder of such series of Outstanding Preferred Shares to be redeemed by first class mail, postage prepaid at such holder's address as the same appears on our share records. Any notice which was mailed as described above will be conclusively presumed to have been duly given on the date mailed whether or not the holder receives the notice. Each notice will state: (i) the redemption date, (ii) the number of Outstanding Preferred Shares of the relevant series to be redeemed, (iii) the place or places where certificates for such Outstanding Preferred Shares are to be surrendered for cash and (iv) the redemption price payable on such redemption date, including, without limitation, a statement as to whether or not accrued and unpaid dividends will be (x) payable as part of the redemption price or (y) payable on the next Outstanding Preferred Shares Dividend Payment Date to the record holder at the close of business on the relevant record date as described above. From and after the redemption date (unless we default in the payment of our redemption obligation), dividends on the Outstanding Preferred Shares to be redeemed will cease to accrue, such shares will no longer be deemed to be

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Outstanding Preferred Shares and all rights of the holders thereof shall cease (except (a) the right to receive the cash payable upon such redemption without interest thereon and (b) if the redemption date occurs after a dividend record date and on or prior to the related Outstanding Preferred Shares Dividend Payment Date, the right of record holders at the close of business on such record date to receive the dividend payable on such Outstanding Preferred Shares Dividend Payment Date). The full dividend payable on such Outstanding Preferred Shares Dividend Payment Date with respect to such Outstanding Preferred Shares called for redemption will be payable on such Outstanding Preferred Shares Dividend Payment Date to the holders of record of such shares at the close of business on the corresponding dividend record date notwithstanding the prior redemption of such shares.

None of the Outstanding Preferred Shares have a stated maturity or are subject to any sinking fund or mandatory redemption provisions except as provided under "Description of Shares Restrictions on Ownership and Transfer."

Subject to applicable law and the limitation on purchases when dividends on the Outstanding Preferred Shares are in arrears, we may, at any time and from time to time, purchase any of the Series B, E and F Preferred Shares in the open market, by tender or by private agreement. The Series D Preferred Shares are not publicly traded and may only be purchased by private agreement.

### *Voting Rights*

Holders of any series of Outstanding Preferred Shares will not have any voting rights, except as set forth below and except as otherwise required by applicable law.

If and whenever dividends on any series of Outstanding Preferred Shares or any series or class of Parity Ranking Shares shall be in arrears for six or more quarterly periods (whether or not consecutive), the number of Trustees then constituting our Board of Trustees will be increased by two (if not already increased by reason of similar types of provisions with respect to Voting Parity Shares (as defined below)) and the holders of such series of Outstanding Preferred Shares, together with any Voting Parity Shares, voting as a single class regardless of series or class, will be entitled to vote for the election of the two additional Trustees at any annual meeting of shareholders or at a special meeting of the holders of such series of Outstanding Preferred Shares and of the Voting Parity Shares called for that purpose. As used in this paragraph and the next paragraph, "Voting Parity Shares" mean shares of any series of Outstanding Preferred Shares or any series of class or Parity Ranking Shares entitled to such or similar voting rights. At any time when such right to elect Trustees separately shall have so vested, we must call such special meeting upon the written request of the holders of record of not less than 20% of the total number of such series of Outstanding Preferred Shares and shares of any series or class of Voting Parity Shares then outstanding. Such special meeting shall be held, in the case of such written request, within 90 days after the delivery of such request, provided that we will not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual meeting of shareholders and the holders of such series of Outstanding Preferred Shares and such other Voting Parity Shares are offered the opportunity to elect such Trustees at such annual meeting of shareholders. If, prior to the end of the term of any trustee so elected, a vacancy in the office of such trustee shall occur by reason of death, resignation, or disability, a successor will be elected to the Board of Trustees, upon the nomination by the remaining trustee elected by the holders of such series of Outstanding Preferred Shares and the Voting Parity Shares or the successor to the remaining trustee, to serve until the next annual meeting of shareholders or special meeting held in place of the annual meeting if such office has not previously been terminated as described below. Whenever dividends in arrears on such series of Outstanding Preferred Shares and Voting Parity Shares shall have been paid and dividends thereon for the current dividend period shall have been paid or declared and set apart for payment, then the right of the holders of such

series of Outstanding Preferred Shares and Voting Parity Shares to elect such additional two Trustees shall cease

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and the terms of office of such Trustees shall terminate and the number of Trustees constituting our Board of Trustees shall be reduced accordingly.

