BRANDYWINE REALTY TRUST
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2012

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
001-9106 (Brandywine Realty Trust)
000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust
Brandywine Operating Partnership, L.P.
(Exact name of registrant as specified in its charter)

MARYLAND (Brandywine Realty Trust)	23-2413352
DELAWARE (Brandywine Operating Partnership L.P.)	23-2862640
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

555 East Lancaster Avenue Radnor, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (610) 325-5600

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.

Brandywine Realty Trust	Yes þ No o
Brandywine Operating Partnership, L.P.	Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Brandywine Realty Trust	Yes þ No o
Brandywine Operating Partnership, L.P.	Yes þ No o

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

Brandywine Realty Trust:

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

Brandywine Operating Partnership, L.P.:

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o

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

Brandywine Realty Trust	Yes o No þ
Brandywine Operating Partnership, L.P.	Yes o No þ

A total of 143,408,964 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of July 27, 2012.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2012 of Brandywine Realty Trust (the "Parent Company") and Brandywine Operating Partnership L.P. (the "Operating Partnership"). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the "Company". In addition, terms such as "we", "us", or "our" used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2012, owned a 98.2% interest in the Operating Partnership. The remaining 1.8% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will result in the following benefits:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership. These members are officers of both the Parent Company and of the Operating Partnership.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company's real estate ventures. The Operating Partnership conducts the operations of the Company's business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and non-controlling interests in the Parent Company and the Operating Partnership's equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating Partnership. The common units of limited partnership interest in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements while the common units of limited partnership interests held by parties other than the Parent Company are presented as non-controlling interests in the Parent Company's financial statements. The differences between the Parent Company and the Operating Partnership's equity relate to the differences in the equity issued at the Parent Company and Operating Partnership levels.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents the following as separate notes or sections for each of the Parent Company and the Operating Partnership:

- Consolidated Financial Statements;
- Parent Company's and Operating Partnership's Equity; and

- Liquidity and Capital Resources in the Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for

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each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

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Filing Format

This combined Form 10-Q is being filed separately by Brandywine Realty Trust and Brandywine Operating Partnership, L.P.

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PART I — FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Real estate investments:		
Rental properties	$4,639,047	$4,793,080
Accumulated depreciation	(897,367)	(865,710)
Operating real estate investments, net	3,741,680	3,927,370
Construction-in-progress	57,420	25,083
Land inventory	109,564	109,008
Total real estate investments, net	3,908,664	4,061,461
Cash and cash equivalents	190,055	410
Available-for-sale securities	42,072	—
Accounts receivable, net	11,445	14,718
Accrued rent receivable, net	113,380	108,101
Assets held for sale, net	41,450	—
Investment in real estate ventures, at equity	133,292	115,807
Deferred costs, net	114,920	115,362
Intangible assets, net	57,927	70,515
Notes receivable	7,226	18,186
Other assets	48,739	53,158
Total assets	$4,669,170	$4,557,718
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable	$505,214	$511,061
Unsecured credit facility	—	275,500
Unsecured term loans	600,000	37,500
Unsecured senior notes, net of discounts	1,404,627	1,569,934
Accounts payable and accrued expenses	57,653	69,929
Distributions payable	24,889	23,895
Deferred income, gains and rent	95,390	99,569
Acquired lease intangibles, net	31,526	35,106
Other liabilities	55,264	45,528
Liabilities related to assets held for sale	878	—
Total liabilities	2,775,441	2,668,022
Commitments and contingencies (Note 17)		
Brandywine Realty Trust's equity:		
Preferred Shares (shares authorized-20,000,000):		
7.50% Series C Preferred Shares, $0.01 par value; issued and outstanding- 0 in 2012 and 2,000,000 in 2011	—	20
7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding- 2,300,000 in 2012 and 2011, respectively	23	23
	40	—

6.90% Series E Preferred Shares, $0.01 par value; issued and outstanding- 4,000,000 in 2012 and 0 in 2011		
Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 200,000,000; 143,367,946 and 142,690,755 issued in 2012 and 2011, respectively and 143,367,946 and 142,690,755 outstanding in 2012 and 2011, respectively	1,431	1,424
Additional paid-in capital	2,826,475	2,776,197
Deferred compensation payable in common shares	5,436	5,631
Common shares in grantor trust, 293,122 in 2012 and 292,646 in 2011	(5,436)	(5,631)
Cumulative earnings	493,266	477,338
Accumulated other comprehensive loss	(16,449)	(6,079)
Cumulative distributions	(1,442,662)	(1,392,332)
Total Brandywine Realty Trust's equity	1,862,124	1,856,591
Non-controlling interests	31,605	33,105
Total equity	1,893,729	1,889,696
Total liabilities and equity	$4,669,170	$4,557,718

