

GOVERNMENT PROPERTIES TRUST INC

Form 10-K

March 15, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2006**
- or**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to**

**Commission file number 001-31962
Government Properties Trust, Inc.**
(Exact name of registrant as specified in its charter)

Maryland
*(State or other jurisdiction of
incorporation of organization)*

20-0611663
*(IRS Employer
Identification No.)*

13625 California Street, Suite 310
(Address of principal executive offices)

68154
(Zip Code)

**Registrant's telephone number, including area code:
(402) 391-0010**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2006 (the last business day of the registrant's most recently completed second quarter) was \$194.8 million based upon the reported closing sale price per Common Share of the New York Stock Exchange of \$9.49. On March 9, 2007, approximately 20.8 million shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the annual meeting of stockholders scheduled to be held on June 6, 2007 are incorporated into Part III.

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements. These forward-looking statements include estimates regarding:

- our estimated general and administrative expense;
- our risk mitigation strategy;
- our policy to reserve for operating expenses and capital costs;
- our distribution policy;
- our operating expenses;
- our adequacy of our available capital for future capital requirements;
- our capital expenditures; and
- the impact of changes in interest rates.

Forward-looking statements can be identified by the use of words such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, intends, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks discussed in Risk Factors and elsewhere in this report.

All forward-looking statements included in this report are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

Table of Contents**PART I.****Item 1. *Business*****Our Company**

We are a Maryland corporation organized on September 25, 2003. We primarily invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments, and government-sponsored enterprises. We are a self-managed, self-administered company that has elected to be taxed as a real estate investment trust, or REIT. We believe that we are the only public company focused solely on investing in government-leased properties.

Our business consists of buying, owning and managing recently built or renovated office properties primarily leased, under long-term leases, to the federal government, acting through the General Services Administration (GSA), the federal government's property management arm. Our portfolio consisted of 22 properties totaling approximately 2.2 million rentable square feet as of December 31, 2006. These properties are 97% occupied and have a weighted-average remaining lease term of approximately 10 years based on the square footage of the properties as of December 31, 2006. Our largest tenants, as a percentage of total leased square feet, as of December 31, 2006 were:

Agency Tenant	Percentage of Square Feet
Environmental Protection Agency	11.7%
Bureau of Public Debt	10.4%
U.S. Army Corps of Engineers	9.4%
Internal Revenue Service	8.6%
Social Security Administration	8.1%
United States Citizenship and Immigration Services	7.7%

We own each of our properties through separate wholly-owned entities. The credit worthiness of our governmental tenants enables us to use debt to finance a high percentage of the acquisition cost of the properties we buy. Our total debt represented 70% of the historical cost of our assets at the end of 2006.

Recent Developments***Merger Agreement***

On October 23, 2006, we entered into an Agreement and Plan of Merger (the Agreement) with Record Realty Trust (RRT), an Australian listed property trust (ASX: RRT), and Record Realty (US) LLC, a wholly owned subsidiary of RRT (Merger Sub). Under the terms of the Agreement, subject to certain terms and conditions, we will be merged with and into Merger Sub (the Merger) and our separate corporate existence will cease, with Merger Sub continuing as the surviving company (the Surviving Company) and we will be a wholly owned subsidiary of RRT.

At the effective time of the Merger, each outstanding share of our common stock (the Common Stock), other than Excluded Shares (as defined in the Agreement), will be cancelled and converted into the right to receive \$10.75 in cash, without interest. Our Board of Directors unanimously approved the Agreement on October 23, 2006.

Consummation of the Merger is subject to various conditions, including approval of the Merger by our stockholders and other customary closing conditions. A stockholders meeting to approve the Merger has been scheduled for April 4, 2007. We expect to close the transaction during April 2007.

The Agreement contains termination rights, including if our Board of Directors in connection with an unsolicited bona fide Superior Proposal (as defined in the Agreement), changes its recommendation to the shareholders as required by its fiduciary duties under applicable law and provides that, upon the termination of the Agreement, under specified circumstances, we will be required to pay a termination fee to RRT equal to \$6.5 million plus expenses not to exceed \$2.0 million. Additionally, under specified circumstances, RRT will be required to pay the Company a termination fee of \$30.0 million.

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Our Board of Directors engaged Wachovia Securities to serve as financial advisor in connection with the Merger. On October 23, 2006, Wachovia delivered an opinion to the Board of Directors that, as of the date of the opinion, the merger consideration was fair, from a financial point of view, to the stockholders of the Company.

Acquisition of the Denver EPA Property

We acquired the Denver EPA property in December 2006 for approximately \$91.6 million. The property is a nine story building containing approximately 276,567 square feet of office and retail space. The property also includes an underground parking garage with 225 parking stalls. The Denver EPA property was completed in 2006 and is currently 93% leased to governmental and non-governmental tenants.

We financed the acquisition of our Denver EPA property in December 2006 through an approximately \$68.5 million loan from PNC Bank, which matures on January 1, 2017. The unpaid principal balance of the note bears interest at a rate of 6.19% per annum. Accrued interest only payments are due monthly through January 2009. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due January 1, 2017.

Financing the Buffalo Niagara Center Property and the Buffalo SSA Property

In November 2006, we financed the Buffalo Niagara Center property through an approximately \$52.9 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly through December 11, 2011. From January 11, 2011 through November 11, 2016, monthly payments are amortized on a 30-year schedule, with a balloon payment due December 11, 2016.

In November 2006, we financed the Buffalo SSA property through an approximately \$2.8 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly.

Revolving Line of Credit

In December 2006, we reduced our revolving line of credit from \$65 million to \$40 million. This reduction in loan size availability decreases our expense for maintenance of the line. We intend to use this credit line for working capital, to finance future acquisitions and deposits on a short-term basis. Our objective is to finance each property with long-term, fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease. This strategy minimizes interest rate risk and should result in consistent and reliable cash flow.

2006 Property Acquisitions

The following table lists the properties we acquired in 2006:

Property, Amounts in Thousands	Location	Acquisition Cost	Month Acquired
Riverside County (Riverside Property)	Riverside, CA	\$ 18,415	February
United States Citizenship and Immigration Service (Harlingen USCIS Property)	Harlingen, TX	27,330	May
Environmental Protection Agency (Denver EPA Property)	Denver, CO	91,597	December

\$ 137,342

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Our Strategy and Objectives

Operational Objectives

Our primary operational objective is to generate funds from operations of our portfolio of properties and to make cash distributions to our stockholders. We focus on the following activities to achieve this objective:

Efficiently and effectively managing our portfolio of properties by maximizing revenues and controlling expenses, operating the properties on wealth building life-cycle cost basis, and providing rigorous and consistent property oversight; and when possible;

Acquiring additional properties that meet our acquisition criteria;

Financing those newly acquired properties with fixed-rate, matched term debt at a lower cost of capital than the capitalization rate of the acquired property;

Accessing capital to finance future property acquisitions employing various techniques to do so including the sales of common and preferred stock when doing so is in the best interest of our current stockholders and entering into joint venture arrangements;

Opportunistic property sales and redeployment of assets, when advisable.

In the event that the Merger is not consummated, we intend to continue, based on the availability of capital, acquiring properties leased to a variety of governmental entities on a nationwide basis. We expect most of our properties will be leased to the U.S. government under long-term leases. We solicit owners and developers of government-leased properties. We intend to continue to expand our existing relationships with GSA real estate developers, the GSA and various other governmental tenants, owners and developers around the country. We plan to continue to enter into pre-completion purchase agreements with developers to acquire newly developed properties upon completion and occupancy by governmental tenants.

Our acquisition criteria include analyzing not only the in-place leases, but also analyzing the real estate characteristics of the property including location, parking, floor plans and construction quality. We focus on newer properties that have remaining lease terms of ten years or more and located in secondary or tertiary markets. The weighted average age of our properties owned at the end of 2006 was approximately 5.0 years. We also consider, on a case-by-case basis, properties that have been constructed or significantly renovated within five years of our planned acquisition or that are more special use in nature due to specific government requirements or that have remaining lease terms of less than ten years. Special use, build-to-suit properties, however, generally must have remaining lease terms of fifteen years or more before we will consider them for acquisition. We believe our focus on newer properties reduces the risk of tenants failing to renew their leases at maturity and increases our ability to re-lease the property if the tenant does not renew. Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to capital repairs, marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

Investment Objectives

Our principal investment objectives are to deliver attractive risk-adjusted returns to our stockholders by:

Paying regular dividends to our stockholders. We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year to comply with the distribution requirements of the federal tax laws and to avoid federal income and excise tax. The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our actual results of operations and numerous other factors discussed in the section Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. To the extent possible, we will seek to avoid the fluctuations in dividends that might result if dividends were based on actual cash received during the dividend period. To implement this policy, we may use cash received during prior periods, or cash received subsequent to the dividend period and prior to the payment date for such dividend to pay dividends

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consistent with the dividend level established from time to time by our board of directors. Our ability to maintain this policy will depend upon our cash flow and applicable REIT rules. We cannot assure you that there will be cash available to pay dividends or that dividend amounts will not fluctuate. Subject to applicable REIT rules, we will seek to reinvest proceeds from the sale, refinancing or other disposition of our properties by purchasing additional properties that are intended to produce additional distributable income.

Increasing the value of our properties. With intensive asset and property management, we believe our properties will be well maintained and improved during the term of our ownership, which should allow for long term appreciation in the value of our properties. In addition, we plan to routinely monitor our portfolio and selectively dispose of properties in an opportunistic manner. There is, of course, no assurance that the value of our properties will increase.

Preserving capital. We will attempt to preserve capital by continuing to invest in a diversified portfolio of quality real estate leased under long-term leases to governmental entities. We will also attempt to diversify our portfolio geographically and consider local factors such as taxing jurisdictions, risk of weather damage and local economy, among others, which may affect the underlying value of our acquired properties in the future.

We cannot assure you that we will achieve any or all of the foregoing objectives because each, to a large extent, is dependent upon factors and conditions beyond our control. Our realization of distributable cash flow and appreciation in value from our properties will depend on a variety of factors, including short-term and long-term economic trends, federal tax laws, governmental regulations, local real estate and financial market conditions and property operating expenses.

Investment Policies

Our primary investment policies are to:

Purchase properties that are primarily leased to the U.S. government, state governments, local governments, and government-sponsored enterprises;

Purchase newer, well-located properties that are not special use in nature and have remaining lease terms of ten years or more. We also consider, on a case-by-case basis, newer, well-located properties that are more special use in nature due to specific government requirements if the lease possesses a reasonable probability of renewal;

Purchase properties at prices that are at or below appraised values; and

Use debt to finance the acquisition cost of the properties that we buy employing up to 75% leverage.

Our board of directors may change our existing investment objectives and policies without stockholder approval.

Acquisition Criteria

In analyzing proposed acquisitions, we evaluate various factors including:

The characteristics of the existing lease including the tenant and the intended use, term, type of lease (e.g., net, modified gross, gross), rental rates, base rent escalation if any, adjustment in rents for increases in operating expenses and taxes, and termination and assignment provisions, the essentiality of the function of the tenant, and the probability of lease renewal;

The type, size, and design of improvements, their age and condition, the quality of the construction methods and materials, the price per square foot of leased space, and the suitability of the property for alternative uses;

The nature of the general location (primary, secondary or tertiary markets), the viability of the sub-market including local demographics and the occupancy of and demand for similar properties in the sub-market area, specifically population and rental trends, and the functionality of the specific site;

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The base rent, operating expenses, property tax, and state and local taxes, net operating income, price, the capitalization rate, prospective financing terms (amount, rate, term, amortization, loan-to-value ratio, debt service coverage ratio) and the prospective over-all rate of return, leveraged periodic return on equity and the all-in rate of return including the liquidation of the projected residual value;

How the prospective acquisition will fit with the existing portfolio to assure sufficient diversity in material investment characteristics;

Comparing the terms of the purchase and the existing lease to current market conditions and comparable transactions;

The suitability of property for and ability to efficiently lease or sublease any vacant space;

The ability of the property to achieve long-term capital appreciation;

The prospects for long-range liquidity of the investment in the property;

The security methods, techniques and design features of the property in the context of its use;

The appraised value of the property, the property's condition, special engineering reports to evaluate unique characteristics of a property, and Phase I environmental reports; and

Our ability to potentially improve the efficiency of the management of the property.

In connection with our review of prospective acquisitions, we may engage third parties, such as environmental consultants, appraisers, engineers, accountants and lawyers, to help us perform our due diligence.

Assessing Prospects for Long-term Property Appreciation and Liquidity

In reviewing a property for acquisition, we consider the property's prospects for long-term appreciation and the prospects for long-range liquidity of the investment. In particular, we will seek to negotiate lease clauses providing for periodic inflation adjustments to the expense portion of base rent, and to minimize deferred maintenance by prompt attention to repair and replacement needs at the properties.

Property Operating Costs Risk Mitigation Strategy

Leases for governmental tenants vary widely and include net leases, gross leases and modified gross leases. Net leases require the tenant to pay all operating expenses, gross leases require the landlord to pay all operating expenses, and modified gross leases require the landlord and the tenant each to pay a portion of the operating expenses. We intend to acquire properties with all three types of leases, as well as variations of these leases, because we believe that gross leases and modified gross leases may provide higher returns for us than net leases. In our experience, GSA leases are generally modified gross leases. We attempt to mitigate the higher risk of gross leases and modified gross leases through strict underwriting, due diligence, and intensive property management.

Financing Strategy

We generally use fixed-rate, long-term mortgage financing to meet our 75% targeted leverage ratio. We choose a particular financing method based upon the most advantageous combination of attractive interest rates, leverage,

assignability, repayment terms, and maturity dates available in the marketplace at the time, and customize our financing strategy for each type of transaction to maximize our return on investment. Our objective is to finance each property with long-term, fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease.

We consider a number of factors when evaluating our level of indebtedness and making financing decisions, including:

the interest rate and maturity date of the proposed financing;

the extent to which the financing impacts the flexibility with which we manage our properties;

prepayment penalties and restrictions on refinancing;

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the purchase price of properties to be acquired with debt financing;

our long-term objectives with respect to the property;

our target investment return;

the terms of any existing leases;

assignability;

the remaining loan balance at the end of the lease term compared to the prospective value of the asset at such time;

the estimated market value of our properties upon refinancing of the indebtedness; and

the ability of particular properties and our company as a whole, to generate cash flow to cover expected debt service.

We also consider the impact of individual financings on our corporate financial structure. Among the factors we consider are:

our overall level of consolidated indebtedness;

provisions that require recourse and cross-collateralization;

corporate credit ratios, including debt service coverage, and debt to total market capitalization; and

our overall mix of fixed-and variable-rate debt.

We may obtain financing from banks, institutional investors or other lenders financing through lines of credit, bridge loans and other arrangements, any of which may be unsecured or may be secured by mortgages or other interests in our properties. In addition, we may incur debt in the form of publicly or privately placed debt instruments. When possible, we seek to replace short-term sources of capital with fixed-rate, long-term financing in which we match or exceed, to the extent possible, the maturity of the debt to the lease term on the property securing the debt.

Our indebtedness may be recourse or non-recourse. If the indebtedness is recourse, our general assets may be included in the collateral. If the indebtedness is non-recourse, the collateral will be limited to the particular property to which the indebtedness relates. To the extent possible, we acquire properties using only non-recourse financing. In addition, we may invest in properties subject to existing loans secured by mortgages or similar liens on the properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to finance acquisitions, or the redevelopment of existing properties, for general working capital, or to purchase additional interests in partnerships or joint ventures. If necessary, we may also borrow funds to satisfy the requirement that we distribute to stockholders at least 90% of our annual taxable REIT income, or otherwise to ensure that we maintain our REIT status for federal income tax purposes.

We may also enter into joint venture arrangements whereby we share the acquisition costs, expenses and returns from a property. We may also raise additional equity capital through additional public or private offerings of our securities.

Sale of Properties

The determination of whether a particular property should be sold or otherwise disposed of will be made after consideration of the performance of the property, existing market conditions and also the benefits of continued ownership and alternative uses of the capital. In deciding whether to sell properties, we will consider factors such as potential capital appreciation, cash flow and federal income tax consequences. We may exchange properties for other properties.

Net proceeds from the sale of any property may, at the discretion of our board of directors, be distributed to stockholders or reinvested in other properties. When reinvesting in other properties, tax-deferral will be a significant

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consideration. Any properties in which net proceeds from a sale are reinvested will be subject to the same acquisition criteria as other properties we acquire. See **Business Investment Policies and Acquisition Criteria**.

In connection with the sale of a property, purchase money obligations secured by mortgages may be taken as partial payment. The terms of payment to us will be affected mainly by prevailing economic conditions. To the extent we receive notes and property other than cash on sales, such proceeds will not be included in net proceeds of sale until and to the extent the notes or other property are actually collected, sold, refinanced or otherwise liquidated. We may receive payments (cash and other property) in the year of sale in an amount less than the full sales price and subsequent payments may be spread over several years. Therefore, dividends to stockholders of the proceeds of a sale may be delayed until the notes or other property are collected at maturity, sold, refinanced, or otherwise converted to cash. The entire balance of the principal may be a balloon payment due at maturity. For federal income tax purposes, unless we elect otherwise, we will report the gain on such sale ratably as principal payments are received under the installment method of accounting.

Reserve for Operating Expenses and Capital Costs

Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to capital repairs, marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

Lending Policies

We may not make loans to our executive officers, key employees or directors except in accordance with our Code of Business Conduct and Ethics and applicable law.

We may consider offering purchase money financing in connection with the sale of properties where the provisions of that financing will increase the value to be received by us for the property sold. We may make loans to joint ventures in which we may participate in the future. However, we do not intend to engage in significant lending activities.

Equity Capital Policies

Our board of directors has the authority, without further stockholder approval, to raise additional capital, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. Existing stockholders have no preemptive right to additional shares issued in any offering, and any offering may cause a dilution of investment. We may in the future issue shares in connection with acquisitions.

Conflicts of Interest Policy

We have adopted a Code of Business Conduct and Ethics that prohibits conflicts of interest between our officers, employees and directors on the one hand, and our company on the other hand, except in compliance with the policy. Waivers of our Code of Business Conduct and Ethics must be disclosed in accordance with New York Stock Exchange (NYSE) and Securities and Exchange Commission (SEC) requirements. As of December 31, 2006, no waivers have been granted or sought.

Other Policies

We do not plan to invest in real estate mortgages except in connection with sale-leaseback acquisitions. We do not plan to invest in securities of persons primarily engaged in real estate activities except in connection with the acquisition of operating properties and the temporary investment of our cash. We do not plan to invest in secondary investments such as mortgage-backed securities, except in connection with the temporary investment of our cash. We do not plan to invest in other securities except in connection with the temporary investment of our cash and do not anticipate investing in other issuers of securities for the purpose of exercising control or acquiring any investments primarily for sale in ordinary course of business or holding any investments with a view to making

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short-term profits from the sale. We do not intend to engage in trading, underwriting, agency distribution or sales of securities of other issuers.

Real Estate Management

We perform asset and property management, and accounting and finance services relating to our properties.