The affirmative vote or consent of at least two-thirds of the votes entitled to be cast by the holders of each series of Outstanding Preferred Shares and the holders of all other classes or series of Voting Parity Shares entitled to vote on such matters, voting as a single class, will be required to (i) authorize, create, increase the authorized amount of, or issue any shares of any class of Senior Ranking Shares or any security convertible or exchangeable into shares of any class of Senior Ranking Shares or (ii) amend, alter or repeal any provision of, or add any provision to, our Declaration of Trust or bylaws, if such action would materially adversely affect the voting powers, rights or preferences of any of the holders of the Outstanding Preferred Shares; provided, however, that no such vote of the holders of a series of Outstanding Preferred Shares will be required if, at or prior to the time such amendment, alteration or repeal is to take effect or the issuance of any such Senior Ranking Shares or convertible or exchangeable security is to be made, as the case may be, provisions are made for the redemption of all of the outstanding shares of such series of Outstanding Preferred Shares. The amendment of or supplement to our Declaration of Trust to authorize, create, increase or decrease the authorized amount of or to issue Junior Ranking Shares, any series of Outstanding Preferred Shares or any shares of any class of Parity Ranking Shares will not be deemed to materially adversely affect the voting powers, rights or preferences of any of the holders of Outstanding Preferred Shares.

With respect to the exercise of the above-described voting rights, each Outstanding Preferred Share of a series will have one vote per share, except that when any other class or series of preferred shares will have the right to vote with the Outstanding Preferred Shares of a series as a single class, then the Outstanding Preferred Shares and such other class or series will have one quarter of one (0.25) vote per \$25.00 of liquidation preference.

#### *Conversion*

The Series D Preferred Shares are convertible into our common shares at any time by the holder after December 31, 2003 at the rate of 2.2 common shares for every one Series D Preferred Share ("Conversion Rate"). This Conversion Rate is subject to adjustment in the event that we effect a share split, subdivision of our then outstanding common shares, or distribution of common shares in the form of a dividend. In addition, in the event that we effect a distribution of securities other than common shares in the form of a dividend, then the Series D Preferred Shares will be entitled to receive upon conversion, in addition to the number of common shares receivable upon such conversion, the amount of our other securities that they would have otherwise received had their Series D Preferred Shares been converted into common shares on the date of the distribution. The Series B, E and F Preferred Shares are not convertible into or exchangeable for any other property or securities.

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### **CERTAIN FEDERAL INCOME TAX MATTERS**

The following summary of certain federal income tax considerations regarding an investment in the Series G Preferred Shares is based on current law, is for general information only and is not tax advice. This summary supplements the discussion set forth in the accompanying prospectus under the heading "Federal Income Tax Matters." This discussion does not purport to deal with all aspects of taxation that may be relevant to particular investors in light of their personal investment or tax circumstances.

Each prospective purchaser is advised to consult his or her own tax advisor regarding the specific tax consequences to him or her of the purchase, ownership and sale of Series G Preferred Shares and of our election to be taxed as a REIT, including the Federal, state, local, foreign income and other tax consequences of such purchase, ownership, sale and election, and of potential changes in applicable tax laws.

#### **Distributions on Series G Preferred Shares**

For a discussion of the treatment of dividends and other distributions with respect to the Series G Preferred Shares, see "Federal Income Tax Matters Taxation of Shareholders" in the accompanying prospectus. In determining the extent to which a distribution with respect to the Series G Preferred Shares constitutes a dividend for tax purposes, our earnings and profits will be allocated, on a pro rata basis, first to distributions with respect to any class of preferred shares, and then to our common shares.

**Redemption of Series G Preferred Shares**

A redemption of the Series G Preferred Shares will be treated under Section 302 of the Code as a dividend (to the extent of our current or accumulated earnings and profits), unless the redemption satisfies certain tests set forth in Section 302(b) of the Code enabling the redemption to be treated as a sale or exchange of the Series G Preferred Shares. The redemption will satisfy such test if it (i) is "substantially disproportionate" with respect to the holder, (ii) results in a "complete termination" of the h