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except share and per share information)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2012	2011	2012	2011
Revenue:				
Rents	$115,032	$114,995	$229,271	$230,328
Tenant reimbursements	18,605	18,237	37,613	40,177
Termination fees	101	1,948	1,591	2,516
Third party management fees, labor reimbursement and leasing	2,872	2,733	6,014	5,486
Other	966	1,336	2,498	2,359
Total revenue	137,576	139,249	276,987	280,866
Operating Expenses:				
Property operating expenses	37,906	39,115	77,363	83,235
Real estate taxes	14,134	13,786	28,228	27,495
Third party management expenses	1,264	1,506	2,514	3,016
Depreciation and amortization	49,331	55,710	98,880	105,214
General and administrative expenses	6,079	5,890	12,129	12,134
Total operating expenses	108,714	116,007	219,114	231,094
Operating income	28,862	23,242	57,873	49,772
Other Income (Expense):				
Interest income	1,841	421	2,324	862
Interest expense	(32,981)	(34,738)	(67,125)	(67,131)
Interest expense — amortization of deferred financing costs	(1,261)	(1,070)	(2,572)	(1,998)
Interest expense — financing obligation	(196)	—	(378)	—
Equity in income of real estate ventures	838	1,088	882	2,321
Net gain on sale of interests in real estate	—	—	—	2,791
Loss on early extinguishment of debt	(1,250)	(756)	(1,498)	(756)
Loss from continuing operations	(4,147)	(11,813)	(10,494)	(14,139)
Discontinued operations:				
Income from discontinued operations	783	1,743	1,798	3,579
Net gain on disposition of discontinued operations	10,166	3,836	24,834	3,836
Total discontinued operations	10,949	5,579	26,632	7,415
Net income (loss)	6,802	(6,234)	16,138	(6,724)
Net (income) loss from discontinued operations attributable to non-controlling interests — LP units	(200)	(111)	(487)	(148)
Net (income) loss attributable to non-controlling interests — LP units	169	276	322	364
Net (income) loss attributable to non-controlling interests	(31)	165	(165)	216
Net income (loss) attributable to Brandywine Realty Trust	6,771	(6,069)	15,973	(6,508)
Distribution to Preferred Shares	(3,049)	(1,998)	(5,047)	(3,996)
Preferred share redemption charge	(2,090)	—	(2,090)	—
Amount allocated to unvested restricted shareholders	(95)	(121)	(191)	(263)
Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust	$1,537	$(8,188)	$8,645	$(10,767)
Basic income (loss) per Common Share:				

Continuing operations	$(0.07)	$(0.10)	$(0.12)	$(0.13)
Discontinued operations	0.08	0.04	0.18	0.05
	$0.01	$(0.06)	$0.06	$(0.08)
Diluted income (loss) per Common Share:				
Continuing operations	$(0.07)	$(0.10)	$(0.12)	$(0.13)
Discontinued operations	0.08	0.04	0.18	0.05
	$0.01	$(0.06)	$0.06	$(0.08)
Basic weighted average shares outstanding	143,300,637	135,342,538	143,060,796	134,962,093
Diluted weighted average shares outstanding	143,300,637	135,342,538	143,060,796	134,962,093
Net income (loss) attributable to Brandywine Realty Trust				
Loss from continuing operations	$(3,978)	$(11,537)	$(10,172)	$(13,775)
Income from discontinued operations	10,749	5,468	26,145	7,267
Net income (loss)	$6,771	$(6,069)	$15,973	$(6,508)

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$6,802	$(6,234)	$16,138	$(6,724)
Comprehensive income (loss):				
Unrealized loss on derivative financial instruments	(10,650)	—	(10,623)	(613)
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	76	51	124	74
Unrealized loss on available-for-sale securities	(65)	—	(65)	—
Total comprehensive income (loss)	(10,639)	51	(10,564)	(539)
Comprehensive income (loss)	(3,837)	(6,183)	5,574	(7,263)
Comprehensive (income) loss attributable to non-controlling interest	163	164	29	226
Comprehensive income (loss) attributable to Brandywine Realty Trust	$(3,674)	$(6,019)	$5,603	$(7,037)

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY
For the Six -Month Periods Ended June 30, 2012 and 2011
(unaudited, in thousands, except number of shares)
June 30, 2012

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumula Other Comprehe Income (Loss)
BALANCE, December 31, 2011	4,300,000	$43	142,690,755	—	292,646	$1,424	$2,776,197	$—	$5,631	$(5,631)	$477,338	$(6,079
Net income											15,973	
Comprehensive loss												(10,370
Issuance of Preferred Shares	4,000,000	40					96,810					
Preferred Share Issuance Costs							(610)					
Redemption of Preferred Shares	(2,000,000)	(20)					(47,890)					
Conversion of LP Units to Common Shares			20,464			—	149				(45)	
Bonus Share Issuance			35,703				387					
Vesting of Restricted Shares			280,851		9,036	3	(1,295)					
Restricted Share Amortization							1,426					
Vesting of Restricted Performance Units			249,797			3	(1,332)					
Restricted Performance Units Amortization							1,205					
Exercise of Share Options			94,429			1	274					
Share Option Amortization							747					
Share Issuance from/to			(5,389)		(8,560)				(195)	195		

Deferred Compensation Plan												
Trustee Fees Paid in Shares			1,336			—	15					
Adjustment to Non-controlling Interest							392					
Preferred Share distributions												
Preferred Share redemption charges												
Distributions declared ($0.30 per share)												
BALANCE, June 30, 2012	6,300,000	$63	143,367,946	—	293,122	$1,431	$2,826,475	$—	$5,436	$(5,436)	$493,266	$(16,449)

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June 30, 2011

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumul Earnin
BALANCE, December 31, 2010	4,300,000	$43	134,601,796	116,679	291,281	$1,343	$2,671,217	$(3,074)	$5,774	$(5,774)	$483,4
Net loss											(6,508
Comprehensive loss											
Issuance of Common Shares of Beneficial Interest			679,285			7	8,265				
Equity issuance costs							(234)				
Conversion of LP Units to Common Shares			92,992			1	1,098				
Bonus Share Issuance				(463)	463			12	5	(5)	(6
Vesting of Restricted Shares			85,248	(116,216)	9,043	1	(1,820)	3,062			(1,598
Restricted Share Amortization							1,519				
Restricted Performance Units Amortization							780				
Exercise of Share Options			76,887			1	428				
Share Option Amortization							728				
Outperformance Plan Amortization							109				
Share Issuance from/to Deferred Compensation Plan			(487)		(4,935)		(16)		(42)	42	
Share Choice Plan Issuance			(1,684)				(55)				