Asset and Property Management

We focus on maximizing the value of our portfolio, monitoring property performance and related operating costs, managing our investment opportunities and pursuing the acquisition of additional properties and, when appropriate, the disposition of selected properties. Our asset management staff directly oversees our portfolio with its primary emphasis being to protect and enhance long-term asset value. Our property management functions include the coordination and oversight of tenant improvements and building services. We only provide to tenants those services that are customarily provided to tenants of other similar properties.

Accounting and Finance

We perform accounting and finance services that relate to the management of our real estate and the business of our Company. Our accounting and finance personnel perform management of accounts payable, collection of receivables and budgeting of our operating expenses through consultation with our property management group.

Capital Improvements Costs

We primarily acquire properties after they have been leased so we do not directly negotiate or pay for tenant improvements. However, if the space must be re-leased, we may pay for improvement or restoration of a tenant's leased space. At the request of the tenant, we may elect to pay for certain requested tenant improvements and collect additional rent to compensate us for having done so. Furthermore, our GSA leases generally hold us as the owner responsible for any repair or replacement of structural components of a building, the roof, any parking facility and the electrical, plumbing, and HVAC equipment in the building.

Insurance

We carry comprehensive liability, casualty, flood and rental loss insurance covering all of the properties in our portfolio. We believe that the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage and industry practice. We have also obtained terrorism insurance, as defined by the Terrorism Risk Insurance Act of 2002, on all of our properties, which is subject to exclusions for loss or damage caused by nuclear, biological and chemical weapons. It is our policy to obtain similar terrorism insurance on properties that we acquire in the future to the extent it is available. In addition, in certain areas, we pay additional premiums to obtain flood, wind, or earthquake insurance. We do not carry insurance for commonly uninsured losses such as loss from riots.

Real Estate Industry Regulation

Environmental

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and remove hazardous or toxic substances or petroleum product releases or threats of releases at such property, and may be held liable for property damage and for investigation,

clean-up and monitoring costs incurred in connection with the actual or threatened contamination. Such laws typically impose clean-up responsibility and liability without regard to fault, or whether the owner, or tenant knew of or caused the presence of the contamination. The liability under such laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable may obtain contributions from the other identified, solvent, responsible parties of their fair share toward these costs. These costs may be substantial, and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a

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property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow using such property as collateral, and may adversely impact our investment on that property.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials and potentially asbestos-containing materials in their building. The regulations also set forth employee training, record-keeping and due diligence requirements pertaining to asbestos-containing materials and potentially asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to the increased regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potentially asbestos-containing materials as a result of these regulations. The regulations may affect the value of a building containing asbestos-containing materials and potentially asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potentially asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potentially asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potentially asbestos-containing materials.

Prior to closing any property acquisition, we obtain environmental assessments in a manner we believe prudent to attempt to identify potential environment concerns at such properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the first phase of the environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures. We also believe that acquiring newer properties, that have been subject to these environmental regulations, helps mitigate our exposure to environmental risks.

While we may purchase our properties on an as is basis, all of our purchase contracts contain an environmental contingency clause, which permits us to reject a property because of any environmental hazard at such property. We receive Phase I reports on all prospective properties.

We believe that our portfolio complies in all material respects with all federal and state regulations regarding hazardous or toxic substances and other environmental matters.

Americans With Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act (the ADA), to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in public areas of our properties where such removal is readily achievable. We believe that our existing properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Fire, Safety and Other Regulation

We must operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements.

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Competition

We compete in acquiring properties with financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors, both domestic and foreign.

Among the positive factors relating to our ability to compete in acquiring properties are:

- we have experience in buying GSA-leased properties;
- our management is knowledgeable in real estate matters;
- we have a positive reputation in the real estate industry; and
- we have a history of closing property acquisitions that we contract to purchase.

Among the negative factors relating to our ability to compete are the following:

- we may have less knowledge than our competitors of certain markets in which we seek to purchase properties;
- we have strict underwriting standards;
- many of our competitors have greater financial and operational resources than we have;
- our competitors or other entities may pursue a strategy similar to ours; and
- some competitors may be willing to accept a lower return on their investment than we will accept.

We also face competition in leasing available properties to prospective tenants. The actual competition for tenants varies depending on the characteristics of each local market.

Employees

We employed 18 employees as of March 1, 2007. None of our employees is represented by a labor union. We consider our employee relations to be good.

Available Information

Our website is located at www.gptrust.com. We make our SEC filings available through our website as soon as reasonably practicable after we file these reports with the SEC. Copies of our Governance Guidelines, Code of Business Conduct and Ethics and charters of our Audit, Compensation, Finance, Real Estate Investment and Nominating & Governance Committees are also available, free of charge, on our website and in print to any stockholder who requests it from our investor relations representative c/o Government Properties Trust, Inc., Investor Relations Representative, 13625 California Street, Suite 310, Omaha, Nebraska 68154. None of the information on our website or any other website identified herein is part of this report.

Item 1A. Risk Factors

Risks Related to Our Business and Properties

We may need to raise capital or dispose of properties if the Merger is not consummated.

On October 23, 2006, we entered into an Agreement and Plan of Merger with RRT and Merger Sub. Under the terms of the Agreement, subject to certain terms and conditions, we will be merged with and into Merger Sub and our separate corporate existence will cease, and we will be a wholly owned subsidiary of RRT. Consummation of the Merger is subject to various conditions, including approval of the Merger by the shareholders and other customary closing conditions.

The Agreement contains termination rights, and provides that, upon the termination of the Agreement, under specified circumstances, we will be required to pay a termination fee to RRT equal to \$6.5 million plus expenses not to exceed \$2.0 million.

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If the Merger is not consummated, then we will continue as a stand-alone public company and may be required to pay a termination fee. In the event that the Merger is not consummated, we may have to raise capital or dispose of certain of our properties. There can be no assurance that we will be able to raise capital or dispose of our properties, or if we are able to do so, that it will be on terms favorable to us.

The closings of our property acquisitions are subject to conditions that may prevent us from acquiring such properties.

Our ability to complete acquisitions depends upon many factors, such as the negotiation of definitive purchase agreements, the satisfactory results from the due diligence work, completion of construction, and satisfaction of customary closing conditions. We have abandoned several prospective purchases due to the failure of one or more of these circumstances. The inability to complete future acquisitions within our anticipated time frames may harm our financial results and undercut our ability to pay dividends at their current level.

Higher asking prices for potential property acquisitions may limit our ability to complete our business plan.

During this period of increased prices for properties, we may not be able to acquire additional properties accretively and may elect not to do so. To the extent that we do not acquire properties accretively, we will not be able to grow as contemplated in our business plan.

Our use of debt financing could decrease our cash flow and expose us to risk of default under our debt documents.

Our policy is to use debt to finance, on average, approximately 75% of the acquisition cost of the properties that we buy. As of December 31, 2006, we had approximately \$373.6 million of outstanding indebtedness representing 70% of the acquisition cost of properties we owned as of that date.

Since we anticipate that our cash flow from operations will be insufficient to repay all of our indebtedness prior to maturity, we expect that we will have to extinguish remaining debt through refinancing, sale of properties or sale of additional equity. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on unfavorable terms, which might result in losses to us and which might adversely affect our cash available for distribution to our stockholders. If prevailing interest rates or other factors at the time of a refinancing result in higher interest rates on such refinancing, our interest expense would increase, which could seriously harm our operating results and financial condition and our ability to pay dividends. Our debt and any increase in our debt may be detrimental to our business and financial results by:

requiring us to use a substantial portion of our cash flow from operations to pay interest, which reduces the amount available for the operation of our properties or the payment of dividends;

imposing restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations and foreclose on our properties, if materially violated;

placing us at a competitive disadvantage compared to our competitors who may have less debt;

making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;

requiring us to sell one or more properties, possibly on unfavorable terms; and

limiting our ability in the future to borrow funds for operations and to finance property acquisitions and to refinance our indebtedness at maturity on acceptable terms.

Our ability to obtain debt financing could be impaired or delayed due to underwriting restrictions applicable to the type of properties we acquire.

Our policy is to obtain debt financing related to properties we buy. Because of the single tenant nature of the properties we acquire, mortgage underwriters take certain additional precautions intended to assure that the remaining mortgage balance is paid at the end of the loan term. Also, for mortgages that have an amortization

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schedule longer than the lease term, due to the high initial per square foot cost of the property being acquired, mortgage lenders consider the high per square foot remaining principal balance at the end of the mortgage term as a negative with regard to the potential approval of the loan. These and other similar negative factors associated with our properties may make it more difficult and more expensive for us to finance or refinance our properties compared to other types of commercial real estate.

Because our principal tenant is the U.S. government, our properties may have a higher risk of terrorist attack than similar properties leased to non-governmental tenants.

Because our principal tenant is the U.S. government, our properties are presumed to have a higher risk of terrorist attack than similar properties that are leased to non-governmental tenants. Some of our properties could be considered high profile targets because of the particular government tenant (e.g., the FBI). Certain losses resulting from terrorist attacks may be uninsurable. Additional terrorism insurance may not be available at a reasonable price or at all.

We depend on the U.S. government for most of our revenues. Any failure by the U.S. government to perform its obligations or renew its leases upon expiration may harm our cash flow and ability to pay dividends.

Rent from local, state and federal governments represented 96% of our revenues for 2006 and 2005. In addition, the government leased 96% of our total leased square feet of property at December 31, 2006. Any default by the U.S. government, or its failure to renew its leases with us upon their expiration, could cause interruptions in the receipt of lease revenue or result in vacancies, or both, which would reduce our revenue until the affected property is leased, and could decrease the ultimate value of the affected property upon sale. Further, failure on the part of a tenant to comply with the terms of a lease may cause us to find another tenant. We cannot assure you that we would be able to find another tenant without incurring substantial costs, or that if another tenant were found we would be able to enter into a new lease on favorable terms.

An increase in the operating costs of our government-leased properties would harm our cash flow and ability to pay dividends.

Leased properties in which the tenant is wholly responsible for any increases in operating costs that apply to the property are not typical of the leases entered into through the GSA, the principal leasing agency of the federal government. Under present practice, most GSA leases only cover increases in real estate taxes above a base amount. Most GSA leases also increase that portion of the rent applicable to other operating expenses by an agreed upon percentage as measured by the U.S. Department of Labor revised Consumer Price Index (the CPI). Typically, operating expenses in these leases do not include insurance cost. To the extent operating costs other than real estate taxes and insurance increase at a rate greater than the specified percentage, our cash flow would be harmed and our ability to pay dividends may be harmed.

If we are unable to lease properties that are partially or completely vacant, we may be required to recognize an impairment loss with respect to the carrying values of these properties, which may seriously harm our operating results and financial condition.

Any of our properties could become partially or completely vacant in the future. If we are unable to re-lease these properties and generate sufficient cash flow to replace or exceed that amount lost due to the vacancy, we will be required to recognize a financial loss as to that property, which could reduce our operating results and our ability to pay dividends.

Restrictive covenants in our loan documents may restrict our operating, acquisition or divestiture activities, which may harm our financial condition and operating results.

The mortgages on our properties contain customary restrictive covenants, including provisions that may limit the borrowing subsidiary's ability, without the prior consent of the lender, to incur additional indebtedness, further mortgage or transfer the applicable property, purchase or acquire additional property, discontinue insurance coverage, change the conduct of its business or make loans or advances to, enter into any transaction of merger or

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consolidation with, or acquire the business, assets or equity of, any third party. In addition, our lines of credit or loans contain financial covenants, further restrictive covenants and other obligations. If we materially breach such covenants or obligations in our debt agreements, the lender could declare a default, may require us to repay the debt immediately and can foreclose on the property securing the loan. We may then have to sell properties either at a loss or at a time that prevents us from achieving a higher price. Any failure to pay our indebtedness when due or failure to prevent or cure events of default could result in higher interest rates during the period of the loan default and could ultimately result in the loss of properties through foreclosure.

Increasing competition for the acquisition of government-leased properties may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities for the acquisition of government-leased properties. Our competitors include financial institutions, institutional pension funds, other REITs, other public and private real estate companies and private real estate investors both foreign and domestic. These competitors may prevent us from acquiring desirable properties or increase the price we must pay for properties. Our competitors, both foreign and domestic, may have greater resources than we do and may be willing to pay more for similar property. In addition, the number of entities and the amount of capital competing for government-leased properties may increase in the future, resulting in increased demand and increased prices paid for these properties. If we are forced to pay higher prices for properties, our profitability may decrease and our stockholders may experience a lower return on their investment.

We may have limited time to perform due diligence on many potential property acquisitions, which could result in the loss of acquisition opportunities.

When we enter into an agreement to acquire a property we often have limited time to complete our due diligence prior to purchase. Pursuant to Company policy, if we cannot complete our full due diligence review process within the time allotted, we will not proceed with an acquisition. Accordingly, we may lose property acquisitions due to lack of sufficient time to complete our due diligence and therefore limit our future growth.

Our cash flow is not assured. We may not pay dividends in the future.

Our ability to pay dividends may be adversely affected by the risks described herein. We cannot assure you that we will be able to pay dividends in the future. We also cannot assure you that the level of our dividends will increase over time or the receipt of income from additional property acquisitions will necessarily increase our cash available for distribution to stockholders. Any failure to make expected cash dividend distributions will likely result in a decrease in the market price of our stock.

Our board of directors may alter our investment policies at any time without stockholder approval.

Our board of directors may alter our investment policies at any time without stockholder approval. Changes to these policies may adversely affect our financial performance and our ability to maintain or pay dividends.

We have incurred historical losses and may incur future losses.

We have had historical losses of \$4.6 million and \$2.4 million for the years ended December 31, 2006 and 2005, respectively. As of December 31, 2006, we had an accumulated deficit of \$45.7 million, of which \$10.2 million was due to accumulated losses and \$35.5 million was due to the payment of cash dividends. We cannot assure you that we will not have similar losses in the future.

Risks Related to Our Organization and Structure

We depend on key personnel with long-standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of Thomas D. Peschio, our president and chief executive officer, and of the other members of our management team. In particular, the

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relationships that Mr. Peschio and the other members of our management team have developed with owners and developers of government-leased properties are critically important to the success of our business. Although we have an employment agreement with Mr. Peschio, we cannot assure you that he and the other key acquisition personnel will remain employed with us. We do not maintain key person life insurance on any of our officers. The loss of our management team could adversely impact our operations.

A majority of the voting power over our shares is currently concentrated in a relatively small number of unrelated investment managers

Our stockholder records show that less than 10 investment managers, who have been granted the right by their respective clients to vote our shares, control a majority of our stock. Accordingly, this relatively small number of unrelated investment managers could, if acting in concert based on a common interest or concern, vote a majority of the Company's shares to achieve a common objective. This result could be harmful to us and our stockholders.

Our board of directors may authorize the issuance of additional shares that may cause dilution.

In connection with future equity offerings, as well as stock grants pursuant to the Company's 2003 Equity Incentive Plan, the board of directors may authorize the issuance of additional shares of common stock. The issuance of additional shares could dilute our existing stockholders.

Our board of directors may authorize the issuance of shares with differing dividend rights that could harm our stockholders' right to receive dividends.

Our board of directors has the power to issue preferred stock or other securities that have distribution rights senior to that of the common stock. Any superior dividend rights could prevent us from paying dividends to the holders of our common stock.

Our rights and the rights of our stockholders to take action against directors and officers are limited.

Maryland law provides that a director has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our governing documents obligate us to indemnify our directors and permit us to indemnify our officers for actions taken by them in those capacities to the extent permitted by Maryland law which applies broadly. Additionally, we may be obligated to fund the defense costs incurred by our directors and officers. Finally, our governing documents limit the liability of our directors and officers for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

a final judgment based upon a finding of active and deliberate dishonesty by the director, trustee or officer that was material to the cause of action adjudicated.

As a result, we and our stockholders have more limited rights against our directors and officers than might otherwise exist without these conditions.

Our ownership limitations may restrict business combination opportunities.

To preserve our REIT status, our charter generally prohibits direct or indirect ownership through affiliates by any person of more than 9.8% of the number or value of outstanding shares of any class of our securities, including our

common stock. Any transfer of our common stock that would disqualify our REIT status will be null and void, and the intended transferee will acquire no rights in such stock. These ownership limitations could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then current market price or which such holders might believe to be otherwise in their best interest. Further, shares that are transferred in excess of the 9.8% ownership limit will be designated as excess shares subject to redemption. The ownership limitation provisions also may make our common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of the number or value of outstanding shares of any class of our securities.

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Maryland law grants broad authority to our board to reject any outside proposal involving a change in control.

Maryland law provides broad discretion to our board of directors with respect to its duties in considering a change in control of our company, including that a board is subject to no greater level of scrutiny in considering a change in control transaction than with respect to any other action within its authority that it considers. Accordingly, we may not pursue a change in control which might otherwise be in our stockholders' best interests.

Our chief executive officer and chief financial officer have employment agreements that provide them with benefits in the event their employment is terminated, which could prevent or deter a potential acquirer from pursuing a change of control of our company.

We have entered into employment agreements with Thomas D. Peschio, our president and chief executive officer, and Nancy D. Olson, our treasurer and chief financial officer, which provide them with severance benefits if their employment ends due to a termination by us without cause. In the case of such termination, we would have to pay severance and the vesting of their restricted stock will accelerate. Mr. Peschio also has the right to terminate his employment agreement upon a change of control of our Company and receive severance benefits. These agreements could prevent or deter a change of control of our Company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Risks Related to the Real Estate Industry

Mortgage debt obligations expose us to increased risk of property losses, which could harm our financial condition, cash flow and ability to satisfy our other debt obligations and pay dividends.

Incurring mortgage debt increases our risk of property losses because defaults on indebtedness secured by properties may result in our loss of the property securing any loan for which we are in default. For tax purposes, a foreclosure is treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. The outstanding balance of the debt secured by the mortgage could exceed our tax basis in the property, which would cause us to recognize taxable income on foreclosure, without receiving corresponding cash proceeds. As a result, we may be required to utilize other sources of cash to pay our taxes, which may result in a decrease in cash available for distribution to our stockholders. In addition, our default under any one of our mortgage debt obligations may increase the risk of our default on our other indebtedness. If this occurs, our financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay dividends may be harmed.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors that are beyond our control, including:

adverse changes in national and local economic and market conditions;

changes in interest rates and in the availability, cost and terms of debt financing;

changes in governmental laws and regulations, fiscal policies and zoning ordinances and costs of compliance with laws and regulations, fiscal policies and ordinances;

the ongoing need for capital improvements, particularly in older structures;

changes in operating expenses; and

civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. These factors and any others that

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would impede our ability to respond to adverse changes in the performance of our properties could harm our operating results and financial condition, as well as our ability to pay dividends to stockholders.

Compliance with environmental laws could materially increase our operating expenses.

There may be environmental problems associated with our properties of which we are unaware. If environmental contamination exists on our properties, we could become subject to strict liability for the contamination. The presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs. In addition, although we may require in our leases that tenants operate in compliance with all applicable laws and to indemnify us against any environmental liabilities arising from a tenant's activities on the property, we could nonetheless be subject to strict liability by virtue of our ownership interest, and we cannot be sure that our tenants would satisfy their indemnification obligations. Such environmental liability exposure associated with our properties could harm our results of operations and financial condition and our ability to pay dividends to stockholders.

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

The presence of significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us to liability from our tenants, employees of our tenants and others if property damage for health concerns arise.

Compliance with the ADA and fire, safety and other regulations may require us to make unexpected expenditures that adversely impact our ability to pay dividends.

Our properties may be required to comply with the Americans with Disabilities Act, or the ADA. Compliance with the ADA requirements could necessitate removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. We could be required to expend our funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition and our ability to make distributions to stockholders. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and which could harm our ability to pay dividends.

An uninsured loss or a loss that exceeds the insurance policy limits on our properties could subject us to lost capital or revenue on those properties.

Our comprehensive loss insurance policies may involve substantial deductibles and certain exclusions and may not be fully in place to cover all conditions when a property is acquired. In certain areas, we may have to obtain earthquake insurance on specific properties as required by our lenders or by law. We have also obtained terrorism insurance on all of our GSA-leased properties, but this insurance is subject to exclusions for loss or damage caused by nuclear substances, pollutants, contaminants and biological and chemical weapons. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of our properties, which could harm our operations results and financial condition as well as our ability to pay dividends.

Tax Risks of Our Business and Structure

An investment in our common stock has various tax risks that could affect the value of our stockholders' investment.

Special tax risks associated with owning stock in our Company include those associated with the treatment of distributions in excess of current and accumulated earnings and profits to the extent that they exceed the adjusted

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basis of an investor's common stock, as long-term capital gain (or short-term capital gain if the shares have been held for less than one year); the treatment of any dividend declared by us in October, November or December of any year payable to a stockholder of record on a specific date in any such month as being paid by us and received by the stockholder on December 31 of such year; the treatment of any gain or loss realized upon a taxable disposition of shares by a stockholder who is not a dealer in securities as a long-term capital gain or loss if the shares have been held for more than one year, otherwise as short-term capital gain or loss; the treatment of distributions that we designate as capital gain dividends taxable to stockholders as gains (to the extent that they do not exceed our actual net capital gain for the taxable year) from the sale or disposition of a capital asset held for greater than one year; and distributions we make and gains arising from the sale or exchange by a stockholder of shares of our stock not qualifying to be offset by passive losses.

Distribution requirements imposed by law limit our flexibility in executing our business plan.

As a REIT, we generally are required to distribute to our stockholders at least 90% of our taxable REIT income each year to maintain our status as a REIT for federal income tax purposes. Taxable REIT income is determined without regard to the deduction for dividends paid and by excluding net capital gains. We are also required to pay tax at regular corporate rates to the extent that we distribute less than 100% of our taxable income (including net capital gains) each year. In addition, we are required to pay 4% nondeductible excise tax on the amount, if any, by which certain distributions we pay with respect to any calendar year are less than the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year and any amount of our income that was not distributed in prior years.

We may incur additional indebtedness to meet our distribution requirements. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our cash flow from operations.

It is possible that the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes could result in our having to borrow funds on a short-term basis to meet the 90% distribution requirement to qualify for REIT tax status. While we have not borrowed for the specific purpose of paying distributions, our prior borrowings allowed us to pay distributions from our operations.

Our disposal of properties may have negative implications, including unfavorable tax consequences.

If we sell a property directly, and it is deemed to be a sale of dealer property or inventory, the sale may be deemed to be a prohibited transaction under the provisions of the federal tax laws applicable to REITs, in which case our gain from the sale would be subject to a 100% penalty tax. If we believe that a sale of a property might be treated as a prohibited transaction, we will attempt to structure a sale through a taxable REIT subsidiary, in which case the gain from the sale would be subject to corporate income tax but not the 100% prohibited transaction tax. We cannot assure you, however, that the Internal Revenue Service (IRS) would not assert successfully that sales of properties that we make directly, rather than through a taxable REIT subsidiary, were sales of dealer property or inventory, in which case the 100% penalty tax would apply.

If we fail to remain qualified as a REIT, our dividends will not be deductible by us, and our income will be subject to taxation.

If we fail to remain qualified as a REIT, our dividends will not be deductible by us for federal income tax purposes and we will be subject to a corporate level tax on our taxable income. This would substantially reduce our cash available to pay dividends and the yield on your investment. Incurring corporate income tax liability might cause us to borrow funds, liquidate some of our investments or take other steps which could negatively affect our operating

results. If our REIT status is terminated because of our failure to meet a REIT qualification requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost. We cannot assure you that we will be able to maintain REIT status, or that it will be in our best interests to continue to do so.

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We may be subject to federal income tax, state income, franchise and other local taxes that would harm our financial condition.

Even if we maintain our status as a REIT, we may become subject to federal income taxes. For example, if we have net income from a sale of dealer property or inventory, that income will be subject to a 100% penalty tax. In addition, we may not be able to pay sufficient distributions to avoid corporate income tax and the 4% excise tax on undistributed income.

We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating entities through which we indirectly own our properties that would adversely affect our operating results.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

The federal tax laws governing REITs and the administrative interpretations of those laws may be amended at any time. Any of those new laws or interpretations may take effect retroactively. For example, on May 28, 2003, President Bush signed into law legislation that could cause shares in non-REIT corporations to be a more attractive investment to individual investors than they had been, because of lower tax rates on their dividends as compared to the tax rate paid by stockholders receiving REIT distributions. This and other tax legislation in the future could harm the market price of our common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our portfolio consisted of 22 properties totaling approximately 2.2 million square feet as of December 31, 2006. These properties are 97% occupied and had a weighted-average remaining lease term of approximately 10 years.

Our portfolio as of December 31, 2006 consisted of the following:

Location	Tenant/Occupant	Year Built/ Renovated	Rented Sq. Ft.	Rent/ Sq. Foot	(in thousands)		Lease Maturity/ Early Termination	Lease Type
					Gross Estimated Annualized Rent			
Bakersfield, California	U.S. Drug Enforcement Administration	2000	9,800	\$ 32.39	\$ 317		Nov. 2010/ Nov. 2008	Modified Gross Lease
Baton Rouge, Louisiana	U.S. Veterans Administration	2004	30,000	\$ 24.57	\$ 737		Jun. 2019/ None	Gross Lease
Buffalo, New York	U.S. Various Agencies	2004	248,311	\$ 22.64	\$ 5,621		Jun. 2015/ Jun. 2010	Modified Gross

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(Niagara Center)									Lease
Buffalo,									Modified
New York	U.S. Social Security							May 2015/	Gross
	Administration	2003/2005	32,223	\$ 25.78	\$	831	May 2010		Lease
Charleston,	United States						Jul. 2019/		Modified
South Carolina	Federal Courthouse	1795/1999	44,250	\$ 37.93	\$	1,679	None		Net Lease

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Location	Tenant/Occupant	Year Built/ Renovated	Rented Sq. Ft.	Rent/ Sq. Foot	(in thousands)		Lease Maturity/ Early Termination	Lease Type
					Gross Estimated Annualized Rent			
Charleston, West Virginia	U.S. Social Security Administration	1959/1999	90,050	\$ 22.68	\$ 2,042		Dec. 2019/ None	Modified Gross Lease
Clarksburg, West Virginia	U.S. Department of Justice, Drug Enforcement Administration, Federal Bureau of Investigation, Social Security Administration	1998	55,443	\$ 23.69	\$ 1,314		Jan. 2019/ Jan. 2016	Modified Gross Lease
College Park, Maryland	U.S. Food and Drug Administration	2004	65,760	\$ 39.88	\$ 2,623		Aug. 2014/ None	Modified Gross Lease
Dallas, Texas	U.S. Social Security Administration	2005	27,200	\$ 40.23	\$ 1,094		August 2020/ August 2015	Modified Gross Lease
Denver, Colorado	U.S. Environmental Protection Agency	2006	256,893	\$ 29.65	\$ 7,618		Dec. 2016/ None	Modified Gross Lease
Harlingen, Texas	U.S. Citizenship and Immigration Services	1997/2002	127,001	\$ 22.85	\$ 2,902		October 2022/ None	Modified Gross Lease
Kingsport, Tennessee	U.S. Social Security Administration	1999	22,848	\$ 17.66	\$ 403		Oct. 2014/ Oct. 2009	Modified Gross Lease
Lenexa, Kansas	U.S. Food and Drug Administration	1991	53,500	\$ 22.29	\$ 1,192		Jun. 2012/ None	Modified Gross Lease
Martinsburg, West Virginia	U.S. Internal Revenue Service	1996	122,475	\$ 23.88	\$ 2,925		July 2015/ None	Modified Net Lease
Mineral Wells, West Virginia	U.S. Bureau of Public Debt	2003	38,324	\$ 13.61	\$ 521		Sep. 2017/ Sep. 2012	Modified Gross Lease
Parkersburg, West Virginia	U.S. Bureau of Public Debt	2004	182,500	\$ 24.50	\$ 4,471		Mar. 2021/ None	Modified Gross Lease
Pittsburgh, Pennsylvania	U.S. Federal Bureau of Investigation	2001	87,178	\$ 38.17	\$ 3,328		Oct. 2016/ None	Modified Gross Lease

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Location	Tenant/Occupant	Year Built/ Renovated	Rented Sq. Ft.	Rent/ Sq. Foot	(in thousands)		Lease Maturity/ Early Termination	Lease Type
					Gross Estimated Annualized Rent			
Pittsburgh, Pennsylvania	U.S. Citizenship and Immigration Services	2004	36,153	\$ 34.34	\$	1,241	Feb. 2014/ None	Modified Gross Lease
Portland, Oregon	U.S. Various Agencies, Integra Telecom	2002	217,508	\$ 24.30	\$	5,286	Apr. 2015/ None	Modified Gross Leases
Riverside, California	County of Riverside Department of Child Support Services	1989/1994	117,168	\$ 23.41	\$	2,743	January 2017/ None	Gross Lease
Sterling, Virginia	U.S. Drug Enforcement Agency	2002	49,692	\$ 45.68	\$	2,270	Mar. 2020/ None	Modified Gross Lease
Vicksburg, Mississippi	U.S. Army Corps of Engineers	1996	199,404	\$ 17.34	\$	3,457	July 2016/ None	Modified Gross Lease
			2,113,681	\$ 25.84	\$	54,615		

As used in the table above and throughout this report, Gross Annualized Rent is determined by multiplying December 2006 rents by 12 and Rent Per Square Foot is determined by dividing the Gross Annualized Rent by the leased square footage of the property.

Bakersfield, California. The Bakersfield DEA property is 100% leased to the federal government and is occupied by the U.S. Drug Enforcement Administration (DEA). This property houses the DEA s regional headquarters and consists of an approximately 2.10 acre parcel with a two story office building containing 9,800 leased square feet of office and related space. The building was completed in 2000.

The Bakersfield DEA property is leased pursuant to a modified gross lease, which will expire on November 27, 2010, unless terminated under an early termination clause on November 27, 2008. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building s operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Bakersfield DEA property in January 2003 for \$2.4 million, or approximately \$243 per leased square foot. In February 2005, we obtained financing for the property of approximately \$1.4 million from CW Capital, which

matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

Baton Rouge, Louisiana. The Baton Rouge VA property is 100% leased by the federal government and is occupied by a Veterans Administration outpatient clinic. The property consists of an approximately 4.77 acre parcel with a single story building containing 30,000 leased square feet of office and related space. The building was completed in 2004.

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The Baton Rouge VA property is leased pursuant to a modified gross lease, which will expire on June 3, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Baton Rouge VA property in September 2004 for \$6.0 million, or approximately \$202 per leased square foot. In February 2005 we obtained financing for approximately \$4.8 million from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

Buffalo, New York. The Buffalo Niagara Center property consists of a 3.5 acre parcel with an eight story building containing approximately 268,082 square feet of office space. The property also includes a five-story, 475-stall parking garage with 2,000 square feet of retail space. The Niagara Center property was completed in 2004 and is currently 86% leased to various governmental tenants.

Major tenants, with 5-year firm term leases include the United States Internal Revenue Service (IRS), Department of Veteran's Affairs, National Labor Relations Board, Small Business Administration, Treasury Inspector General Tax Administrator, and the GSA. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Buffalo Niagara Center property in May 2005 for \$71.7 million, or approximately \$265 per square foot. We financed the acquisition of our Buffalo Niagara Center property in November 2006 through an approximately \$52.9 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly through December 11, 2011. From January 11, 2011 through November 11, 2016, monthly payments are amortized on a 30-year schedule, with a balloon payment due December 11, 2016.

Buffalo, New York. The Buffalo SSA property is 100% leased by the federal government and is occupied by the SSA, Environmental Protection Agency and the Railroad Retirement Board. The property consists of an approximately 2.3 acre parcel with a single story building containing 32,223 leased square feet of office and related space. The building was completed in 2005.

The Buffalo SSA property is leased pursuant to a modified gross lease, which will expire on May 31, 2015, unless terminated pursuant to an early termination clause after May 31, 2010. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Buffalo SSA property in May 2005 for \$5.4 million, or approximately \$157 per leased square foot. We financed the acquisition of our Buffalo SSA property in November 2006 through an approximately \$2.8 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly.

Charleston, South Carolina. The Charleston Federal Courthouse property is 100% leased by the federal government and is occupied by the Federal District Court. The property consists of an approximately 0.305 acre

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parcel with a four story building containing 44,250 leased square feet of office and related space. The building was completed in 1999.

The Charleston Federal Courthouse property is leased pursuant to a modified net lease, which will expire on July 31, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. We are responsible for the building's roof and structural repair, property insurance, and base year real estate taxes. The government pays all operating expenses and any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us.

We acquired the Charleston Federal Courthouse property in September 2004 for \$19.3 million, or approximately \$436 per leased square foot. In February 2005 we obtained financing for approximately \$14.6 million from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

Charleston, West Virginia. The Charleston SSA property is 100% leased by the federal government and is occupied by the U.S. Department of Labor, the U.S. Social Security Administration (SSA) and related state agencies. This property houses the SSA's regional administrative office. The property is an approximately 1.68 acre parcel with a five story building containing 90,050 leased square feet of office and related space. The building was completed in 1959 and completely renovated to core and shell in 1999.

The Charleston SSA property is leased pursuant to a modified gross lease, which will expire on December 9, 2019. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Charleston SSA property in April 2003 for \$18.4 million, or approximately \$205 per leased square foot. The property is subject to a \$14.0 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

Clarksburg, West Virginia. The Clarksburg GSA property is 100% leased by the federal government and is occupied by the SSA, the DEA, the Federal Bureau of Investigation (FBI) and the U.S. Department of Justice. The property is an approximately 1.02 acre parcel with a three story building containing 55,443 leased square feet of office and related space. The building was completed in 1998.

The Clarksburg GSA property is leased pursuant to a modified gross lease, which will expire on January 19, 2019, unless terminated pursuant to an early termination clause on January 19, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Clarksburg GSA property in April 2003 for \$11.0 million, or approximately \$199 per leased square foot. We financed the acquisition through a \$8.3 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

College Park, Maryland. The College Park FDA property consists of an approximately 4.3811 acre parcel with a three story building containing 79,000 square feet of office and laboratory space of which 65,760 is leased by

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the federal government and is occupied by the FDA. The remaining 13,240 square feet is currently vacant. The building was completed in 2004.

The College Park FDA property is leased pursuant to a modified gross lease, which will expire on August 31, 2014. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the College Park FDA property in October 2004 for \$22.9 million, or approximately \$290 per square foot. We financed the acquisition through the assumption of the seller's first mortgage loan in the amount of \$16.7 million loan from Capital Realty, which matures on October 26, 2026. The unpaid principal balance of the first mortgage loan bears interest at a rate of 6.75% per annum, with monthly payments being amortized on a 22-year schedule.

Dallas, Texas. The Dallas SSA property consists of an approximately 2.9 acre parcel with a one story building containing 27,200 leased square feet of office and related space leased by the federal government and is occupied by the SSA. The building was completed in 2005.

The Dallas SSA property is leased pursuant a modified gross lease, which will expire on August 14, 2020, unless terminated pursuant to an early termination clause after August 14, 2015. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Dallas SSA property in September 2005 for \$9.6 million, or approximately \$352 per leased square foot. We financed the acquisition through a \$6.25 million loan from Key Bank, which matures on October 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.09% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due October 1, 2015.

Denver, Colorado. The Denver EPA property consists of an approximately 1.26 acre parcel with a nine story building containing approximately 276,567 square feet of office and retail space. The property is 90% leased by the federal government and is occupied by the EPA. The property also includes an underground parking garage with 225 parking stalls to be leased exclusively to federal government employees. The Denver EPA property was completed in 2006.

The federal government leases approximately 248,849 square feet, or 90% of the property, pursuant to a modified gross lease, which will expire on December 31, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

The non-governmental tenants in the building are Starbucks, J.P. Morgan Chase Bank and Heidi's Brooklyn Deli. Each of these non-governmental tenants has a ten-year firm-term triple-net lease. Non-governmental tenants currently represent 3 percent of the square footage in the building. The non-governmental tenants pay a pro rata share of the basic operating costs of the property which includes maintenance, repairs and management.

We acquired the Denver EPA property in December 2006 for \$91.6 million, or approximately \$331 per square foot. We financed the acquisition of our Denver EPA property in December 2006 through an approximately

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\$68.5 million loan from PNC Bank, which matures on January 1, 2017. The unpaid principal balance of the note bears interest at a rate of 6.19% per annum. Accrued interest only payments are due monthly through January 2009. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due January 1, 2017.

Harlingen, Texas. The Harlingen USCIS property is 100% leased by the federal government and is occupied by the United States Citizenship and Immigration Services (USCIS). The property is an approximately 10.0 acre parcel with two conjoined buildings. The first building (USCIS I), was completed in January 1997 and consists of a 19,000 square foot, single story building of office and related space. The second building (USCIS II), was completed in 2002 and consists of a 108,001 square foot, two story building of office and related space.

The Harlingen USCIS property is leased pursuant to two modified gross leases, which will expire on January 31, 2018 for the USCIS I building and October 31, 2022 for the USCIS II building. The USCIS I building has an early termination clause on January 31, 2013. The government has the right to assign the leases to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The leases also provide for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We financed the acquisition of our Harlingen USCIS property in May 2006 through an approximately \$19.9 million loan from CW Capital, which matures on September 1, 2016. The unpaid principal balance of the note bears interest at a rate of 6.266% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due September 1, 2016.

Kingsport, Tennessee. The Kingsport SSA property is 100% leased by the federal government and is occupied by the SSA. This property houses the SSA's regional administrative office. The property is an approximately 2.334 acre parcel with a single story building containing 22,848 leased square feet of office and related space. The building was completed in 1999.

The Kingsport SSA property is leased pursuant to a modified gross lease, which will expire on October 31, 2014, unless terminated pursuant to an early termination clause on October 31, 2009. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Kingsport SSA property in April 2003 for \$3.0 million, or approximately \$131 per leased square foot. The property is subject to a first mortgage loan in the amount of \$2.3 million from Bank of America, which matures on April 1, 2010. The unpaid principal balance of the first mortgage loan bears interest at a rate of 8.23% per annum, with monthly payments being amortized on a 25-year schedule, and has a balloon payment due April 1, 2010.

Lenexa, Kansas. The Lenexa FDA property is 100% leased by the federal government and is occupied by the U.S. Food and Drug Administration (FDA). The property consists of an approximately 5.05 acre parcel with two single story buildings containing a total of 53,500 leased square feet of office and laboratory space. The buildings were completed in 1991.