Trustees Fees Paid in Shares			2,672				32				
Adjustment to Non-controlling Interest							2,679				
Preferred Share distributions											
Distributions declared ($0.30 per share)											
BALANCE, June 30, 2011	4,300,000	$43	135,536,709	—	295,852	$1,353	$2,684,730	$—	$5,737	$(5,737)	$475,3

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six-month periods ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$16,138	$(6,724)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	101,624	109,776
Amortization of deferred financing costs	2,572	1,998
Amortization of debt discount/(premium), net	745	529
Amortization of stock compensation costs	2,433	3,063
Shares used for employee taxes upon vesting of share awards	(2,234)	(1,012)
Straight-line rent income	(12,861)	(9,447)
Amortization of acquired above (below) market leases to rental revenue, net	(2,922)	(2,636)
Straight-line ground rent expense	949	975
Provision for doubtful accounts	962	689
Real estate venture income in excess of distributions	(590)	(1,618)
Net gain on sale of interests in real estate	(24,834)	(6,627)
Loss on early extinguishment of debt	1,498	756
Changes in assets and liabilities:		
Accounts receivable	3,561	2,063
Other assets	5,260	2,231
Accounts payable and accrued expenses	(11,546)	(4,500)
Deferred income, gains and rent	(2,871)	(5,048)
Deferred financing obligation	(825)	—
Other liabilities	(1,438)	3,874
Net cash from operating activities	75,621	88,342
Cash flows from investing activities:		
Acquisition of properties	(9,226)	(22,032)
Investments in available-for-sale securities	(98,744)	—
Proceeds from the sale of available-for-sale securities	56,322	—
Sales of properties, net	120,957	5,639
Proceeds from repayment of mortgage notes receivable	23,931	—
Capital expenditures	(51,701)	(67,768)
Advances for purchase of tenant assets, net of repayments	283	(386)
Loan provided to an unconsolidated Real Estate Venture partner	—	(1,045)
Investment in unconsolidated Real Estate Ventures	(18,617)	—
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	1,723	3,063
Leasing costs	(14,940)	(14,724)
Net cash from (used in) investing activities	9,988	(97,253)
Cash flows from financing activities:		
Proceeds from New Unsecured Term Loans	600,000	—
Proceeds from Credit Facility	21,500	181,500
Repayments of Credit Facility	(297,000)	(322,500)
Repayments of mortgage notes payable	(6,028)	(122,204)
Proceeds from unsecured notes	—	321,498

Deferred financing obligation non-cash interest expense	468	—
Net proceeds from issuance of common shares	—	8,069
Net proceeds from issuance of preferred shares	96,240	—
Redemption of preferred shares	(50,188)	—
Repayments of unsecured notes	(167,371)	(23,931)
Repayments of unsecured term loan	(37,500)	—
Net settlement of hedge transactions	(74)	(613)
Debt financing costs	(8,431)	(3,662)
Exercise of stock options	276	429
Distributions paid to shareholders	(47,059)	(44,669)
Distributions to noncontrolling interest	(797)	(838)
Net cash from (used in) financing activities	104,036	(6,921)
Increase (decrease) in cash and cash equivalents	189,645	(15,832)
Cash and cash equivalents at beginning of period	410	16,565
Cash and cash equivalents at end of period	$190,055	$733
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2012 and 2011 of $1,207 and $859, respectively	$69,480	$67,098
Supplemental disclosure of non-cash activity:		
Change in capital expenditures financed through accounts payable at period end	(1,735)	903
Change in capital expenditures financed through retention payable at period end	56	(5,500)
Change in unfunded tenant allowance	(1,144)	514

The accompanying notes are an integral part of these consolidated financial statements

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BRANDYWINE OPERATING PARTNERSHIP, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit and per unit information)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Real estate investments:		
Operating properties	$4,639,047	$4,793,080
Accumulated depreciation	(897,367)	(865,710)
Operating real estate investments, net	3,741,680	3,927,370
Construction-in-progress	57,420	25,083
Land inventory	109,564	109,008
Total real estate investments, net	3,908,664	4,061,461
Cash and cash equivalents	190,055	410
Available-for-sale securities	42,072	—
Accounts receivable, net	11,445	14,718
Accrued rent receivable, net	113,380	108,101
Assets held for sale, net	41,450	—
Investment in real estate ventures, at equity	133,292	115,807
Deferred costs, net	114,920	115,362
Intangible assets, net	57,927	70,515
Notes receivable	7,226	18,186
Other assets	48,739	53,158
Total assets	$4,669,170	$4,557,718
LIABILITIES AND EQUITY		
Mortgage notes payable	$505,214	$511,061
Unsecured credit facility	—	275,500
Unsecured term loans	600,000	37,500
Unsecured senior notes, net of discounts	1,404,627	1,569,934
Accounts payable and accrued expenses	57,653	69,929
Distributions payable	24,889	23,895
Deferred income, gains and rent	95,390	99,569
Acquired lease intangibles, net	31,526	35,106
Other liabilities	55,264	45,528
Liabilities related to assets held for sale	878	—
Total liabilities	2,775,441	2,668,022
Commitments and contingencies (Note 17)		
Redeemable limited partnership units at redemption value; 2,657,721 and 2,698,648 issued and outstanding in 2012 and 2011, respectively	40,106	38,370
Brandywine Operating Partnership, L.P.'s equity:		
7.50% Series D Preferred Mirror Units; issued and outstanding- 0 in 2012 and 2,000,000 in 2011	—	47,912
7.375% Series E Preferred Mirror Units; issued and outstanding- 2,300,000 in 2012 and 2011, respectively	55,538	55,538
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 4,000,000 in 2012 and 0 in 2011	96,850	—
	1,717,657	1,754,302