The Lenexa FDA property is leased pursuant to a modified gross lease, which will expire on June 21, 2012. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

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We acquired the Lenexa FDA property in June 2004 for \$10.5 million, or approximately \$197 per leased square foot. We financed the acquisition in July 2004 through an \$8.0 million loan from Wachovia, which matures on August 11, 2009. The unpaid principal balance of the note bears interest at a rate of 5.44% per annum. Monthly payments are amortized on a 27-year schedule, with a balloon payment due August 11, 2009.

Martinsburg, West Virginia. The Martinsburg IRS property consists of an approximately 25 acre parcel with a two story building containing 122,475 leased square feet of office and related space leased by the federal government and is occupied by the IRS. The building was completed in 1996.

The Martinsburg IRS property is leased pursuant to a modified net lease, which will expire on July 11, 2015. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. We are responsible for the building's roof and structural repair, property insurance, and base year real estate taxes. The government pays all operating expenses and any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us.

We acquired the Martinsburg IRS property in July 2005 for \$30.6 million, or approximately \$250 per leased square foot. We financed the acquisition through a \$19.6 million loan from PNC Bank, which matures on August 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.24% per annum. Accrued interest only payments are due monthly through August 2006. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due August 1, 2015.

Under terms of the existing lease, the federal government has an option to purchase the Martinsburg IRS Property for approximately \$24.8 million. Real estate at cost, net of accumulated depreciation of the Martinsburg IRS Property was \$29.2 million at December 31, 2006.

Mineral Wells, West Virginia. The Mineral Wells BPD property is 100% leased by the federal government and is occupied by the U.S. Bureau of Public Debt (BPD). The property is an approximately 7.51 acre parcel with a single story building containing 38,324 leased square feet of office and related space. The building was completed in 2003.

The Mineral Wells BPD property is leased pursuant to a modified gross lease, which will expire on September 30, 2017, unless terminated pursuant to an early termination clause on September 30, 2012. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Mineral Wells BPD property in March 2004 for \$5.1 million in cash, or approximately \$133 per leased square foot.

Parkersburg, West Virginia. The Parkersburg BPD property is 100% leased by the federal government and is occupied by the BPD. The property consists of an approximately 6.12 acre parcel with a five story building containing 182,500 leased square feet of office and related space. The original building was completed in 2004 and consisted of 80,500 square feet. In March 2006, the Company completed an expansion of the Parkersburg Property by an additional 102,000 square feet bringing the total complex to approximately 182,500 leased square feet.

The Parkersburg BPD property is leased pursuant to a modified gross lease, which will expire on March 31, 2021. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

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We acquired the Parkersburg BPD property in November 2004 for \$20.2 million in cash, or approximately \$251 per leased square foot. In March 2005, we obtained financing for the property through a combined \$31.8 million loan from the Bank of New York, which matures on March 15, 2021. The loan is comprised of two notes totaling \$26.8 million and \$5.0 million. The unpaid principal balance of \$26.8 million bears interest at a rate of 5.40% per annum. Monthly payments are interest only through the date of completion of the property expansion. Thereafter monthly payments are amortized on a 25-year schedule, with a balloon payment due March 15, 2021. The \$5.0 million note bears interest at 5.75% with interest only payments due monthly and principal due also on March 15, 2021.

Pittsburgh, Pennsylvania. The Pittsburgh FBI property is 100% leased by the federal government and is occupied by the FBI. The property consists of an approximately 4.573 acre parcel with a four story building containing 87,178 leased square feet of office and related space. The building was completed in 2001.

The Pittsburgh FBI property is leased pursuant to a modified gross lease, which will expire on October 5, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Pittsburgh FBI property in May 2004 for \$28.7 million, or approximately \$329 per leased square foot. We financed the acquisition through a \$21.0 million loan from PNC Bank, which matures on August 1, 2009. The unpaid principal balance of the note bears interest at a rate of 5.5% per annum. Monthly payments are amortized on a 26-year schedule, with a balloon payment due on August 1, 2009.

Pittsburgh, Pennsylvania. The Pittsburgh USCIS property is 100% leased by the federal government and is occupied by the U.S. Citizenship and Immigration Services. The property consists of an approximately 2.465 acre parcel with a three story building containing 36,153 leased square feet of office and related space. The building was completed in 2004.

The Pittsburgh USCIS property is leased pursuant to a modified gross lease, which will expire on February 26, 2014. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Pittsburgh USCIS property in October 2004 for \$10.6 million, or approximately \$294 per leased square foot. We financed the acquisition through an \$8.0 million loan from Nomura Credit, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.13% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

Portland, Oregon. The Portland property, located at 1201 Lloyd Street, consists of a 1.7 acre parcel with an eleven story building containing approximately 223,960 square feet of office space. The property also includes a separate parking garage with 471 parking stalls and 2,450 square feet of retail space. The Portland property was completed in 2002 and is currently 96% leased to various governmental and non-governmental tenants.

Major governmental tenants, with 10-year firm-term modified gross leases include the United States Department of Agriculture and the National Oceanic and Atmospheric Administration. Other governmental entities with five-year firm-term modified gross leases include the FBI, Bureau of Indian Affairs, Office of Hearing and Appeals, Bureau of Reclamation, and the Bureau of Alcohol, Tobacco and Firearms. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes

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through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

The largest non-governmental tenant in the building is Integra Telecom, with a seven-year firm-term triple-net lease. Other non-governmental tenants that have triple-net leases with firm-terms that range from one to 10 years include Lawyers Title Insurance Corporation, Washington Mutual Bank, Stewart Title of Oregon, Inc., Contractors Bonding and Insurance Company, and Quiznos. Non-governmental tenants represent 33 percent of the square footage in the building. The non-governmental tenants pay a pro rata share of the basic operating costs of the property which includes maintenance, repairs and management.

We acquired the Portland property in March 2005 for \$50.7 million, or approximately \$224 per square foot. We financed the acquisition in April 2005 through a \$39.1 million loan from Wachovia Bank, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.49% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

Riverside, California. The Riverside County property consists of an approximately 6.31 acre parcel with three two story buildings containing 117,168 square feet of office space and related space leased by the County of Riverside and is occupied by the County's Department of Child Support Services. The buildings were completed between 1989 and 1994.

The Riverside County property is leased pursuant to a gross lease, which will expire on January 31, 2017. The County has the right to terminate the lease if state or federal funding for the Department of Child Support Services is reduced by more than 12.5% for two consecutive years. The lease provides for a 3% annual increase in rent.

We acquired the Riverside County property in February 2006 for \$18.2 million, or approximately \$155 per leased square foot. We financed the acquisition through the assumption of the seller's loan of \$8.9 million from J.P. Morgan Chase, which matures on December 1, 2014. The unpaid principal balance of the note bears interest at a rate of 5.79% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due December 1, 2014.

At the time of the acquisition, the Company and the County of Riverside entered into a lease amendment whereby the term of the lease was extended to eleven years from the date of the closing, or January 31, 2017. Furthermore, the lease amendment provides for the Company to make an additional investment in a major renovation of the Riverside property. Also the lease amendment provides for an increase in rent in the amount of approximately \$243,800 per year effective February 1, 2007. The cost of the renovation to this property will be approximately \$2.5 million. In connection with this property renovation, the Company has issued a standby letter of credit of \$1.0 million which is set to expire upon the completion of the renovations.

Sterling, Virginia. The Sterling DEA property consists of an approximately 6.8 acre parcel with a one story building containing 49,692 square feet of office space and related space leased by the federal government and is occupied by the DEA. The building was completed in 2002.

The Sterling property is leased pursuant to a modified gross lease, which will expire on March 20, 2020. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Sterling DEA property in June 2005 for \$21.1 million, or approximately \$424 per square foot. We financed the acquisition through the assumption of the seller's first mortgage loan in the amount of \$15.8 million loan from Northwestern Mutual. The mortgage loan bears interest at a fixed rate of 7.98% with principal and interest payments due monthly through March 1, 2020.

Vicksburg, Mississippi. The Vicksburg COE property consists of an approximately 17.17 acre parcel with a two story building containing 199,404 leased square feet of office and related space leased by the federal government and is occupied by the United States Army Corps of Engineers. The building was completed in 1996.

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The Vicksburg COE property is leased pursuant a modified gross lease, which will expire on July 31, 2016. The government has the right to assign the lease to any party and be relieved from all obligations under the lease, other than unpaid rent and other liabilities outstanding on the date of the assignment, subject to our prior written consent, which consent may not be unreasonably withheld. A negotiated amount for the building's operating costs and base year real estate taxes is included in the rent. The government pays any increase over the base year real estate taxes through a direct dollar-for-dollar reimbursement payment to us. The lease also provides for an annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs.

We acquired the Vicksburg COE property in November 2005 for \$26.9 million, or approximately \$135 per leased square foot. We financed the acquisition through a \$14.4 million loan from Merrill Lynch, which matures on August 1, 2016. The unpaid principal balance of the note bears interest at a rate of 5.62% per annum. Accrued interest only payments are due monthly.

Other Considerations

We believe that all of the properties described above are maintained in good condition and are adequately covered by insurance.

Item 3. *Legal Proceedings*

On January 4, 2007, an action was filed in the District Court of Douglas County, Nebraska, Fourth District Court against us, all of the members of our Board of Directors and Record Realty (US) LLC. The complaint alleges, among other things, that the preliminary proxy statement filed by us in connection with the Merger failed to disclose certain material information. The action seeks damages and equitable relief. On February 27, 2007, counsel to the plaintiff and counsel to the defendants, other than Record Realty (LLC), entered into a Memorandum of Understanding with respect to their agreement in principle to a settlement of this action, subject to the terms and conditions provided for in the Memorandum of Understanding. There can be no assurance, however, that the action will be settled. The defendants believe that the allegations in the complaint have no merit and, in the event the action is not settled, intend to vigorously defend the action. There can be no assurance, however, that the defendants will be successful in defending this action.

The Company is subject to other litigation in the ordinary course of business, none of which is material.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

Table of Contents**PART II****Item 5. *Market for Registrant's Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the NYSE under the symbol GPT. Our stock began trading on the NYSE on January 27, 2004. On March 8, 2007, the reported closing sale price on the NYSE was \$10.52, and there were approximately 20.8 million common shares outstanding held by approximately 83 holders of record. The high and low sales prices and closing sales prices on the NYSE and distributions per share during 2006 and 2005 are set forth in the table below:

	High	Low	Close	Distribution
<u>2006</u>				
Fourth quarter	\$ 10.76	\$ 8.79	\$ 10.60	\$ 0.1125
Third quarter	\$ 9.56	\$ 8.48	\$ 9.02	\$ 0.1125
Second quarter	\$ 9.54	\$ 7.98	\$ 9.49	\$ 0.1125
First quarter	\$ 9.64	\$ 8.11	\$ 9.54	\$ 0.1500
<u>2005</u>				
Fourth quarter	\$ 10.14	\$ 8.44	\$ 9.33	\$ 0.1500
Third quarter	\$ 10.50	\$ 9.00	\$ 9.80	\$ 0.1500
Second quarter	\$ 10.20	\$ 9.10	\$ 9.72	\$ 0.1500
First quarter	\$ 10.59	\$ 9.22	\$ 9.96	\$ 0.1500

We intend to distribute to our stockholders all or substantially all of our taxable REIT income each year to comply with the distribution requirements of the federal tax laws and to avoid federal income tax and the nondeductible excise tax. To maintain our status as a REIT, we must distribute to our stockholders an amount at least equal to (i) 90% of our taxable REIT income (determined before the deduction for dividends paid and excluding any net capital gain) plus (ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income less (iii) any excess non-cash income (as determined under the federal tax laws). To the extent not inconsistent with maintaining REIT status, we may retain accumulated earnings of any taxable REIT subsidiaries in those subsidiaries. The Company has determined that the distributions made by the Company in 2006 were considered approximately 25% to be ordinary dividends and approximately 75% to be a return of capital to its stockholders. All distributions prior to 2006 have been considered return of capital to its stockholders.

Distributions must be authorized by our board of directors and will be based upon a number of factors, including restrictions under applicable law. In addition, our board of directors will be prohibited from authorizing a dividend if, after giving effect to the dividend, we would not be able to pay our indebtedness as it becomes due in the usual course of business or our total assets would be less than our total liabilities.

Our board of directors has the power to issue preferred stock or other securities that have distribution rights senior to that of the common stock. Any superior dividend rights could prevent us from paying dividends to the holders of our common stock. The following table summarizes our equity compensation plans as of December 31, 2006:

Plan Category	Number of Securities to be Issued Upon	Weighted-Average	Number of Securities Remaining Available
	Exercise of Outstanding Options, Warrants and Rights (a)	Exercise Price of Outstanding Options, Warrants and Rights (b)	for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in (a)) (c)
Equity compensation plans approved by security holders	128,109	\$ 0.00	732,417
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	128,109	\$ 0.00	732,417

Table of Contents**Item 6. Selected Financial Data**

The following table sets forth our selected historical operating and financial data. The following selected consolidated financial information as of December 31, 2006, 2005, 2004, 2003 and 2002 and for the years then ended were derived from our audited financial statements.

You should read the information below in conjunction with the other financial information and analysis presented in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Revenue					
Rental income	\$ 44,379	\$ 26,877	\$ 9,091	\$ 2,812	\$
Tenant reimbursements and other	2,818	1,323	367		
Total net revenue	47,197	28,200	9,458	2,812	
Expenses					
Property operations	7,795	4,883	1,850	623	
Real estate taxes	4,141	2,712	965	238	
Depreciation and amortization	16,110	9,888	2,650	764	
General and administrative	6,777	4,960	4,020	441	9
Total expenses	34,823	22,443	9,485	2,066	9
Operating income (loss)	12,374	5,757	(27)	746	(9)
Other income (expense):					
Interest income	508	1,522	1,720	22	3
Interest expense	(16,155)	(9,345)	(2,481)	(1,188)	(1)
Expense from issuance and exercise of warrant			(2,098)		
Amortization of deferred financing fees	(1,338)	(356)	(272)	(9)	
Loss before income taxes	(4,611)	(2,422)	(3,158)	(429)	(7)
Income tax benefit					1
Loss from continuing operations	(4,611)	(2,422)	(3,158)	(429)	(6)
Discontinued operations:					
Gain from disposal of property			314		
Income from operations of disposed property			100	47	1
Income from discontinued operations			414	47	1
Net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)	\$ (382)	\$ (5)

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Earnings per share (basic and diluted):										
Loss from continuing operations	\$	(0.22)	\$	(0.12)	\$	(0.16)	\$	(0.51)	\$	(0.27)
Income from discontinued operations						0.02		0.05		0.03
Net loss	\$	(0.22)	\$	(0.12)	\$	(0.14)	\$	(0.46)	\$	(0.24)

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	2006	2005	December 31, 2004	2003	2002
	(In thousands)				
Balance Sheet Information(1):					
Investment in real estate, net	\$ 508,067	\$ 377,804	\$ 155,371	\$ 34,074	\$
Cash and cash equivalents(2)	8,798	21,744	95,918	1,030	2,314
Property held for sale				4,266	4,384
Total assets	530,952	413,077	256,321	42,675	6,880
Lines of credit borrowings	2,600	17,500		3,048	338
Mortgage notes payable	374,881	225,033	77,585	26,647	
Liabilities related to property held for sale				3,195	3,202
Total liabilities	385,284	254,063	83,916	34,896	3,917
Total liabilities and stockholders' equity	530,952	413,077	256,321	42,675	6,880

	2006	2005	2004	2003	2002
	(In thousands)				
Other Information:					
Cash flow:					
Provided by (used in) operating activity	\$ 14,004	\$ 3,207	\$ 1,401	\$ (272)	\$ 153
Used in investing activity	\$ (131,585)	\$ (224,061)	\$ (106,275)	\$ (35,315)	\$ (4,524)
Provided by financing activity	\$ 114,297	\$ 131,896	\$ 197,927	\$ 34,033	\$ 6,684
Property rentable square footage(1)	2,178	1,557	627	249	
EBITDA historical(3)	\$ 28,991	\$ 17,167	\$ 2,659	\$ 1,579	\$ (5)

(1) We acquired our first operating property in December 2002.

(2) Includes restricted cash of \$7.2 million, \$16.9 million, \$2.1 million and \$269,000 at December 31, 2006, 2005, 2004 and 2003, respectively.

(3) EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. We believe EBITDA is useful to investors as an indicator of our ability to service debt and pay cash distributions. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. EBITDA does not represent cash generated from operating activities determined in accordance with generally accepted accounting principles (GAAP), and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

	2006	2005	2004	2003	2002
	(In thousands)				
GAAP Reconciliation					
Net loss(a)	\$ (4,611)	\$ (2,422)	\$ (2,744)	\$ (382)	\$ (5)
Add back (deduct):					

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Depreciation and amortization	16,109	9,888	2,650	764	
Interest expense(b)	17,493	9,701	2,753	1,197	1
Income taxes					(1)
EBITDA	\$ 28,991	\$ 17,167	\$ 2,659	\$ 1,579	\$ (5)

(a) Includes expense from issuance of warrant of \$2,098,000 for the year ended December 31, 2004.

(b) Includes amortization of deferred financing fees of \$1.3 million, 356,000, \$272,000 and \$9,000 for the year ended December 31, 2006, 2005, 2004 and 2003, respectively.

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The following table sets forth our selected consolidated quarterly summary of operations for 2006 and 2005.

	2006				2005			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share amounts)							
Revenue								
Rental income	\$ 11,852	\$ 11,696	\$ 11,031	\$ 9,800	\$ 8,590	\$ 7,822	\$ 6,141	\$ 4,324
Tenant reimbursements and other	945	698	609	566	569	442	132	180
Total net revenue	12,797	12,394	11,640	10,366	9,159	8,264	6,273	4,504
Expenses								
Property operations	2,075	2,017	1,892	1,811	1,562	1,343	1,123	855
Real estate taxes	1,186	1,017	1,012	926	790	897	569	457
Depreciation and amortization	4,313	4,135	4,020	3,641	3,277	2,946	2,342	1,322
General and administrative	2,833	1,306	1,330	1,309	1,315	1,304	1,201	1,140
Total expenses	10,407	8,475	8,254	7,687	6,944	6,490	5,235	3,774
Operating income	2,390	3,919	3,386	2,679	2,215	1,774	1,038	730
Other income (expense):								
Interest income	175	100	111	122	173	249	441	658
Interest expense	(4,487)	(4,269)	(3,996)	(3,403)	(3,119)	(2,755)	(2,133)	(1,338)
Amortization of deferred financing fees	(667)	(243)	(225)	(203)	(120)	(67)	(58)	(110)
Net loss	\$ (2,589)	\$ (493)	\$ (724)	\$ (805)	\$ (851)	\$ (799)	\$ (712)	\$ (60)
Earnings per share (basic and diluted):								
Net loss	\$ (0.13)	\$ (0.02)	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.03)	\$ (0.00)

Table of Contents**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with Selected Financial Data and our audited financial statements and the related notes thereto.

Overview

We primarily invest in single tenant properties under long-term leases to the U.S. government, state governments, local governments, and government-sponsored enterprises. We are a self-managed, self-administered company that has elected to be taxed as a real estate investment trust, or REIT. We believe that we are the only public company focused solely on investing in government-leased properties.