General Partnership Capital, 143,367,946 and 142,690,755 units issued in 2012 and 2011, respectively and 143,367,946 and 142,690,755 units outstanding in 2012 and 2011, respectively		
Accumulated other comprehensive loss	(16,422)	(6,426)
Total Brandywine Operating Partnership, L.P.'s equity	1,853,623	1,851,326
Total liabilities and partners' equity	$4,669,170	$4,557,718

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE OPERATING PARTNERSHIP, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except unit and per unit information)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2012	2011	2012	2011
Revenue:				
Rents	$115,032	$114,995	$229,271	$230,328
Tenant reimbursements	18,605	18,237	37,613	40,177
Termination fees	101	1,948	1,591	2,516
Third party management fees, labor reimbursement and leasing	2,872	2,733	6,014	5,486
Other	966	1,336	2,498	2,359
Total revenue	137,576	139,249	276,987	280,866
Operating Expenses:				
Property operating expenses	37,906	39,115	77,363	83,235
Real estate taxes	14,134	13,786	28,228	27,495
Third party management expenses	1,264	1,506	2,514	3,016
Depreciation and amortization	49,331	55,710	98,880	105,214
General & administrative expenses	6,079	5,890	12,129	12,134
Total operating expenses	108,714	116,007	219,114	231,094
Operating income	28,862	23,242	57,873	49,772
Other Income (Expense):				
Interest income	1,841	421	2,324	862
Interest expense	(32,981)	(34,738)	(67,125)	(67,131)
Interest expense — amortization of deferred financing costs	(1,261)	(1,070)	(2,572)	(1,998)
Interest expense — financing obligation	(196)	—	(378)	—
Equity in income of real estate ventures	838	1,088	882	2,321
Net gain on sale of interests in real estate	—	—	—	2,791
Loss on early extinguishment of debt	(1,250)	(756)	(1,498)	(756)
Loss from continuing operations	(4,147)	(11,813)	(10,494)	(14,139)
Discontinued operations:				
Income from discontinued operations	783	1,743	1,798	3,579
Net gain on disposition of discontinued operations	10,166	3,836	24,834	3,836
Total discontinued operations	10,949	5,579	26,632	7,415
Net income (loss)	6,802	(6,234)	16,138	(6,724)
Distribution to Preferred Units	(3,049)	(1,998)	(5,047)	(3,996)
Preferred unit redemption charge	(2,090)	—	(2,090)	—
Amount allocated to unvested restricted unitholders	(95)	(121)	(191)	(263)
Net income (loss) attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$1,568	$(8,353)	$8,810	$(10,983)
Basic income (loss) per Common Partnership Unit:				
Continuing operations	$(0.06)	$(0.10)	$(0.12)	$(0.13)
Discontinued operations	0.07	0.04	0.18	0.05
	$0.01	$(0.06)	$0.06	$(0.08)
Diluted income (loss) per Common Partnership Unit:				
Continuing operations	$(0.06)	$(0.10)	$(0.12)	$(0.13)
Discontinued operations	0.07	0.04	0.18	0.05

	$0.01	$(0.06)	$0.06	$(0.08)
Basic weighted average common partnership units outstanding	145,958,358	145,220,765	145,721,890	144,852,515
Diluted weighted average common partnership units outstanding	145,958,358	145,220,765	145,721,890	144,852,515
Net income (loss) attributable to Brandywine Operating Partnership, L.P.				
Loss from continuing operations	$(4,147)	$(11,813)	$(10,494)	$(14,139)
Income from discontinued operations	10,949	5,579	26,632	7,415
Net income (loss)	$6,802	$(6,234)	$16,138	$(6,724)

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE OPERATING PARTNERSHIP, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$6,802	$(6,234)	$16,138	$(6,724)
Comprehensive income (loss):				
Unrealized loss on derivative financial instruments	(10,650)	—	(10,623)	(613)
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	76	51	124	74
Unrealized loss on available-for-sale securities	(65)	—	(65)	—
Total comprehensive income (loss)	(10,639)	51	(10,564)	(539)
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$(3,837)	$(6,183)	$5,574	$(7,263)

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE OPERATING PARTNERSHIP L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six-month periods ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$16,138	$(6,724)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	101,624	109,776
Amortization of deferred financing costs	2,572	1,998
Amortization of debt discount/(premium), net	745	529
Amortization of stock compensation costs	2,433	3,063
Shares used for employee taxes upon vesting of share awards	(2,234)	(1,012)
Straight-line rent income	(12,861)	(9,447)
Amortization of acquired above (below) market leases, net	(2,922)	(2,636)
Straight-line ground rent expense	949	975
Provision for doubtful accounts	962	689
Real estate venture income in excess of distributions	(590)	(1,618)
Net gain on sale of interests in real estate	(24,834)	(6,627)
Loss on early extinguishment of debt	1,498	756
Changes in assets and liabilities:		
Accounts receivable	3,561	2,063
Other assets	5,260	2,231
Accounts payable and accrued expenses	(11,546)	(4,500)
Deferred income, gains and rent	(2,871)	(5,048)
Deferred financing obligation	(825)	—
Other liabilities	(1,438)	3,874
Net cash from operating activities	75,621	88,342
Cash flows from investing activities:		
Acquisition of properties	(9,226)	(22,032)
Investments in available-for-sale securities	(98,744)	—
Proceeds from available-for-sale securities	56,322	—
Sales of properties, net	120,957	5,639
Proceeds from repayment of mortgage notes receivable	23,931	—
Capital expenditures	(51,701)	(67,768)
Advances for purchase of tenant assets, net of repayments	283	(386)
Loan provided to unconsolidated real estate venture partner	—	(1,045)
Investment in unconsolidated Real Estate Ventures	(18,617)	—
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	1,723	3,063
Leasing costs	(14,940)	(14,724)
Net cash from (used in) investing activities	9,988	(97,253)
Cash flows from financing activities:		
Proceeds from New Unsecured Term Loans	600,000	—
Proceeds from Credit Facility borrowings	21,500	181,500
Repayments of Credit Facility borrowings	(297,000)	(322,500)
Repayments of mortgage notes payable	(6,028)	(122,204)
Proceeds from unsecured notes	—	321,498

Deferred financing obligation non-cash interest expense	468	—
Net proceeds from issuance of common units	—	8,069
Net proceeds from issuance of preferred units	96,240	—
Redemption of preferred units	(50,188)	—
Repayments of unsecured notes	(167,371)	(23,931)
Repayments of unsecured term loan	(37,500)	—
Net settlement of hedge transactions	(74)	(613)
Debt financing costs	(8,431)	(3,662)
Exercise of stock options	276	429
Distributions paid to preferred and common partnership unitholders	(47,856)	(45,507)
Net cash from (used in) financing activities	104,036	(6,921)
Increase (decrease) in cash and cash equivalents	189,645	(15,832)
Cash and cash equivalents at beginning of period	410	16,565
Cash and cash equivalents at end of period	$190,055	$733
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended June 30, 2012 and 2011 of $1,207 and $859, respectively	$69,480	$67,098
Supplemental disclosure of non-cash activity:		
Change in capital expenditures financed through accounts payable at period end	(1,735)	903
Change in capital expenditures financed through retention payable at period end	56	(5,500)
Change in unfunded tenant allowance	(1,144)	514

The accompanying notes are an integral part of these consolidated financial statements.

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BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust ("REIT") that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office and industrial properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2012, owned a 98.2% interest in the Operating Partnership. The Parent Company's common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol "BDN".

As of June 30, 2012, the Company owned 230 properties, consisting of 204 office properties, 20 industrial facilities, five mixed-use properties and one development property (collectively, the "Properties") containing an aggregate of approximately 24.9 million net rentable square feet. In addition, as of June 30, 2012, the Company owned economic interests in 18 unconsolidated real estate ventures that contain approximately 6.5 million net rentable square feet (collectively, the "Real Estate Ventures"). As of June 30, 2012, the Company also owned 444 acres of undeveloped land, and held options to purchase approximately 52 additional acres of undeveloped land. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern and Central New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland, Concord, Carlsbad and Rancho Bernardo, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 2012, the management company subsidiaries were managing properties containing an aggregate of approximately 32.3 million net rentable square feet, of which approximately 24.9 million net rentable square feet related to Properties owned by the Company and approximately 7.4 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial statements. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of June 30, 2012, the results of its operations for the three and six-month periods ended June 30, 2012 and 2011 and its cash flows for the six-month periods ended June 30, 2012 and 2011 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company's and the Operating Partnership's consolidated financial statements and footnotes included in their combined 2011 Annual Report on Form 10-K filed with the SEC on February 24, 2012.

Reclassifications

Certain amounts have been reclassified in prior years to conform to the current year presentation. The reclassifications are primarily due to the treatment of sold properties as discontinued operations on the statement of operations for all periods presented.

Principles of Consolidation

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity ("VIE"), and if the Company is deemed to be the primary beneficiary, in accordance with the accounting standard for the consolidation of variable interest entities. The accounting standard for the consolidation of VIEs requires the Company to qualitatively assess if the Company was the primary beneficiary of

the VIEs based on whether the Company had (i) the power to direct those matters that most significantly impacted the activities of the VIE and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For entities that the Company has determined to be VIEs but for which it is not the primary beneficiary, its maximum exposure to loss is the carrying amount of its investments, as the Company has not provided any guarantees other than the guarantee described for PJP VII which was

approximately $0.7 million at June 30, 2012 (see Note 4). Also, for all entities determined to be VIEs, the Company does not provide financial support to the real estate ventures through liquidity arrangements, guarantees or other similar commitments. When an entity is not deemed to be a VIE, the Company considers the provisions of the same accounting standard to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs and controlled by the Company and in which the limited partners neither have the ability to dissolve the entity or remove the Company without cause nor any substantive participating rights. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company's share of earnings or losses, plus contributions, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary, (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence, and (iii) entities that are non-VIEs that the Company controls through its general partner status, but the limited partners in the entity have the substantive ability to dissolve the entity or remove the Company without cause or have substantive participating rights. The Company continuously assesses its determination of whether an entity is a VIE and who the primary beneficiary is, and whether or not the limited partners in an entity have substantive rights, more particularly if certain events occur that are likely to cause a change in the original determinations. The Company's assessment includes a review of applicable documents such as, but not limited, to applicable partnership agreements, real estate venture agreements, LLC agreements, and management and leasing agreements to determine whether the Company has control to direct the business activities of the entities. The portion of the entities that are consolidated but not owned by the Company is presented as non-controlling interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Management makes significant estimates regarding revenue, valuation of real estate and related intangible assets and liabilities, impairment of long-lived assets, allowance for doubtful accounts and deferred costs.

Operating Properties

Operating properties are carried at historical cost less accumulated depreciation and impairment losses. The cost of operating properties reflects their purchase price or development cost. Acquisition related costs are expensed as incurred. Costs incurred for the renovation and betterment of an operating property are capitalized to the Company's investment in that property. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives. Fully-depreciated assets are removed from the accounts.