Our business consists of buying, owning and managing recently built or renovated office properties primarily leased, under long-term leases, to the federal government, acting through the General Services Administration (GSA), the federal government's property management arm. Our portfolio consisted of 22 properties totaling approximately 2.2 million rentable square feet as of December 31, 2006. These properties are 97% occupied and have a weighted-average remaining lease term of approximately 10 years. Our largest tenants, as a percentage of total leased square feet, as of December 31, 2006 were:

Agency Tenant	Percentage of Square Feet
Environmental Protection Agency	11.7%
Bureau of Public Debt	10.4%
U.S. Army Corps of Engineers	9.4%
Internal Revenue Service	8.6%
Social Security Administration	8.1%
United State Citizenship and Immigration Services	7.7%

We own each of our properties through separate wholly-owned entities. The credit worthiness of our governmental tenants enables us to use debt to finance a higher percentage of the acquisition cost of the properties we buy. Our total debt represented 70% of the historical cost of our assets at the end of 2006. We intend to continue financing future acquisitions with a combination of cash, common stock, long-term fixed-rate debt and short-term credit lines. We intend to use our credit lines to finance acquisitions and deposits on a short-term basis. Our objective is to finance each property with long-term fixed-rate debt whose maturity matches or exceeds, to the extent possible, the remaining term of the lease. This strategy minimizes interest rate risk and should result in more consistent and reliable cash flow.

Leases for governmental tenants vary widely and include net leases, gross leases and modified gross leases. Net leases require the tenant to pay all operating expenses, gross leases require the landlord to pay all operating expenses, and modified gross leases require the landlord and the tenant each to pay a portion of the operating expenses. We intend to acquire properties with all three types of leases, as well as variations of these leases, because we believe that gross leases and modified gross leases may provide higher returns for us than net leases. In our experience, GSA leases are generally modified gross leases. We plan to mitigate the higher risk of gross leases and modified gross leases through strict underwriting, due diligence and intensive property management.

On October 23, 2006, we entered into an Agreement and Plan of Merger (the Agreement) with Record Realty Trust (RRT) and Record Realty (US) LLC, a wholly owned subsidiary of RRT (Merger Sub). Under the terms of the

Agreement, subject to certain terms and conditions, we will be merged with and into Merger Sub (the Merger) and our separate corporate existence we will cease, with Merger Sub continuing as the surviving company (the Surviving Company) and will be a wholly owned subsidiary of RRT.

Critical Accounting Policies

Revenue Recognition

We recognize rental revenue on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for acquired properties. Differences between rental revenue earned

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and amounts due per the respective lease agreements are credited or charged, as applicable, to deferred rent receivables which is included in tenant receivables on the Consolidated Balance Sheets. Rental payments received prior to their recognition as income are classified as rent received in advance which is included in accounts payable and accrued expenses on the Consolidated Balance Sheets. Our leases are generally only subject to annual inflation increases over the term of the lease for a portion of the rent due. Our leases generally contain provisions under which the tenants reimburse us for real estate taxes incurred by us over a specified base amount. Such amounts are recognized as tenant reimbursements revenue in the period in which the real estate tax expenses over the specified base amount are incurred.

We evaluate the collectibility of our accounts receivable related to rent, expense reimbursements and other revenue. We specifically analyze accounts receivable and historical bad debts, tenant concentrations, tenant credit worthiness, geographic concentrations and current economic trends when evaluating the adequacy of the allowance for doubtful accounts receivable. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income.

Real Estate

We record real estate at depreciated cost. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Significant renovations and improvements that improve or extend the useful life of an asset are capitalized and depreciated over their estimated useful life.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheet as Real estate under development. As each project is completed and becomes available for lease, the total cost of the project is depreciated over the estimated useful life. Interest and personnel support cost directly related to the development are capitalized as part of the real estate under development to the extent that such charges do not cause the carrying value of the asset to exceed its net realizable value.

Depreciation is computed using the straight-line method over the estimated useful life of 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements, tenant origination costs and intangible lease costs.

We must estimate the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

When circumstances such as adverse market conditions indicate a possible impairment of the value of a property, we review the recoverability of the property's carrying value. Our review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition. Our cash flow estimate considers factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If an impairment exists due to the inability to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. These estimates have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income.

Purchase Price Allocation

We allocate the purchase price of properties we acquire to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards No. 141

Business Combinations. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of our due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

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We allocate a portion of the purchase price to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, we consider the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above-market lease values (which would be presented as lease intangibles in the consolidated balance sheets) would be amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values (which would be presented as deferred income) would be amortized as an addition to rental income over the remaining contractual lease period and any renewal periods included in the valuation analysis. We currently have no above-market or below-market leases. We also assume that our at market rate tenants would not exercise any early terminations clauses in determining the value allocated to their lease or the amortization of the related lease costs. If a tenant terminates its lease, the unamortized portion of the lease intangibles would be charged to expense.

We allocate a portion of the purchase to the value of leases acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. We utilize independent appraisals or our estimates to determine the respective in-place lease values. Our estimates of value are made using methods similar to those used by independent appraisers. Factors we consider in our analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. We also estimate costs to execute similar leases including leasing commissions, legal and other related expenses.

We also consider an allocation of purchase price to in-place leases that have a related customer relationship intangible value. Characteristics we consider in allocating these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors. We currently have the U.S. government as our major tenant, but have not yet developed a relationship that we would consider to have any current intangible value.

The value of in-place leases (presented as tenant origination costs in the consolidated balance sheets) is amortized to expense over the remaining initial term of the respective leases. The value of customer relationship intangibles is amortized to expense over the remaining initial term, including any renewal periods included in the valuation analysis for the respective leases considered in our valuation analysis, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the tenant origination costs and customer relationship intangibles would be charged to expense.

Amounts allocated to tangible land, building, tenant improvements, equipment and fixtures are based on independent appraisals or our own analysis of comparable properties in the existing portfolio.

Derivative Instruments

The Company measures derivative instruments at fair value and records them as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. For derivatives designated and qualifying as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedges and ineffective portions of hedges are

recognized in earnings in the affected period.

Results of Operations

We commenced operations in December 2002 when we acquired our first property. Prior to December 2002, our operations were limited to pursuing property acquisitions. From 2003 through 2006, we acquired 22 properties

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consisting of approximately 2.1 million rentable square feet and sold one property consisting of 70,000 rentable square feet. In March 2006, we also completed an expansion of the Parkersburg Property by an additional 102,000 square feet. The following table presents the number of properties we acquired each year and total amount of rentable square feet associated with these acquisitions.

	No. of Properties	Rentable Square Feet
2003	4	178,000
2004	8	449,000
2005	7	930,000
2006	3	521,000
Total property acquisitions	22	2,078,000

Our results of operations for the year ended December 31, 2006 compared to the same period in 2005 were significantly affected by our acquisitions in both years. As a result, our results are not comparable from period to period. Therefore, in the following table, we have also separately presented the results of our Same Properties Portfolio.

Our Same Properties Portfolio includes the results of twelve properties consisting of approximately 730,000 rentable square feet that were owned for the entire period presented in both years. Our Total Portfolio also includes the operating results of the properties we acquired during 2005 and 2006. These ten properties, referred to as Acquired Properties, consist of approximately 1,451,000 rentable square feet and are collectively referred to as the Acquired Properties.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

	Same Properties Portfolio			Acquired Properties		General & Administrative		Total Portfolio		C
	2006	2005	Change	2006	2005	2006	2005	2006	2005	
	(In thousands)									
Income	\$ 19,660	\$ 17,035	\$ 2,625	\$ 24,719	\$ 9,842	\$	\$	\$ 44,379	\$ 26,877	\$
Reimbursements	928	869	59	1,890	454			2,818	1,323	
Revenue	20,588	17,904	2,684	26,609	10,296			47,197	28,200	
Operations	2,786	2,824	(38)	5,009	2,059			7,795	4,883	

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te taxes	2,396	2,095	301	1,745	617			4,141	2,712
tion and tion	5,845	5,204	641	10,189	4,642	75	42	16,109	9,888
and rative						6,778	4,960	6,778	4,960
enses	11,027	10,123	904	16,943	7,318	6,853	5,002	34,823	22,443
g income(loss)	9,561	7,781	1,780	9,666	2,978	(6,853)	(5,002)	12,374	5,757
ncome	226	327	(101)	43	74	239	1,121	508	1,522
xpense	(7,252)	(6,541)	(711)	(7,229)	(2,674)	(1,674)	(130)	(16,155)	(9,345)
tion of financing fees	(219)	(201)	(18)	(71)	(24)	(1,048)	(131)	(1,338)	(356)
ne (loss)	\$ 2,316	\$ 1,366	\$ 950	\$ 2,409	\$ 354	\$ (9,336)	\$ (4,142)	\$ (4,611)	\$ (2,422)

Total portfolio rental income revenue increased to \$44.4 million in 2006 from \$26.9 million in 2005, an increase of \$17.5 million. The increase was primarily due to our Acquired Properties. Rental revenue for our Same Properties Portfolio increased \$2.6 million, or 15.4% from the prior period amount. This increase is due to the annual CPI-measured inflation adjustment in the portion of rent attributable to operating costs and additional revenue of approximately \$2.4 million for our Parkersburg expansion placed into service on March 15, 2006.

Total portfolio tenant reimbursements and other revenue increased to \$2.8 million in 2006 from \$1.3 million for 2005, an increase of \$1.5 million. This amount represents the tenants' reimbursements for real estate tax expense in excess of the real estate tax base amount as defined in their respective lease agreements and other income (primarily parking) earned on the properties. Of the increased amount, \$1.4 million was due to our Acquired

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Properties. The remaining increase of \$100,000 is for higher real estate tax expense in excess of the real estate tax base amount for our Same Properties Portfolio.

Total portfolio property operations expense increased to \$7.8 million in 2006 from \$4.9 million in 2005, an increase of \$2.9 million. The increase was primarily due to our Acquired Properties which increased by the same \$2.9 million over the prior year amount.

Total portfolio real estate tax expense increased to \$4.1 million in 2006 from \$2.7 million in 2005, an increase of \$1.4 million. This amount was due to an increase for our Same Properties Portfolio of \$300,000 and an increase from our Acquired Properties of \$1.1 million over the prior year amount.

Total portfolio depreciation and amortization expense increased to \$16.1 million in 2006 from \$9.9 million in 2005. The increase was primarily due to our Acquired Properties. Depreciation and amortization expense for our Same Properties Portfolio increased \$641,000, or 12.3% from the prior period amount primarily due to the additional expense from the Parkersburg expansion.

General and administrative expense was \$6.8 million for 2006 and \$5.0 million for 2005. The increase was primarily due to an increase in professional fees and costs associated with the Company's strategic alternatives evaluation commenced in May 2006 and the definitive merger agreement with Record Realty Trust announced in October 2006.

Interest income was \$508,000 for 2006 and \$1.5 million for 2005. The decrease was due to a decrease in cash and cash equivalents held during 2006 as compared to 2005.

Interest expense was \$16.2 million for 2006 and \$9.3 million for 2005. The increase was due primarily to the interest costs associated with debt placed on our properties and from borrowings on our line-of-credit facility. We have increased our secured fixed rate mortgage debt from \$77.6 million at the beginning of 2005 to \$374.9 million at December 31, 2006. Also, we have drawn on our line-of-credit beginning in November 2005. Our weighted-average interest rate on our fixed rate mortgages was 5.85% and 5.80% as of December 31, 2006 and 2005, respectively. Our interest rate on our line-of-credit facility was 6.75% and 5.57% December 31, 2006 and 2005, respectively.

Amortization of deferred financing fees was \$1.3 million in 2006 and \$356,000 in 2005. The increase was due to the amortization of financing fees related to our revolving line-of-credit agreement amended in the fourth quarter of 2006 and from fixed rate debt placed on our properties.

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The following table presents a comparison of our operating results for the years ended December 31, 2005 and 2004.

	2005	2004	Increase (Decrease)
Revenue			
Rental income	\$ 26,877	\$ 9,091	\$ 17,786
Tenant reimbursements and other	1,323	367	956
Total net revenue	28,200	9,458	18,742
Expenses			
Property operations	4,883	1,850	3,033
Real estate taxes	2,712	965	1,747
Depreciation and amortization	9,888	2,650	7,238
General and administrative	4,960	4,020	940
Total expenses	22,443	9,485	12,958
Operating income (loss)	5,757	(27)	5,784
Other income (expense):			
Interest income	1,522	1,720	(199)
Interest expense	(9,345)	(2,481)	(6,863)
Expense from issuance and exercise of warrant		(2,098)	2,098
Amortization of deferred financing fees	(356)	(272)	(84)
Loss from continuing operations	(2,422)	(3,158)	736
Discontinued operations:			
Gain from disposal of property		314	(314)
Income from operations of disposed property		100	(100)
Income from discontinued operations		414	(414)
Net loss	\$ (2,422)	\$ (2,744)	\$ 322

Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004

Rental revenue Rental revenue was \$26.9 million for the year ended December 31, 2005 and \$9.1 million for the year ended December 31, 2004. The increase was due to our acquisition of seven additional properties during 2005 and the impact of receiving a full year of rental income on the eight properties we acquired in 2004.

Tenant reimbursements and other Tenant reimbursements and other revenue was \$1.3 million for 2005 and \$367,000 for 2004. This amount represents the tenant's reimbursement for the real estate tax expense in excess of the real estate tax base amount as defined in the respective lease agreement and other income, primarily parking revenue, earned on the properties. The increase was due to both our acquisition of additional properties during 2005 and 2004 and an increase in real estate taxes paid in 2005 as compared to 2004 for properties held more than one year.

Property operations expense Property operations expense was \$4.9 million for the year ended December 31, 2005 and \$1.9 million for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005.

Real estate tax expense Real estate tax expense was \$2.7 million for the year ended December 31, 2005 and \$965,000 for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005. Additionally a portion of the increase was due to an increase in real estate taxes paid in 2005 as compared to 2004 for properties held more than one year.

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Depreciation and amortization expense Depreciation and amortization was \$9.9 million for the year ended December 31, 2005 and \$2.7 million for the year ended December 31, 2004. The increase was due to the expansion of our operations from four properties owned at the beginning of 2004 to nineteen properties held at the end of 2005.

General and administrative expense General and administrative expense was \$5.0 million for the year ended December 31, 2005 and \$4.0 million for the year ended December 31, 2004. The increase was due in part to an expansion of our operations and acquisitions staff to enhance our self-management capabilities. The remaining increase is from professional fees incurred in connection with Sarbanes Oxley Section 404 activities.

Interest income Interest income was \$1.5 million for the year ended December 31, 2005 and \$1.7 million for the year ended December 31, 2004. The decrease was due to lower balances held during 2005 as compared to 2004 as proceeds raised from our initial public offering of common stock were used to acquire properties during 2005 and 2004.

Interest expense Interest expense was \$9.3 million for the year ended December 31, 2005 and \$2.5 million for the year ended December 31, 2004. We have increased our secured fixed rate mortgage debt from \$24.7 million at the beginning of 2004 to \$225.0 million at the end of 2005. This includes secured loan financings of (i) \$29.0 million on the Pittsburgh FBI and Lenexa FDA properties in July 2004, (ii) \$16.6 million assumed with the College Park FDA property acquisition in October 2004, (iii) \$8.0 million on the Pittsburgh USCIS property in December 2004, (iv) \$20.8 million on the Bakersfield DEA, Baton Rouge VA and Charleston Federal Courthouse properties in February 2005, (v) \$31.8 million on the Parkersburg BPD property in March 2005, (vi) \$39.1 million on the Portland property in April 2005, (vii) \$15.7 million assumed with the Sterling DEA property acquisition in June 2005, (viii) \$19.6 million on the Martinsburg IRS property in July 2005, (ix) \$6.25 million on the Dallas SSA property in September 2005, and (x) \$14.4 million on the Vicksburg COE property in November 2005. We also recognized approximately \$130,000 in interest expense in 2005 related to advances on our lines of credit.

Expense from issuance and exercise of warrant In January 2004, we recognized \$2.1 million of expense related to the exercise of a warrant to purchase 210,000 shares of our common stock. The warrant was issued to an affiliate of one of the underwriters in our initial public offering which provided a line of credit to us.

Amortization of deferred financing fees Amortization of deferred financing fees was \$356,000 for the year ended December 31, 2005 and \$272,000 for the year ended December 31, 2004. The increase was primarily due to the amortization of financing fees from additional secured loan financings.

Gain from disposal of property In October 2004, we completed the sale of our only non-governmental property which resulted in a gain from disposal of property in the amount of \$314,000.

Income from operation of disposed property Income from operation of disposed property was \$100,000 for the year ended December 31, 2004. This represents the operating results for the property sold.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds to acquire properties and to pay for operating expenses, dividends, and other expenditures directly associated with our properties, such as:

acquisition costs, deposits on properties and purchases of properties;

recurring maintenance, repairs and other operating expenses necessary to maintain our properties;

property taxes, state and local tax assessments, and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness;

capital expenditures incurred to facilitate the leasing of space at our properties, including tenant improvements and leasing commissions;

general and administrative expenses; and

Historically, we have satisfied our short-term liquidity requirements through our existing working capital, cash provided from borrowings and cash provided by operations.

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Our current mortgage debt obligations are set forth below:

Lender	Collateral	Balance as of December 31, 2006 (In millions)
CW Capital	Bakersfield DEA property	\$ 1.4
CW Capital	Baton Rouge VA property	4.7
Wachovia Bank	Buffalo Niagara Center property	52.9
Wachovia Bank	Buffalo SSA property	2.8
LaSalle Bank/GEMSA	Charleston SSA property	13.4
LaSalle Bank/GEMSA	Clarksburg GSA property	7.9
	Charleston Federal Courthouse property	14.3
CW Capital	College Park FDA property	15.9
Capital Realty	Dallas SSA property	6.2
Key Bank	Denver EPA property	68.5
PNC Bank/Midland	Harlingen USCIS property	19.8
CW Capital	Kingsport SSA property	2.2
Bank of America	Lenexa FDA property	7.7
Wachovia Bank	Martinsburg IRS property	19.5
PNC Bank/Midland	Parkersburg BPD property	31.3
Bank of New York	Pittsburgh FBI property	20.1
PNC Bank/Midland	Pittsburgh USCIS property	7.7
Nomura Credit	Portland property	39.1
Wachovia Bank	Riverside County property	8.8
PNC Bank/Midland	Sterling DEA property	15.0
Northwestern Mutual	Vicksburg property	14.4
Merrill Lynch		373.6
	Premium on mortgage debt (Sterling DEA property)	1.3
Total	Mortgage Notes Payable	\$ 374.9

We financed the acquisition of our Bakersfield DEA property in February 2005 through a \$1.4 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our Baton Rouge VA property in February 2005 through a \$4.8 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our Buffalo Niagara Center property in November 2006 through an approximately \$52.9 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly through December 11, 2011. From January 11, 2011 through November 11, 2016, monthly payments are amortized on a 30-year schedule, with a balloon payment due December 11, 2016.

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We financed the acquisition of our Buffalo SSA property in November 2006 through an approximately \$2.8 million loan from Wachovia Bank, which matures on December 11, 2016. The unpaid principal balance of the note bears interest at a rate of 5.52% per annum. Accrued interest only payments are due monthly.

We financed the acquisition of our Charleston SSA property in April 2003 through a \$14 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

We financed the acquisition of our Clarksburg GSA property in April 2003 through an approximately \$8.3 million loan from LaSalle Bank, which matures on May 1, 2013. The unpaid principal balance of the note bears interest at a rate of 5.74% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due May 1, 2013.

We financed the acquisition of our Charleston Federal Courthouse property in February 2005 through a \$14.6 million loan from CW Capital, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 5.867% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due March 1, 2020.

We financed the acquisition of our College Park FDA property in October 2004 through the assumption of the seller's loan of \$16.7 million loan from Capital Realty, which matures on October 26, 2026. The unpaid principal balance of the note bears interest at a rate of 6.75% per annum. Payments are made monthly through October 26, 2026.

We financed the acquisition of our Dallas SSA property in September 2005 through an approximately \$6.25 million loan from Key Bank, which matures on October 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.09% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due October 1, 2015.

We financed the acquisition of our Denver EPA property in December 2006 through an approximately \$68.5 million loan from PNC Bank, which matures on January 1, 2017. The unpaid principal balance of the note bears interest at a rate of 6.19% per annum. Accrued interest only payments are due monthly through January 2009. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due January 1, 2017.

We financed the acquisition of our Harlingen USCIS property in May 2006 through an approximately \$19.9 million loan from CW Capital, which matures on September 1, 2016. The unpaid principal balance of the note bears interest at a rate of 6.266% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due September 1, 2016.

We financed the acquisition of our Kingsport SSA property in April 2003 through the assumption of the seller's first mortgage loan in the amount of \$2.3 million from Bank of America, which matures on April 1, 2010, and an unsecured loan issued by the seller in the amount of \$0.2 million which we repaid in July 2004. The unpaid principal balance of the first mortgage loan bears interest at a rate of 8.23% per annum, with monthly payments being amortized on a 25-year schedule and has a balloon payment due April 1, 2010.

We obtained financing related to the acquisition of our Lenexa FDA property in July 2004 through an \$8.0 million loan from Wachovia Bank, which matures on August 11, 2009. The unpaid principal balance of the note bears interest at a rate of 5.44% per annum. Monthly payments are amortized on a 27-year schedule, with a balloon payment due August 11, 2009.

We financed the acquisition of our Martinsburg IRS property in July 2005 through an approximately \$19.6 million loan from PNC Bank, which matures on August 1, 2015. The unpaid principal balance of the note bears interest at a rate of 5.24% per annum. Accrued interest only payments are due monthly through August 2006. Thereafter, monthly payments are amortized on a 30-year schedule, with a balloon payment due August 1, 2015.

We obtained financing related to the acquisition of our Parkersburg BPD property in March 2005 through a combined \$31.8 million loan from the Bank of New York, which matures on March 15, 2021. The loan is comprised of two notes totaling \$26.8 million and \$5.0 million, respectively. The unpaid principal balance of the \$26.8 million

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note bears interest at a rate of 5.40% per annum. Monthly payments are interest only through the date of completion of the Parkersburg expansion on March 15, 2006. Thereafter monthly payments are amortized on a 25-year schedule, with a balloon payment due March 15, 2021. The \$5.0 million note bears interest at 5.75% with interest payments due monthly and principal due March 15, 2021.

We obtained financing related to the acquisition of our Pittsburgh FBI property in July 2004 through a \$21.0 million loan from PNC Bank, which matures on August 1, 2009. The unpaid principal balance of the note bears interest at a rate of 5.5% per annum. Monthly payments are amortized on a 26-year schedule, with a balloon payment due August 1, 2009.

We obtained financing related to the acquisition of our Pittsburgh USCIS property in December 2004 through an \$8.0 million loan from Nomura Credit, which matures on December 11, 2011. The unpaid principal balance of the note bears interest at a rate of 5.13% per annum. Monthly payments are amortized on a 25-year schedule, with a balloon payment due December 11, 2011.

We obtained financing related to the acquisition of our Portland property in April 2005 through a \$39.1 million loan from Wachovia Bank, which matures on May 11, 2015. The unpaid principal balance of the note bears interest at a rate of 5.49% per annum. Accrued interest only payments are due monthly through November 11, 2006. From December 11, 2006 through November 11, 2013, monthly payments are amortized on a 30-year schedule. From December 11, 2013 through April 11, 2015, monthly payments are amortized on a 25-year schedule, with a balloon payment due May 11, 2015.

We obtained financing related to the acquisition of our Riverside County property in February 2006 through the assumption of the seller's loan of \$8.9 million from J.P. Morgan Chase, which matures on December 1, 2014. The unpaid principal balance of the note bears interest at a rate of 5.79% per annum. Monthly payments are amortized on a 30-year schedule, with a balloon payment due December 1, 2014.

We financed the acquisition of our Sterling DEA property in June 2005 through the assumption of the seller's loan of \$15.8 million loan from Northwestern Mutual, which matures on March 1, 2020. The unpaid principal balance of the note bears interest at a rate of 7.98% per annum. Payments are made monthly through March 1, 2020. We recorded a premium of approximately \$1.5 million related to the above market interest rate on the assumed debt. Amortization of this premium will be included in interest expense on the consolidated statement of operations.

We financed the acquisition of our Vicksburg COE property in November 2005 through a \$14.4 million loan from Merrill Lynch Mortgage Company, which matures on August 1, 2016. The unpaid principal balance of the note bears interest at a rate of 5.62% per annum. Accrued interest only payments are due monthly.

The mortgages on our properties contain customary restrictive covenants, including provisions that may limit the borrowing subsidiary's ability, without the prior consent of the lender, to incur additional indebtedness, further mortgage or transfer the applicable property, purchase or acquire additional property, discontinue insurance coverage, change the conduct of its business or make loans or advances to, enter into any transaction of merger or consolidation with, or acquire the business, assets or equity of, any third party.

In May 2005, the Company entered into two forward-starting interest rate swap contracts with an aggregate notional amount of \$50 million to fix a portion of the interest rate associated with the anticipated issuance of future financings which occurred in November 2006. In September 2006, the Company cash settled both forward-starting interest rate swap contracts and received cash in the amount of \$1.1 million. As a result of a cash settlement, the Company recorded \$41,000 of ineffectiveness which has been reflected as a reduction of interest expense in the 2006 statement of operations. The remaining amount continues to be reflected in accumulated other comprehensive income and is

being amortized over the ten year term of the November 2006 Buffalo Niagara Center property and Buffalo SSA property financings as described above.

We entered into a \$50 million revolving credit facility in November 2005 led by Wachovia Capital Markets, LLC. Wachovia Bank, N.A. serves as administrative agent. This credit facility replaced the Company's prior \$50 million revolving credit agreement led by First National Bank of Omaha which also is participating in the new credit facility. The term of the credit facility is for three years and may be extended for one additional year. In April 2006, the maximum borrowing level of the line-of-credit was increased to \$65 million. In December 2006, the

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Company reduced the maximum borrowing level of the line-of-credit to \$40 million due to current utilization and the pending merger with Record Realty Trust. The amount available to be borrowed under the credit facility is based upon the combined value of certain collateral properties. The current collateral includes the Mineral Wells BPD property.

Borrowings under the credit facility bear interest at a rate equal to either (a) a base rate determined by the higher of the Prime Rate or the Federal Funds Rate plus 1/2 of 1%, or (b) an applicable margin, based upon our total indebtedness to total asset value, plus LIBOR. The initial borrowings on the credit facility are priced at LIBOR plus 1.20%. Payments are interest only through the term of the credit facility and are payable at least quarterly.

The credit facility contains financial covenants related to maintenance of leverage, fixed charge coverage ratios and tangible net worth and also contains affirmative and negative covenants including, among other things, limitations on certain indebtedness, guarantees of indebtedness, level of cash dividends and other transactions as defined in the agreement.

In April 2006, the Company obtained an additional line-of-credit facility through First National Bank of Omaha, N.A. with a maximum borrowing level of \$10 million and available through April 2007. The \$10 million line-of-credit facility is unsecured and is subject to the covenants described above as related to the revolving credit facility led by Wachovia Capital Markets, LLC. Borrowings under this facility bear an interest rate equal to an applicable margin, based upon our total indebtedness to total asset value, plus the three month LIBOR rate. Any borrowings on the credit facility would currently be priced at LIBOR plus 2.40%. Payments are interest only through the term of the credit facility and are payable monthly.

The merger agreement we entered into with Record Realty Trust requires their consent regarding certain capital expenditures, financings, acquisitions and other agreements. Our long-term liquidity requirements consist primarily of funds to pay for property acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our properties, the costs associated with acquisitions of properties that we pursue and dividend payments to stockholders. Historically, we have satisfied our long-term liquidity requirements through various sources of capital, including our existing working capital, cash provided by operations, sales of equity securities, and long-term mortgage indebtedness. Certain of our fixed-rate mortgages require that fully-funded sinking fund reserves be established and maintained for future capital expenditures related to marketing, tenant improvements or leasing commissions. We periodically evaluate requirements for future capital expenditures on our properties not covered by mortgage reserve fund provisions. Our intention is and has been to have a funded reserve for such situations available at the time the capital expenditure is expected to be incurred.

We believe that our net cash provided by operating activities, draws under our revolving line of credit and proceeds from other financing sources that we expect to be available to us will provide sufficient liquidity to meet our cash needs during the next twelve months.

On October 23, 2006, we entered into an Agreement and Plan of Merger with RRT and Merger Sub. Under the terms of the Agreement, subject to certain terms and conditions, we will be merged with and into Merger Sub and our separate corporate existence will cease, and we will be a wholly owned subsidiary of RRT. Consummation of the Merger is subject to various conditions, including approval of the Merger by the shareholders and other customary closing conditions.

The Agreement contains termination rights, and provides that, upon the termination of the Agreement, under specified circumstances, we will be required to pay a termination fee to RRT equal to \$6.5 million plus expenses not to exceed \$2.0 million.

If the Merger is not consummated, then we will continue as a stand-alone public company and may be required to pay a termination fee. In the event that the merger is not consummated, we may have to raise capital or dispose of certain of our properties. There can be no assurance that we will be able to raise capital or dispose of our properties, or if we are able to do so, that it will be on terms favorable to us.

Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2006:

(In thousands)	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
Mortgage notes payable fixed-rate	\$ 4,292	\$ 36,143	\$ 17,613	\$ 315,502	\$ 373,550

We intend to refinance our mortgage notes payable as they become due or repay them if the related property is being sold. Total interest paid on the mortgage notes payable were \$16.2 million and \$9.2 million for the year ended December 31, 2006 and 2005, respectively.

Cash Distribution Policy

We have elected to be treated as a REIT under the federal tax laws commencing as of our taxable year beginning January 1, 2003. To qualify as a REIT, we must, among other things, distribute at least 90% of our ordinary taxable income to our stockholders. We intend to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal income taxes on taxable income we distribute (in accordance with the federal tax laws and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years. Even as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed taxable income, i.e., taxable income not distributed in the amounts and in the time frames prescribed by the federal tax laws and applicable regulations thereunder.

We intend to pay to our stockholders, within the time periods prescribed by the federal tax laws (in our case by January 31 of the following year), all or substantially all of our annual taxable income, including gains from the sale of real estate and recognized gains on sale of securities. We will continue our policy of making sufficient cash distributions to stockholders for us maintain REIT status under the federal tax laws and to avoid corporate income and excise tax on undistributed income. All distributions are made at the discretion of our board of directors and depend on our earnings, our financial condition, maintenance of our REIT status and other factors that our board of directors may deem relevant from time to time.

Inflation

Our GSA leases generally contain provisions designed to mitigate the adverse impact of inflation. These provisions increase rental rates during the terms of the leases by indexed escalations based on the CPI. In addition, our GSA leases generally require the tenant to pay a share of increases in operating expenses and all increases in real estate taxes. This may reduce our exposure to increases in costs and operating expenses resulting from inflation. However, increases in property operating costs above the escalation amount would harm our cash flow and may harm our ability to pay dividends.

Funds from Operations

REIT analysts generally consider funds from operations or FFO an alternative measure of performance for an equity REIT. The National Association of Real Estate Investment Trusts, or NAREIT, defines funds from operations as net income, computed in accordance with accounting principles generally accepted in the United States (GAAP), excluding gains or losses from sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We believe that FFO is helpful to investors as one of several measures of the performance of an equity REIT. We further believe that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs, which may be of limited relevance in evaluating current performance, FFO can facilitate comparison of operating performance between periods and between other equity REITs. Investors should review FFO along with GAAP Net Income Available for Common Shares and cash flow from operating activities, investing activities and financing activities, when evaluating an equity REIT ' s operating performance. We compute FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not

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define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than us. FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

The following table presents a reconciliation of GAAP to our funds from operations for the periods presented:

	2006	2005	2004
	(In thousands, except share and per share amounts)		
Net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)
Adjustments to reconcile to funds from Operations:			
Gain from disposal of property			(314)
Real estate depreciation and amortization(a)	16,034	9,846	2,626
Funds from operations	\$ 11,423	\$ 7,424	\$ (432)
Funds from operations per common share	\$ 0.55	\$ 0.36	\$ (0.02)
Weighted average common shares outstanding	20,628,354	20,568,819	19,071,652

(a) Excludes depreciation of non-real estate assets of \$75,000, \$42,000, and \$24,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates.

Market Risk Related to Fixed-Rate Debt

As of December 31, 2006, our debt included fixed-rate mortgage notes with a carrying value of \$373.6 million. Changes in market interest rates on our fixed-rate debt impacts the fair market value of the debt, but it has no impact on interest incurred or cash flow. The sensitivity analysis related to our fixed debt assumes an immediate 100 basis point move in interest rates from their actual December 31, 2006 levels, with all other variables held constant.

A 100 basis point increase in market interest rates would result in a decrease in the fair value of our fixed-rate debt by approximately \$24.1 million at December 31, 2006. A 100 basis point decrease in market interest rates would result in an increase in the fair market value of our fixed-rate debt by approximately \$25.4 million at December 31, 2006.

Interest Rate Sensitivity

The following table provides information about our financial instruments that are subject to interest rate sensitivity. The table presents our mortgage notes payable by expected maturity date and weighted average interest rate as of December 31, 2006.

Interest Rate Sensitivity

	2007	2008	2009	2010	2011	Thereafter	Total
	(In thousands)						
Mortgage notes payable:							
Fixed rate amount	\$ 4,292	\$ 4,536	\$ 31,607	\$ 5,282	\$ 12,331	\$ 315,502	\$ 373,550
Weighted-average interest rate	5.97%	5.98%	5.58%	6.09%	5.57%	5.88%	5.85%

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Item 8. *Financial Statements and Supplementary Data*

See Index to Financial Statements on page F-1 of this Form 10-K.

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation as of December 31, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in our Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation referred to above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by Item 10 is incorporated by reference from our definitive proxy statement for the 2007 annual meeting of stockholders scheduled to be held on June 6, 2007.

Our Code of Ethical Business Conduct is located on our website at www.gptrust.com.

Item 11. *Executive Compensation*

The information required by Item 11 is incorporated by reference from our definitive proxy statement for the 2007 annual meeting of stockholders scheduled to be held on June 6, 2007.

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Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated by reference from our definitive proxy statement for the 2007 annual meeting of stockholders scheduled to be held on June 6, 2007.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is incorporated by reference from our definitive proxy statement for the 2007 annual meeting of stockholders scheduled to be held on June 6, 2007.

Item 14. *Principal Accountant Fees and Services*

The information required by Item 14 is incorporated by reference from our definitive proxy statement for the 2007 annual meeting of stockholders scheduled to be held on June 6, 2007.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a)(1) *Financial Statements*

See Index to Financial Statements on page F-1 of this Form 10-K.

(a)(2) *Financial Statement Schedules*

Schedule III Real Estate and Accumulated Depreciation as of December 31, 2006

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) *Exhibits*

- 2.1 Agreement and Plan of Merger dated October 23, 2006 by and among Government Properties Trust, Inc., Record Realty Trust and Record Realty (US) LLC (incorporated by reference to Exhibit 2.1 to our Form 8-K filed on October 26, 2006)
- 3.1 Charter (incorporated by reference to exhibit 3.1 to our registration statement on Form S-11 (file no. 333-109565))
- 3.2 Bylaws (incorporated by reference to exhibit 3.2 to our registration statement on Form S-11 (file no. 333-109565))
- 4.1 Form of Common Stock Certificate (incorporated by reference to exhibit 4.1 to our registration statement on Form S-11 (file no. 333-109565))
- 10.1 2003 Equity Incentive Plan (incorporated by reference to exhibit 10.1 to our registration statement on Form S-11 (file no. 333-109565))
- 10.2 Form of Indemnification Agreement (incorporated by reference to exhibit 10.2 to our registration statement on Form S-11 (file no. 333-109565))
- 10.3

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- Chief Executive Officer Employment Agreement (incorporated by reference to exhibit 10.3 to our registration statement on Form S-11 (file no. 333-109565))
- 10.11 Revolving Credit Agreement dated November 21, 2005 (incorporated by reference to exhibit 10.16 to our Form 8-K filed on November 23, 2005)
- 12.1 Ratio of Earnings to Fixed Charges
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Principal Financial Officer

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- 32.1 Certification of Chief Executive Officer
- 32.2 Certification of Principal Financial Officer

(b) *Exhibits*

See (a)(3).

(c) *Financial Statement Schedules*

See (a)(2).

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GOVERNMENT PROPERTIES TRUST, INC.

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<u>Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004</u>	F-5
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Government Properties Trust, Inc.

We have audited the accompanying consolidated balance sheets of Government Properties Trust, Inc., as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the management of Government Properties Trust, Inc. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Government Properties Trust, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Government Properties Trust, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 10, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Government Properties Trust, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting included at Item 9A, that Government Properties Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Government Properties Trust, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Government Properties Trust, Inc. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Government Properties Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006 of Government Properties Trust, Inc. and our report dated March 10, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 10, 2007

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Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****CONSOLIDATED BALANCE SHEETS**

	December 31	
	2006	2005
	(In thousands, except share amounts)	
ASSETS		
Real estate at cost:		
Land	\$ 49,736	\$ 32,800
Buildings and improvements	392,678	280,861
Tenant origination costs	92,888	60,405
Real estate under development	1,695	16,577
Furniture and equipment	474	456
	537,471	391,099
Accumulated depreciation	(29,404)	(13,295)
	508,067	377,804
Cash and cash equivalents	1,573	4,857
Restricted cash escrows	7,225	16,887
Tenant receivables	9,156	6,873
Notes receivable from tenant	635	603
Deferred costs, net	3,662	4,020
Real estate deposits		450
Other assets	634	1,584
Total assets	\$ 530,952	\$ 413,077
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,466	\$ 8,421
Dividends payable	2,337	3,110
Lines of credit	2,600	17,500
Mortgage notes payable	374,881	225,033
Total liabilities	385,284	254,063
Stockholders' equity:		
Common stock (\$0.01 par value; 50,000,000 shares authorized, 20,773,136 and 20,721,612 shares issued and outstanding at December 31, 2006 and 2005, respectively)	206	206
Additional paid-in capital	190,103	189,123
Accumulated deficit	(45,652)	(30,916)

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Accumulated other comprehensive income	1,011	601
Total stockholders' equity	145,668	159,014
Total liabilities and stockholders' equity	\$ 530,952	\$ 413,077

See accompanying notes.