Purchase Price Allocation

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on fair values. Above-market and below-market in-place lease values for acquired properties are recorded 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) the Company's estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease (including the below market fixed renewal period, if applicable). Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. Capitalized below-market lease values are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases, including any below market fixed-rate renewal periods. Other intangible assets also include amounts representing the value of tenant relationships and in-place leases based on the Company's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. The Company generally estimates the cost to execute leases with terms similar to the

remaining lease terms of the in-place leases, including leasing commissions, legal and other related expenses. This intangible asset is generally amortized to expense over the remaining term of the respective leases and any fixed-rate bargain renewal periods. Company estimates of value are made using methods similar to those used by independent appraisers or by using independent appraisals. Factors considered by the Company in this analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months. 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

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assets acquired. The Company also uses the information obtained as a result of its pre-acquisition due diligence as part of its consideration of the accounting standard governing asset retirement obligations, and, when necessary, will record a conditional asset retirement obligation as part of its purchase price.

Characteristics considered by the Company in allocating value to its tenant relationships include the nature and extent of the Company's business relationship 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 value of tenant relationship intangibles is generally amortized over the remaining initial lease term and expected renewals, but in no event longer than the remaining depreciable life of the building. The value of in-place leases is generally amortized over the remaining non-cancelable term of the respective leases and any fixed-rate renewal periods.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including in-place lease values and tenant relationship values, would be charged to expense and market rate adjustments (above or below) would be recorded to revenue.

Impairment or Disposal of Long-Lived Assets

The accounting standard for property, plant and equipment provides a single accounting model for long-lived assets classified as held-for-sale; defines the scope of businesses to be disposed of that qualify for reporting as discontinued operations; and affects the timing of recognizing losses on such operations.

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the long-lived asset's use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a long-lived asset, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair-value of the property. The Company is required to make subjective assessments as to whether there are impairments in the values of the investments in long-lived assets. These assessments have a direct impact on its net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Although the Company's strategy is generally to hold its properties over the long-term, the Company will selectively dispose of properties for strategic needs. If the Company's strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized to reduce the property to the lower of the carrying amount or fair value less costs to sell, and such loss could be material. If the Company determines that impairment has occurred and the assets are classified as held and used, the affected assets must be reduced to their fair-value.

Where properties have been identified as having a potential for sale, additional judgments are required related to the determination as to the appropriate period over which the undiscounted cash flows should include the operating cash flows and the amount included as the estimated residual value. Management determines the amounts to be included based on a probability weighted cash flow. This requires significant judgment. In some cases, the results of whether an impairment is indicated are sensitive to changes in assumptions input into the estimates, including the hold period until expected sale.

The Company determined during its impairment review for the three and six-month periods ended June 30, 2012 and 2011, that no impairment charges were necessary.

The Company entered into development agreements related to two parcels of land under option for ground lease that require the Company to commence development by December 31, 2012. If the Company determines that construction cannot be started by the specified date, or that it is not in the Company's best economic interest to develop either parcel or negotiate an extension of the development period, the Company will then write off the parcel-specific costs that it has incurred in preparing these parcels of land for development, as it will have lost its rights under the ground lease. These costs, amounting to $7.9 million as of June 30, 2012, would have to be written-off in the period that it is determined that the development would not be commenced and an extension cannot be negotiated.

Investments in Unconsolidated Real Estate Ventures

The Company accounts for its investments in unconsolidated Real Estate Ventures under the equity method of accounting as it is not the primary beneficiary (for VIEs) and the Company exercises significant influence, but does not control these entities under the provisions of the entities' governing agreements pursuant to the accounting standard for the consolidation of VIEs.

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Under the equity method, investments in unconsolidated joint ventures are recorded initially at cost, as investments in Real Estate Ventures, and subsequently adjusted for equity in earnings, cash contributions, less distributions and impairments. On a periodic basis, management also assesses whether there are any indicators that the value of the Company's investments in unconsolidated Real Estate Ventures may be other than temporarily impaired. An investment is impaired only if the value of the investment, as estimated by management, is less than the carrying value of the investment and the decline is other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the value of the investment, as estimated by management. The determination as to whether an impairment exists requires significant management judgment about the fair value of its ownership interest. Fair value is determined through various valuation techniques, including but not limited to, discounted cash flow models, quoted market values and third party appraisals.

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases. The straight-line rent adjustment increased revenue by approximately $5.3 million and $11.6 million for the three and six-month periods ended June 30, 2012, and approximately $4.1 million and $8.3 million for the three and six-month periods ended June 30, 2011, respectively. Deferred rents on the balance sheet represent rental revenue received prior to their due dates and amounts paid by the tenant for certain improvements considered to be landlord assets that will remain as the Company's property at the end of the tenant's lease term. The amortization of the amounts paid by the tenant for such improvements is calculated on a straight-line basis over the term of the tenant's lease and is a component of straight-line rental income and increased revenue by $0.6 million and $1.2 million for the three and six-month periods ended June 30, 2012, and by $0.6 million and $1.2 million for the three and six-month periods ended June 30, 2011, respectively. Lease incentives, which are included as reductions of rental revenue in the accompanying consolidated statements of operations, are recognized on a straight-line basis over the term of the lease. Lease incentives decreased revenue by $0.1 million and $0.5 million for the three and six-month periods ended June 30, 2012, and by $0.4 million and $0.6 million for the three and six-month periods ended June 30, 2011, respectively. Leases also typically provide for tenant reimbursement of a portion of common area maintenance and other operating expenses to the extent that a tenant's pro rata share of expenses exceeds a base year level set in the lease or to the extent that the tenant has a lease on a triple net basis. For certain leases, significant assumptions and judgments are made by the Company in determining the lease term such as when termination options are provided to the tenant. The lease term impacts the period over which minimum rents are determined and recorded and also considers the period over which lease related costs are amortized. Termination fees received from tenants, bankruptcy settlement fees, third party management fees, labor reimbursement and leasing income are recorded when earned.