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Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	Year Ended December 31,		
	2006	2005	2004
Revenue			
Rental income	\$ 44,379	\$ 26,877	\$ 9,091
Tenant reimbursements and other	2,818	1,323	367
Total net revenue	47,197	28,200	9,458
Expenses			
Property operations	7,795	4,883	1,850
Real estate taxes	4,141	2,712	965
Depreciation and amortization	16,109	9,888	2,650
General and administrative	6,778	4,960	4,020
Total expenses	34,823	22,443	9,485
Operating income (loss)	12,374	5,757	(27)
Other income (expense):			
Interest income	508	1,522	1,720
Interest expense	(16,155)	(9,345)	(2,481)
Expense from issuance and exercise of warrant			(2,098)
Amortization of deferred financing fees	(1,338)	(356)	(272)
Loss from continuing operations	(4,611)	(2,422)	(3,158)
Discontinued operations:			
Gain from disposal of property			314
Income from operations of disposed property			100
Income from discontinued operations			414
Net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)
Earnings per share (basic and diluted):			
Loss from continuing operations	\$ (0.22)	\$ (0.12)	\$ (0.16)
Income from discontinued operations			0.02
Net loss	\$ (0.22)	\$ (0.12)	\$ (0.14)
Distributions declared per share	\$ 0.4875	\$ 0.60	\$ 0.60

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Weighted average number of shares outstanding	20,628,354	20,568,819	19,071,652
Net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)
Other comprehensive income			
Unrealized derivative gain on forward-starting interest rate swaps	463	601	
Comprehensive loss	\$ (4,148)	\$ (1,821)	\$ (2,744)

See accompanying notes.

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Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**
Years Ended December 31, 2006, 2005 and 2004

	Common Stock	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2003	\$ 8,682	\$	\$ (904)	\$	\$ 7,778
Reclass from change in par value of common stock	(8,672)	8,672			
Issuance of common stock	193	176,764			176,957
Issuance and exercise of warrant	2	2,098			2,100
Issuance of restricted stock		725			725
Dividends declared			(12,412)		(12,412)
Net loss			(2,744)		(2,744)
Balance at December 31, 2004	205	188,259	(16,060)		172,404
Issuance of restricted stock	1	863			864
Dividends declared			(12,434)		(12,434)
Unrealized derivative gain on forward-starting interest rate swaps				601	601
Net loss			(2,422)		(2,422)
Balance at December 31, 2005	206	189,123	(30,916)	601	159,014
Issuance of restricted stock		980			980
Dividends declared			(10,125)		(10,125)
Unrealized derivative gain on forward-starting interest rate swaps				463	463
Amortization of receipts from settlement of forward starting interest rate swaps				(53)	(53)
Net loss			(4,611)		(4,611)
Balance at December 31, 2006	\$ 206	\$ 190,103	\$ (45,652)	\$ 1,011	\$ 145,668

See accompanying notes.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands, except per share amounts)**

	Year Ended December 31,		
	2006	2005	2004
Operating activities			
Net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	16,109	9,888	2,650
Amortization of deferred financing fees	1,338	356	272
Amortization of premium on notes payable	(101)	(51)	
Amortization of forward starting interest rate swap	(53)		
Expense from issuance and exercise of warrants			2,098
Compensation expense	735	895	865
Gain from disposal of property			(314)
Changes in assets and liabilities:			
Tenant receivables	(2,283)	(5,371)	(1,170)
Restricted cash escrows	104	(1,447)	(953)
Other assets	1,412	259	(830)
Accounts payable and accrued expenses	1,354	1,100	1,527
Net cash provided by operating activities	14,004	3,207	1,401
Investing activities			
Expenditures for real estate	(130,035)	(198,918)	(104,464)
Development of real estate assets	(11,058)	(11,333)	(1,181)
Expenditures for furniture and equipment	(18)	(271)	(151)
Restricted cash escrows	9,558	(13,337)	(881)
Notes receivable from tenant	(32)	63	(553)
Proceeds from sale of real estate			1,457
Deposits on future real estate purchases		(265)	(501)
Net cash used in investing activities	(131,585)	(224,061)	(106,274)
Financing activities			
Financing fees	(980)	(3,438)	(1,113)
Net borrowings (repayments) under lines of credit	(14,900)	17,500	(3,048)
Proceeds from mortgage notes payable	144,187	131,982	37,000
Repayments of mortgage note payable affiliate			(1,639)
Repayments of advances from affiliate			(103)
Principal payments on mortgage notes payable	(3,112)	(1,719)	(755)
Net proceeds from sale of common stock			193,202
Deferred offering costs paid			(16,161)
Dividends paid	(10,898)	(12,429)	(9,456)

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Net cash provided by financing activities	114,297	131,896	197,927
Net (decrease) increase in cash and cash equivalents	(3,284)	(88,958)	93,054
Cash and cash equivalents, beginning of year	4,857	93,815	761
Cash and cash equivalents, end of year	\$ 1,573	\$ 4,857	\$ 93,815
Non-Cash Investing Activity			
Accounts payable and accrued expenses included in real estate, net	\$	\$ 4,063	\$ 1,200
Non-Cash Financing Activity			
Assumption of mortgage note payable included in real estate, net	\$ 8,876	\$ 15,753	\$ 16,650

See accompanying notes.

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Nature of Business and Operations

Government Properties Trust, Inc. (the Company) was incorporated in Michigan in 1998. In January 2004, the Company completed a public offering of its common stock and listed its common stock on the New York Stock Exchange. In connection with this offering, the Company reincorporated in Maryland and changed its name to Government Properties Trust, Inc. The Company made an election to operate as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended, for federal income tax purposes, beginning in 2003.

The Company began formal operations with its first property acquisition in December 2002 and, as of December 31, 2006; the Company owned 22 properties located throughout the United States. The Company acquires properties through various operating entities, which are wholly-owned by the Company. The Company operates in one segment.

Genesis Financial Group, Inc. (Genesis), a stockholder of the Company, provided property management and administrative services to the Company from inception through January 2004 and acquisition related services to the Company through January 2005. The Company had no full-time employees during 2003.

Between October 2002 and August 2003, the Company sold 955,552 shares of its common stock at \$10 per share. In January 2004, the Company sold 19.3 million shares of its common stock (the Offering) at \$10 per share and listed its common stock on the New York Stock Exchange. The Offering raised approximately \$177 million in net proceeds.

During the year ended December 31, 2006, the Company declared dividends of \$0.4875 per common share, which were paid quarterly in the amounts of \$0.15 per common share in April and \$0.1125 per common share in July, October and January. In 2005 and 2004, the Company declared dividends of \$0.60 per common share, which were paid quarterly in the months of April, July, October and January.

2. Summary of Significant Accounting Policies

Basis of Presentation

Property holding entities and other subsidiaries of which the Company owns 100% of the equity (voting shares or partnership interests) are consolidated (currently the Company only has 100% equity owned subsidiaries). All inter-company balances and transactions have been eliminated. For entities in which the Company may own less than 100% of the equity interest, the Company may consolidate the property if it has a controlling financial interest evidenced by ownership of a majority voting interest (subject only to protective rights of minority owners). For entities in which the Company owns less than 100% and does not have a controlling financial interest or the direct or indirect ability to make decisions, but does exert significant influence over the entities' activities, the Company will record its ownership in the entity using the equity method of accounting.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation, with no effect on the Company s consolidated financial position or results of operations.

Real Estate

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Standards (SFAS) No. 141 Business Combinations (SFAS 141). In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

The Company allocates a portion of the purchase price to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above-market lease values (which would be presented as lease intangibles in consolidated balance sheets) would be amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values (presented as deferred income) are amortized as an addition to rental income over the remaining contractual lease period including any renewal periods included in the valuation analysis. Should a tenant terminate its lease, the unamortized portion of the lease intangibles would be charged to expense.

The Company allocates a portion of the purchase price to the value of leases acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. The Company utilizes independent appraisals or its estimates to determine the respective in-place lease values. The Company's estimates of value are made using methods similar to those used by independent appraisers. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. The Company also estimates costs to execute similar leases including tenant improvements, leasing commissions, legal and other related expenses.

The Company also considers an allocation of purchase price to in-place leases that have a related customer relationship intangible values. Characteristics management considers in allocating these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors. The Company currently has the U.S. government as its major tenant, but has not yet developed a relationship that it would consider to have any current intangible value.

The value of in-place leases (presented as tenant origination costs in consolidated balance sheet) is amortized to expense over the remaining initial term of the respective leases. The value of customer relationship intangibles is amortized to expense over the remaining initial term, including any renewal periods included in the valuation analysis for the respective leases, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the tenant origination costs and customer relationship intangibles would be charged to expense.

Tenant origination costs, net at December 31, 2006, were approximately \$79.2 million. Amortization expense related to tenant origination costs was \$7.8 million, \$4.6 million and \$1.1 million for the years ended December 31, 2006,

2005 and 2004. The weighted average life for these tenant origination costs at December 31, 2006 is approximately 10 years.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future amortization of tenant origination costs at December 31, 2006 is as follows:

Year Ending December 31	(in thousands) Amount
2007	\$ 9,497
2008	9,478
2009	9,374
2010	8,210
2011	7,185
Thereafter	35,475
	\$ 79,219

Amounts allocated to tangible land, building, tenant improvements, equipment and fixtures are based on independent appraisals or our own analysis of comparable properties in the existing portfolio.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheet as Real estate under development. As each project is completed and becomes available for lease, the total cost of the project is depreciated over the estimated useful life. Interest costs directly related to the development are capitalized as part of the real estate under development to the extent that such charges do not cause the carrying value of the asset to exceed its net realizable value. Included in non-cash operating activities is \$4.1 million and \$1.2 million of real estate under development which is included in accounts payable and accrued expenses at December 31, 2005 and 2004, respectively.

Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets, which are as follows:

Building and improvements	39 years
Tenants origination costs	Remaining term of the related lease
Lease intangibles	Remaining term of the related lease (included as a reduction of rental revenue)
Tenant improvements	Term of related leases
Furniture and equipment	3-7 years

Real estate is carried at depreciated cost. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Significant renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (SFAS 144), the Company records impairment losses on long-lived assets used in

operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets during the expected holding period are less than the carrying amounts of those assets. Impairment losses are measured as the difference between carrying value and fair value of assets. For assets held for sale, impairment is measured as the difference between carrying value and fair value, less cost to dispose. Fair value is based on estimated cash flows discounted at a risk-adjusted rate of interest.

Cash Equivalents

Certificates of deposit and short-term investments with remaining maturities of three months or less when acquired are considered cash equivalents.

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts

Allowance for doubtful accounts is maintained for estimated losses resulting from the inability of certain tenants to meet the contractual obligations under their lease agreements. The Company had no allowance for doubtful accounts as of December 31, 2006 and 2005.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk are primarily cash investments and accounts receivable from tenants. In order to limit credit risk, the Company places its cash and investments in investment-grade short-term instruments. The cash and investment account balances at each financial institution typically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage.

Real Estate Deposits

The Company makes deposits on proposed property purchases. At December 31, 2005, deposits were \$450,000 for properties acquired in 2006.

Deferred Costs

Costs incurred in connection with financings, refinancings or debt modifications are capitalized as deferred financing costs and are amortized on the straight-line method, which approximates the level yield method, over the lives of the related loans. Leasing commissions and other leasing costs directly attributable to tenant leases are capitalized as deferred leasing costs and are amortized on the straight-line method over the terms of the related lease agreements. Costs incurred prior to the completion of the Offering that directly related to the Offering were deferred and then netted against proceeds received from the Offering.

Rental Revenue

Rental revenue is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for acquired properties. Differences between rental revenue earned and amounts due per the respective lease agreements are credited or charged, as applicable, to deferred rent receivable which is included in tenant receivables in the Consolidated Balance Sheets. Rental payments received prior to their recognition as income are classified as rent received in advance which is included in accounts payable and accrued expenses in the Consolidated Balance Sheets. Deferred rent receivables included in tenant receivables in the Consolidated Balance Sheets were \$4.6 million and \$2.8 million at December 31, 2006 and 2005, respectively.

Derivative Instruments

The Company measures derivative instruments at fair value and records them as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. For derivatives designated and qualifying as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings.

Changes in fair value of derivative instruments not designated as hedges and ineffective portions of hedges are recognized in earnings in the affected period.

Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes net income and

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

all other non-owner charges in stockholders' equity during a period including unrealized gains and losses from fair value adjustments on certain derivative instruments.

Fair Value of Financial Instruments

The Company believes that the interest rates associated with its line-of-credit and mortgage notes payable approximate the market interest rates for these types of debt instruments and as such, the carrying amount of the mortgages payable approximate their fair value.

The carrying amount of notes receivable, cash equivalents, escrows and deposits, accounts receivable, and accounts payable and accrued expenses, approximate fair value because of the relatively short maturity of these instruments.

New Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt the provisions of FIN 48 on January 1, 2007. We do not expect the adoption of this standard to have a material effect on our results of operations and financial position.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), to expand and clarify SFAS No. 123 in several areas. The Statement requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. The cost is recognized over the requisite service period (usually the vesting period) for the estimated number of instruments where service is expected to be rendered. This Statement is effective beginning in the first quarter of 2006 for all unvested awards. The Company previously adopted the provisions of expensing stock-based compensation using the fair value based method of accounting as permitted under SFAS No. 123. Therefore, the adoption of SFAS No. 123(R) did not have a material impact on the Company's financial statements.

Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. As a REIT, the Company generally will not be subject to federal income tax to the extent that it distributes at least 90% of the Company's taxable income to its stockholders. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. No federal income taxes have been recorded in 2006, 2005 and 2004. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property. The aggregate cost of land and depreciable property, net of accumulated tax depreciation, for federal income tax purposes as of December 31, 2006 and 2005 was approximately \$516.7 million and \$382.1 million, respectively. For federal income tax purposes, distributions made by the Company in 2006 were considered approximately 25% to be ordinary dividends and approximately 75% to be a return of capital. All distributions prior to 2006 have been considered return

of capital.

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Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a reconciliation between the GAAP net income and taxable income for the Company for the years ended December 31, 2006, 2005 and 2004:

	2006	2005 (Unaudited)	2004
GAAP net loss	\$ (4,611)	\$ (2,422)	\$ (2,744)
Add: Book amortization	8,046	4,382	1,101
Gain on settlement of Hedge transactions	1,011		
Merger related costs	1,472		
Less: Tax amortization	(2,133)	(1,040)	(367)
Straight-line rent adjustments	(1,712)	(2,793)	(48)
Other book/tax differences, net	61	7	9
Taxable income subject to 90% dividend requirement	\$ 2,134	\$ (1,866)	\$ (2,049)

Common Stock and Earnings Per Share

The Company reports earnings per share pursuant to SFAS No. 128, Earnings Per Share. Basic loss per share attributable for all periods presented is computed by dividing the loss to common stockholders by the weighted average number of common shares outstanding during the period. The Company had nonvested stock grants of 133,820, 152,857 and 146,302 shares outstanding during 2006, 2005 and 2004, respectively, which were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

3. Deferred Costs

Deferred costs consist of the following at December 31, 2006 and 2005:

	2006	2005
	(In thousands)	
Financing costs	\$ 5,636	\$ 4,656
Accumulated amortization	(1,974)	(636)
	\$ 3,662	\$ 4,020

4. Equity Incentive Plan

The Company has a 2003 Equity Incentive Plan, which reserved 1,000,000 shares of Common Stock for issuance thereunder. The purposes of the plan are to optimize the Company's profitability and growth through long-term incentives which are consistent with the Company's objectives and which link the interests of participants to those of the Company's stockholders, provide participants with an incentive for excellence in individual performance and promote teamwork among participants and give the Company a significant advantage in attracting and retaining officers, key employees and directors. Any key employee, non-employee director, consultant or advisor is eligible to be granted awards under the plan. The plan is currently administered by the Company's compensation committee.

The plan authorizes the grant of: (a) stock options, which may be either incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code or non-qualified stock options; (b) stock appreciation rights; (c) restricted stock; and (d) performance units. If any shares subject to awards granted under the plan, or to which any award relates, are forfeited or if an award otherwise terminates, expires or is cancelled prior to the delivery of all of the shares or other consideration issuable or payable pursuant to the award, then such shares will be available for the granting of new awards under the plan.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

From time to time, the Company awards restricted stock shares under the 2003 Equity Incentive Plan to members of the Board of Directors and employees. The Company recognizes compensation expense for restricted shares issued based upon the fair market value of the common stock at the grant date. Compensation expense is recognized on a straight-line basis over the service period which is typically the vesting period and is included in general and administrative expense in the accompanying consolidated statement of operations. The Company began issuing restricted shares in 2004. The Company granted restricted shares of 51,524, 26,198 and 190,045 in 2006, 2005 and 2004, respectively, to members of the Board of Directors and employees. During 2005 there were 184 restricted shares forfeited. The Company recorded \$735,000, \$895,000 and \$865,000 of compensation expense related to the restricted stock grants in 2006, 2005 and 2004, respectively. As of December 31, 2006, there are 732,417 shares available for grant under the Plan. A summary of restricted stock as of December 31, 2006, 2005 and 2004 is presented below:

	Restricted Share		Weighted Average Grant-Date Fair Value
Unvested restricted stock at December 31, 2003		\$	
Granted	190,045		13.64
Vested	(16,768)		11.39
Forfeited			
Unvested restricted stock at December 31, 2004	173,277		13.86
Granted	26,198		9.79
Vested	(65,552)		13.08
Forfeited	(184)		10.31
Unvested restricted stock at December 31, 2005	133,739		13.45
Granted	51,524		9.06
Vested	(57,154)		12.70
Forfeited			
Unvested restricted stock at December 31, 2006	128,109	\$	12.02

As of December 31, 2006, there was approximately \$746,000 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted. The weighted average period over which this expense is to be recognized is 1.87 years.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Mortgage Notes Payable and Lines-of-Credit**

Mortgage notes payable and lines-of-credit consisted of the following:

	December 31,	
	2006	2005
	(In thousands)	
Mortgage Notes Payable(A),(B),(C)		
Mortgage notes payable to various financial institutions, collateralized by various properties, interest at fixed rates ranging from 5.09% to 8.23% per annum, with principal and interest payable monthly through 2026. The weighted average rate at December 31, 2006 and December 31, 2005 was 5.85% and 5.80%, respectively	\$ 373,550	\$ 223,601
Lines of Credit		
Line-of-credit with a financial institution for property acquisitions (maximum borrowing level of \$40,000,000 and available through November 20, 2008), interest rate at December 31, 2006 and 2005 was 6.75% and 5.57%, respectively. Advances are collateralized by various properties.(D)	\$ 2,600	\$ 17,500
Line-of-credit with a financial institution for property acquisitions (maximum borrowing level of \$10 million and available through April 2007). Advances are unsecured.(E)	\$	\$

- (A) The mortgages notes payable are subject to various operating covenants. In addition, the Company must periodically fund and maintain escrow accounts, to make future real estate taxes, repairs and maintenance and insurance payments, as well as to fund certain tenant releasing costs. These are included in restricted cash escrows.
- (B) Certain of the Company's real estate assets have been pledged as collateral for its mortgages notes payable. The amount of gross assets that have been encumbered is \$532.7 million and \$308.9 million for 2006 and 2005, respectively.
- (C) Amounts exclude a premium of \$1.3 million and \$1.4 million at December 31, 2006 and 2005, respectively, related to the above market interest rate on a mortgage assumed.
- (D) This line-of-credit facility was obtained in November 2005 and bears an interest rate equal to either (a) a base rate determined by the higher of the prime rate or the federal funds rate plus 1/2 of 1%, or (b) an applicable margin, based upon the Company's total indebtedness to total asset value, plus LIBOR. At December 31, 2006 and 2005, the margin was LIBOR plus 1.40% and LIBOR plus 1.20%, respectively. Payments are interest only

through the term and are payable at least quarterly. The line-of-credit facility contains certain covenants including maintenance of leverage, minimum fixed charge coverage ratios, minimum tangible net worth and limitations on certain indebtedness, guarantees and cash dividends. Advances under the line-of-credit totaled \$34.8 million and \$17.5 million for 2006 and 2005, respectively. Repayments under the line-of-credit totaled \$49.7 million for 2006. The line-of-credit facility is guaranteed by the Company. The amount of gross assets that have been encumbered is \$4.4 million at December 31, 2006 and \$81.5 million at December 31, 2005. In April 2006, the maximum borrowing level of the line-of-credit was increase from the original \$50 million to \$65 million. In December 2006, the maximum borrowing level of the line-of-credit was reduced to \$40 million. As a result, approximately \$426,000 of deferred financing costs associated with the line-of-credit were written off and included in amortization expense in the accompanying consolidated statement of operations.

- (E) This line-of-credit facility was obtained in April 2006 and is subject to the covenants described above in Item (D). Borrowings under this facility bear an interest rate equal to an applicable margin, based upon our total indebtedness to total asset value, plus the three month LIBOR rate. Any borrowings on the credit facility

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

would be priced at LIBOR plus 2.40% as of December 31, 2006. Payments are interest only through the term of the credit facility and are payable monthly.

Total interest paid on the mortgage notes payable and lines-of-credit was \$16.2 million, \$9.2 million and \$2.4 million for the year ended December 31, 2006, 2005 and 2004, respectively. Interest capitalized during 2006 and 2005 was \$170,000 and \$479,000, respectively.

The following represents future minimum principal payments due on the Company's mortgage notes payable outstanding at December 31, 2006:

Year Ending December 31	Amount (In thousands)
2007	\$ 4,292
2008	4,536
2009	31,607
2010	5,282
2011	12,331
Thereafter	315,502
	\$ 373,550

6. Future Minimum Lease Payments

The Company has lease agreements with tenants with lease terms through 2022. The leases generally provide for increases in base rent based upon inflation and for tenants to pay their share of real estate taxes over specified base amounts. Approximately 96 percent of the Company's rental revenue for the years ended December 31, 2006 and 2005 was received from the federal, state and local government.

The total future minimum rents to be received by us under such non-cancelable operating leases in effect at December 31, 2006, exclusive of future inflation increases and real estate tax reimbursements, are as follows:

Year Ending December 31	Amount (In thousands)
2007	\$ 54,213
2008	54,344
2009	53,821
2010	49,876
2011	48,391
Thereafter	246,447

\$ 507,092

7. Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

In 2005, the Company entered into two forward-starting interest rate swap contracts with a notional amount of \$50 million to fix a portion of the interest rate associated with fixed rate debt financings that occurred in November 2006. In September 2006, the Company cash settled both forward-starting interest rate swap contracts and received cash in the amount of \$1.1 million. In November 2006, the Company entered into debt financing arrangements with a financial institution in the total amount of \$55.7 million. As a result of the cash settlement and the November 2006 debt financings, the Company recorded \$41,000 of ineffectiveness which has been reflected as a reduction of interest expense in the 2006 statement of operations. The remaining \$1.0 million continues to be reflected in accumulated other comprehensive income at December 31, 2006 and is being amortized to interest expense over the ten year term of the associated debt financing arrangements. Such amortization amounted to \$12,000 in 2006. The derivatives described above had a fair value of \$601,000 at December 31, 2005 and were included in other assets and accumulated other comprehensive income.

8. Related Party Transactions

Genesis, the sponsor of the initial public offering by the predecessor company Gen-Net Lease Income Trust, Inc., provided the Company with property acquisition services through January 2005 for a fee of up to 1% of the property purchase price plus up to 2% of the acquisition fee for acquisition related expenses. The Company did not incur any acquisition fees with Genesis in 2006 or 2005. The Company incurred and paid acquisition fees of \$1.1 million for the year ended December 31, 2004 which is included in real estate, at cost in the Consolidated Balance Sheets. Genesis paid the Company \$310,000 in 2006 for previous offering costs pursuant to a conditional agreement between Genesis and the Company.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Property Acquisitions**

The Company acquired the following properties in 2006 and 2005. The results of their operations are included in the Company's consolidated statements of operations from their respective dates of acquisition.

Property	Location	Acquisition Cost (In thousands)	Month Acquired
2005 acquisitions(A):			
1201 Lloyd Boulevard (Portland Property)	Portland, OR	\$ 50,653	March
Niagara Center (Buffalo Niagara Center Property)	Buffalo, NY	71,673	May
Social Security Administration (Buffalo SSA Property)	Buffalo, NY	5,435	May
Drug Enforcement Administration (Sterling DEA Property)(B)	Sterling, VA	21,070	June
Internal Revenue Service (Martinsburg IRS Property)(C)	Martinsburg, WV	30,643	July
Social Security Administration (Dallas SSA Property)	Dallas, TX	9,583	September
Army Corps of Engineers (Vicksburg MS, Inc.)	Vicksburg, MS	26,850	November
		\$ 215,907	
2006 acquisitions(A):			
Riverside County (Riverside Property)(D)	Riverside, CA	\$ 18,415	February
United States Citizenship and Immigration Service (Harlingen USCIS Property)	Harlingen, TX	27,330	May
Environmental Protection Agency (Denver EPA Property)(E)	Denver, CO	91,597	December
		\$ 137,342	

- (A) In accordance with SFAS 141, the Company allocated the purchase price for these properties to net tangible and identified intangible assets acquired based on their fair values (including land, buildings, tenant improvements, acquired above and below market leases and the origination cost of acquired in-place leases) and acquired liabilities, and allocated the purchase price based on these assessments, including land at appraised value and buildings at replacement costs. The Company assessed fair value based on estimated cash flow projections that utilize discount and capitalization rates deemed appropriate by management and available market information. Such estimates are subject to refinement as additional valuation information is received. The value of tenant origination costs are amortized over the remaining term of the respective leases.

- (B) In connection with the purchase of this property, the Company assumed a first mortgage note in the amount of \$15.8 million. Also included in the acquisition cost is an amount of \$1.5 million related to the premium recognized on the above market interest rate on the assumed mortgage.
- (C) Under terms of the existing lease, the federal government has an option to purchase the Martinsburg IRS Property for approximately \$24.8 million. Real estate at cost, net of accumulated depreciation of the Martinsburg IRS Property was \$29.2 million at December 31, 2006.
- (D) In connection with the purchase of this property, the Company assumed a first mortgage note in the amount of \$8.9 million.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (E) Included in the acquisition costs is an amount of approximately \$619,000 paid by the Company and held in escrow related to vacant space of approximately 10,000 rentable square feet. Should the United States Government elect to rent this space within the next three years, the amount would be shared on a basis outlined in the Purchase and Sale Agreement between the Company and the Seller of the Denver EPA Property. If after three years the space remains vacant, the Company would receive the entire amount of the escrow plus any accrued interest. Once the amount, if any, to be received by the Company is determinable, a final adjustment to the acquisition costs will be made.

10. Issuance and Exercise of Warrant

In connection with providing a line of credit, an affiliate of one of the Company's underwriters in the Offering was issued a warrant to purchase up to 210,000 shares of common stock. The underwriter's affiliate exercised the warrants and the Company recognized an expense of approximately \$2.1 million in 2004.

11. Discontinued Operations

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reflects the historical operating results of properties sold or held for sale, as well as the gain or loss on sale from these properties, as discontinued operations in the consolidated statements of operations for periods prior to their sale. In 2004, the Company sold the Harahan property for a gain of \$314,000, upon receiving sales proceeds of \$1.5 million net of the assumption of the related mortgage note payable of \$3.1 million. The results of discontinued operations related to the Harahan property were comprised of the following for the year ended December 31, 2004:

	2004
Rental income	\$ 284,304
Property operations	13,091
Depreciation and amortization	29,358
Total expense	42,449
Operating income	241,855
Amortization of deferred financing fees	(420)
Interest expense	(141,420)
Income from discontinued operations	100,015
Gain on sale of property	313,857
Total income from discontinued operations	\$ 413,872

12. 401(k) Plan

In 2004, the Company established a 401(k) Plan to cover all employees of the Company. The 401(k) Plan permits eligible persons to defer an amount of their annual compensation into the 401(k) Plan subject to certain limitations imposed by the Internal Revenue Code. Employees' elective deferrals are immediately vested upon contribution to the 401(k) Plan. The Company matches employee contribution to the 401(k) Plan dollar for dollar up to 4% of the employee's annual salary. The Company made contributions of \$70,000, \$41,000 and \$29,000 which were charged to expense during the year ended December 31, 2006, 2005 and 2004, respectively.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Unaudited Pro Forma Condensed Consolidated Financial Information**

The accompanying unaudited Pro Forma Condensed Consolidated Financial Information is presented as if, at January 1, 2005, the Company acquired the properties described in Note 9 Property Acquisitions and the shares outstanding at December 31, 2006 were also outstanding at January 1, 2005. The properties listed as follows began operations during 2005 or 2006 and therefore their historical results of operations are included in the Pro Forma Condensed Consolidated Financial Information from the date indicated. In management's opinion, all adjustments necessary to reflect the effects of the above transactions have been made.

	Date Property Began Operation
Buffalo SSA Property	June 2005
Dallas SSA Property	August 2005
Parkersburg Expansion Property	March 2006
Denver EPA Property	December 2006

The unaudited Pro Forma Condensed Consolidated Financial Information is not necessarily indicative of what the actual results of operations would have been assuming the above mentioned transactions had occurred at the dates indicated above, nor does it purport to represent our future results of operations.

Pro Forma Condensed Consolidated Financial Information

	Year Ended December 31, 2006 2005 (Unaudited) (In thousands, except per share data)	
Total revenue	\$ 48,744	\$ 40,445
Net loss	\$ (7,198)	\$ (6,210)
Loss per diluted common share	\$ (0.35)	\$ (0.30)

14. Merger Agreement

On October 23, 2006, the Company entered into an Agreement and Plan of Merger (the Agreement) with Record Realty Trust (RRT), an Australian listed property trust (ASX: RRT), and Record Realty (US) LLC, a wholly owned

subsidiary of RRT (Merger Sub). Under the terms of the Agreement, subject to certain terms and conditions, the Company will be merged with and into Merger Sub (the Merger) and our separate corporate existence will cease, with Merger Sub continuing as the surviving company and we will be a wholly owned subsidiary of RRT.

At the effective time of the Merger, each outstanding share of our common stock, other than Excluded Shares (as defined in the Agreement), will be cancelled and converted into the right to receive \$10.75 in cash, without interest. The Company s Board of Directors unanimously approved the Agreement on October 23, 2006. Consummation of the Merger is subject to various conditions, including approval of the Merger by our stockholders and other customary closing conditions. A stockholders meeting to approve the Merger has been scheduled for April 4, 2007.

The Agreement contains termination rights, including if our Board of Directors in connection with an unsolicited bona fide Superior Proposal (as defined in the Agreement), changes its recommendation to the shareholders as required by its fiduciary duties under applicable law and provides that, upon the termination of the Agreement, under specified circumstances, we will be required to pay a termination fee to RRT equal to

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GOVERNMENT PROPERTIES TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$6.5 million plus expenses not to exceed \$2.0 million. Additionally, under specified circumstances, RRT will be required to pay the Company a termination fee of \$30.0 million.

15. Subsequent Event

On January 4, 2007, an action was filed in the District Court of Douglas County, Nebraska, Fourth District Court against us, all of the members of our Board of Directors and Record Realty (US) LLC. The complaint alleges, among other things, that the preliminary proxy statement filed by us in connection with the Merger failed to disclose certain material information. On February 27, 2007, counsel to the plaintiff and counsel to the defendants, other than Record Realty (LLC), entered into a Memorandum of Understanding with respect to their agreement in principle to a settlement of this action, subject to the terms and conditions provided for in the Memorandum of Understanding. There can be no assurance, however, that the action will be settled. The defendants believe that the allegations in the complaint have no merit and, in the event the action is not settled, intend to vigorously defend the action. There can be no assurance, however, that the defendants will be successful in defending this action.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
GOVERNMENT PROPERTIES TRUST, INC.**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION**
As of December 31, 2006

Name	Encumbrances(1) December 31, 2006	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amount Carried at Close of Period 12/31/06			Accumulated Depreciation At December 31, 2006,(2)	Date Acqu Contr Plac Se
		Land	Buildings and Improvements	Land	Buildings And Improvements	Land	Building and Improvements	Total		
ersfield	\$ 1,410	\$ 446	\$ 1,940	\$	\$	\$ 446	\$ 1,940	\$ 2,386	\$ 380	Jan
n SSA	13,351	3,067	15,363		37	3,067	15,400	18,467	1,893	A
g GSA	7,939	508	10,481		40	508	10,521	11,029	1,279	A
SSA	2,165	525	2,467			525	2,467	2,992	377	A
Wells		763	3,653		6	763	3,659	4,422	412	M
FBI	20,134	1,135	27,548		10	1,135	27,558	28,693	2,581	
DA	7,691	1,250	9,275		370	1,250	9,645	10,895	966	
Rouge	4,724	1,096	4,835		115	1,096	4,950	6,046	412	Septer
n Fed										
	14,265	1,500	17,778		100	1,500	17,878	19,378	1,313	Septer
ark FDA	15,912	1,974	20,921			1,974	20,921	22,895	1,886	Oct
USCIS	7,679	350	10,233		77	350	10,310	10,660	911	Oct
rg BPD	31,252	1,100	19,127		21,977	1,100	41,104	42,204	2,081	Novem
land, OR										
d LLC	39,057	6,180	44,473		616	6,180	45,089	51,269	3,622	M
ent										
	52,913	2,000	69,673	70	928	2,070	70,601	72,671	5,421	
SA	2,830	1,100	4,335	150	175	1,250	4,510	5,760	492	
DEA	15,046	1,500	19,571		47	1,500	19,618	21,118	978	
rg IRS	19,515	3,200	27,443			3,200	27,443	30,643	1,467	
A	6,149	3,180	6,403			3,180	6,403	9,583	353	Septer
g COE	14,400	1,927	24,923			1,927	24,923	26,850	1,134	Novem
County	8,778	3,035	15,380			3,035	15,380	18,415	610	Febr
USCIS	19,846	1,680	25,650			1,680	25,650	27,330	566	

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PA	68,494	12,000	79,596			12,000	79,596	91,596	130	Decer
e under			1,695				1,695	1,695		
ent			474				474	474	140	
Assets										
	\$ 373,550	\$ 49,516	\$ 463,237	\$ 220	\$ 24,498	\$ 49,736	\$ 487,735	\$ 537,471	\$ 29,404	

(1) See Note 5 Mortgage Notes Payable and Lines-of-Credit to these Consolidated Financial Statements for a description of our mortgage notes payable.

Table of Contents**GOVERNMENT PROPERTIES TRUST, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (2) Depreciation is calculated on the straight-line method over the estimated useful lives of assets, which are as follows:

Building and improvements	39 years
Tenants origination costs(a)	Remaining term of the related lease
Lease intangibles(a)	Remaining term of the related lease (included as a reduction of rental revenue)
Tenant improvements(a)	Term of related leases
Furniture and equipment	3-7 years

- (a) Included in Building and Improvements in the above table.

The aggregate cost and net basis of land, real estate under development and depreciable property for federal income tax purposes as of December 31, 2006 was approximately \$537.5 million and \$516.7 million, respectively. The following table reconciles the real estate investments historical cost for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Balance at beginning of year	\$ 391,099	\$ 158,778	\$ 34,831
Acquisitions and development	146,354	232,050	123,795
Capital expenditures	18	271	151
Balance at end of year	\$ 537,471	\$ 391,099	\$ 158,778

The following table reconciles the accumulated depreciation on real estate investments for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Balance at beginning of year	\$ 13,295	\$ 3,407	\$ 757
Depreciation and amortization expense	16,109	9,888	2,650
Balance at end of year	\$ 29,404	\$ 13,295	\$ 3,407

Table of Contents**SIGNATURES**

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

Government Properties Trust, Inc.

By: /s/ Thomas D. Peschio
 Thomas D. Peschio
President and Chief Executive Officer
(Principal Executive Officer)

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

Signature	Title	Date
/s/ Thomas D. Peschio Thomas D. Peschio	President, Chief Executive Officer and Director	March 15, 2007
/s/ Nancy D. Olson Nancy D. Olson	Chief Financial Officer and Treasurer	March 15, 2007
/s/ Jerry D. Bringard Jerry D. Bringard	Chairman of the Board of Directors	March 15, 2007
/s/ Robert M. Ames Robert M. Ames	Director	March 15, 2007
/s/ Philip S. Cottone Philip S. Cottone	Director	March 15, 2007
/s/ Robert A. Peck Robert A. Peck	Director	March 15, 2007
/s/ Richard H. Schwachter Richard H. Schwachter	Director	March 15, 2007

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Exhibit Index

- 2.1 Agreement and Plan of Merger dated October 23, 2006 by and among Government Properties Trust, Inc., Record Realty Trust and Record Realty (US) LLC (incorporated by reference to Exhibit 2.1 to our Form 8-K filed on October 26, 2006)
- 3.1 Charter (incorporated by reference to exhibit 3.1 to our registration statement on Form S-11 (file no. 333-109565))
- 3.2 Bylaws (incorporated by reference to exhibit 3.2 to our registration statement on Form S-11 (file no. 333-109565))
- 4.1 Form of Common Stock Certificate (incorporated by reference to exhibit 4.1 to our registration statement on Form S-11 (file no. 333-109565))
- 10.1 2003 Equity Incentive Plan (incorporated by reference to exhibit 10.1 to our registration statement on Form S-11 (file no. 333-109565))
- 10.2 Form of Indemnification Agreement (incorporated by reference to exhibit 10.2 to our registration statement on Form S-11 (file no. 333-109565))
- 10.3 Chief Executive Officer Employment Agreement (incorporated by reference to exhibit 10.3 to our registration statement on Form S-11 (file no. 333-109565))
- 10.11 Revolving Credit Agreement dated November 21, 2005 (incorporated by reference to exhibit 10.16 to our Form 8-K filed on November 23, 2005)
- 12.1 Ratio of Earnings to Fixed Charges
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Principal Financial Officer
- 32.1 Certification of Chief Executive Officer
- 32.2 Certification of Principal Financial Officer