Stock-Based Compensation Plans

The Parent Company maintains a shareholder-approved equity-incentive plan known as the Amended and Restated 1997 Long-Term Incentive Plan (the "1997 Plan"). The 1997 Plan is administered by the Compensation Committee of the Parent Company's Board of Trustees. Under the 1997 Plan, the Compensation Committee is authorized to award equity and equity-based awards, including incentive stock options, non-qualified stock options, restricted shares and performance-based shares. On June 2, 2010, the Parent Company's shareholders approved amendments to the 1997 Plan that, among other things, increased the number of common shares available for future awards under the 1997 Plan by 6,000,000 (of which 3,600,000 shares are available solely for options and share appreciation rights). As of June 30, 2012, 5,272,017 common shares remained available for future awards under the 1997 Plan (including 4,108,336 shares available solely for options and share appreciation rights). Through June 30, 2012, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $1.9 million and $3.6 million during the three and six-month periods ended June 30, 2012, of which $0.5 million and $0.9 million, respectively, were capitalized as part of the Company's review of employee salaries eligible for capitalization. The Company incurred stock-based compensation expense of $1.6 million and $3.3 million during the three and six-month periods ended June 30, 2011, of which $0.4 million and $0.7 million, respectively, were also capitalized. The expensed amounts are included in

general and administrative expense on the Company's consolidated income statement in the respective periods.

Accounting for Derivative Instruments and Hedging Activities

The Company accounts for its derivative instruments and hedging activities in accordance with the accounting standard for derivative and hedging activities. The accounting standard requires the Company to measure every derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record them in the balance sheet as either an asset or liability. See disclosures below related to the accounting standard for fair value measurements and disclosures.

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For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in other comprehensive income while the ineffective portions are recognized in earnings.
The Company actively manages its ratio of fixed-to-floating rate debt. To manage its fixed and floating rate debt in a cost-effective manner, the Company, from time to time, enters into interest rate swap agreements as cash flow hedges, under which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts.
Fair Value Measurements
The Company estimates the fair value of its outstanding available-for-sale securities, certificates of deposit and derivatives in accordance with the accounting standard for fair value measurements and disclosures. The accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Financial assets and liabilities recorded on the Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 inputs are inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity or information.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.
The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2012 (in thousands):

	Fair Value Measurements at Reporting Date Using:			
	June 30,	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs
Description	2012	(Level 1)	(Level 2)	(Level 3)
Recurring				
Assets:				
Available-for-Sale Securities	$42,072	$42,072	$—	$—
Liabilities:				
Interest Rate Swaps	$14,519	$—	$14,519	$—

The following table sets forth the Company's financial liabilities that were accounted for at fair value on a recurring basis as of December 31, 2011 (in thousands):

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	Fair Value Measurements at Reporting Date Using:			
Description	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring Liabilities:				
Interest Rate Swaps	$3,886	$—	$3,886	$—

We classify our interest rate swaps, shown above, within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Non-financial assets and liabilities recorded at fair value on a non-recurring basis to which the Company would apply the accounting standard where a measurement was required under fair value would include:

- Non-financial assets and liabilities initially measured at fair value in an acquisition or business combination that are not remeasured at least quarterly at fair value,
- Long-lived assets measured at fair value due to an impairment in accordance with the accounting standard for the impairment or disposal of long-lived assets,
- Equity and cost method investments measured at fair value due to an impairment in accordance with the accounting standard for investments,
- Notes receivable adjusted for any impairment in its value in accordance with the accounting standard for loan receivables, and
- Asset retirement obligations initially measured at fair value under the accounting standard for asset retirement obligations.

There were no items that were accounted for at fair value on a non-recurring basis for the six months ended June 30, 2012.

Available-for-sale securities and transfers of held-to-maturity securities

On March 23, 2012, the Company acquired a $50.0 million tranche of Banco Santander Chile Senior Notes, with $0.2 million premium paid for the debt securities and $0.5 million of accrued interest income. On the acquisition date, the bonds were designated by the Company as held-to-maturity securities, based upon the nature of the transaction, the Company's intention and ability to hold the securities to maturity, and other applicable guidance surrounding prepayment risk, liquidity needs, yield on alternative investments and other factors associated with the accounting standard for certain investments in debt and equity securities. The securities earn interest income at a rate of 2.875% annually, and are scheduled to mature on November 13, 2012. Throughout the second quarter of 2012, the Company sold $20.0 million of these securities, recognizing a nominal loss associated with the sale. This transaction was completed after determining that a strategy of liquidation was in the Company's best interest.

Subsequent to the above sales transaction, the Company transferred its entire remaining portfolio of held-to-maturity securities, as well as any investments made during the second quarter of 2012, to a designation of available-for-sale, consistent with the requirements of the accounting standard for the classification of debt and equity securities. Please refer to the Fair Value Measurements section for further discussion.

The following table sets forth the fair value of the available-for-sale securities held by the Company as of June 30, 2012 (in thousands):

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Available-for-sale securities (a)	$42,142	$(70)	$42,072

(a) The Company's available-for-sale securities at June 30, 2012 include securities with maturity dates ranging from September 1, 2012 to November 13, 2012, with related interest rates ranging from 2.875% to 5.450%.

The Company did not hold any available-for-sale or held-to-maturity securities as of December 31, 2011.

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The following table sets forth the details of the previously designated held-to-maturity securities sold during the second quarter of 2012 (in thousands):

	Held-to-Maturity Securities Sold		
	Cash Received	Principal Amount	Loss
Banco Santander Chile Senior Notes	$20,009	$20,042	$(33)

Notes Receivable

As of June 30, 2012, notes receivable included a $7.2 million purchase money mortgage with a 20 year amortization period that bears interest at 8.5%.

As of December 31, 2011, notes receivable included a $7.2 million purchase money mortgage with a 20 year amortization period that bears interest at 8.5%, a $0.5 million loan (due in 2015) that bears interest at 10%, and a $23.4 million (including accrued but unpaid interest) seven year purchase money mortgage (due 2016) that bears interest at approximately 6% cash pay/7.64% accrual.

During the current quarter, the $23.5 million note receivable (balance as of the payment date, including accrued but unpaid interest), which related to the 2009 sale of two Trenton properties, was paid, in full, prior to its scheduled maturity of October 2016. The Company also recognized a $12.9 million deferred gain and $1.0 million of interest income at the time of payment, in accordance with the accounting standard for installment sales.

During the current quarter, the $0.3 million loan (balance as of the payment date) bearing interest at 10% was also paid in full. This loan was previously due in 2015 before being paid in full.

The Company periodically assesses the collectability of the notes receivable in accordance with the accounting standard for loan receivables. The Company's $7.2 million outstanding purchase money mortgage note mentioned above was extended to a buyer (the "Borrower") of a parcel of land in Newtown, Pennsylvania in December 2006. During 2011, the Borrower, who is developing a residential community, defaulted on the note and as a result, a forbearance agreement was entered into between the Company and the Borrower. The Borrower also entered into another forbearance agreement with a third party senior creditor bank related to the senior creditor's loan. The forbearance agreement between the Company and the Borrower outlined the repayment terms of the outstanding debt and the payment of accrued interest by the Borrower and included, among other things, the metrics for selling and settling on home sales over an agreed period of time. With the inherent credit risk in collecting interest from the note, as provided in the forbearance agreement, the Company has provided a full allowance for any accrued interest receivable. The Company has determined that the loan modification as discussed above represents a troubled debt restructuring since the Borrower was considered to be in a financial difficulty when it defaulted on the two mortgage debts and that a concession was granted in the form of the forbearance agreements. Construction has already recommenced, with loan repayments being paid to the senior creditor beginning in the first quarter of 2012. Loan repayments to the Company are scheduled to begin during 2013. In December of the prior year, the Borrower provided the Company and the third party senior creditor bank with expected future cash flows analysis showing its ability to meet its sales targets in 2012, with updates to the analysis being provided on a quarterly basis. The Company believes that, based on expected cash flows from the project and actual current year-to-date sales, the total note will be fully paid by 2015. The Company and the third party senior creditor bank allowed the Borrower to operate under the cash flow assumptions without amending the forbearance agreements. Given the current circumstances, the Company performed a collectability assessment of its note using the expected cash flow information provided by the Borrower and obtained third party documentation to support the assumptions used by the Borrower. The key assumptions used in the cash flow analysis included the revenue per home built; the cost to construct; the general and administrative expenses incurred to operate the business and sell homes; and the absorption assumptions used to determine the rate of home sales. The Company has determined based on the results of its probability weighted cash flow analysis that, as of June 30, 2012, the present value of the expected cash flows of the note receivable exceeded the outstanding balance of the note and therefore the note is recoverable as of June 30, 2012. However, it is still possible that due to further deterioration in the housing market, the Borrower will not meet its sales targets, and could cause a loan loss of the Company's note receivable which could be material to its consolidated results of operations.

Income Taxes

Parent Company

The Parent Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). In order to continue to qualify as a REIT, the Parent Company is required to, among other things, distribute at least 90% of its annual REIT taxable income to its shareholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Parent Company is not subject to federal and state income taxes with respect to the portion of

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its income that meets certain criteria and is distributed annually to its shareholders. Accordingly, no provision for federal and state income taxes is included in the accompanying consolidated financial statements with respect to the operations of the Parent Company. The Parent Company intends to continue to operate in a manner that allows it to meet the requirements for taxation as a REIT. If the Parent Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income taxes and may not be able to qualify as a REIT for the four subsequent tax years. The Parent Company is subject to certain local income taxes. Provision for such taxes has been included in general and administrative expenses in the Parent Company's Consolidated Statements of Operations and Comprehensive Income.

The Parent Company has elected to treat several of its subsidiaries as taxable REIT subsidiaries (each a "TRS"). A TRS is subject to federal, state and local income tax. In general, a TRS may perform non-customary services for tenants, hold assets that the Parent Company, as a REIT, cannot hold directly and generally may engage in any real estate or non-real estate related business.

Operating Partnership

In general, the Operating Partnership is not subject to federal and state income taxes, and accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The partners of the Operating Partnership are required to include their respective share of the Operating Partnership's profits or losses in their respective tax returns. The Operating Partnership's tax returns and the amount of allocable Partnership profits and losses are subject to examination by federal and state taxing authorities. If such examination results in changes to the Operating Partnership profits or losses, then the tax liability of the partners would be changed accordingly.

The Operating Partnership may elect to treat one or more of its subsidiaries as REITs under Sections 856 through 860 of the Code. Each subsidiary REIT has met the requirements for treatment as a REIT under Sections 856 through 860 of the Code, and, accordingly, no provision has been made for federal and state income taxes in the accompanying consolidated financial statements. If any subsidiary REIT fails to qualify as a REIT in any taxable year, that subsidiary REIT will be subject to federal and state income taxes and may not be able to qualify as a REIT for the four subsequent taxable years. Also, each subsidiary REIT may be subject to certain local income taxes.

The Operating Partnership has elected to treat several of its subsidiaries as taxable TRSs, which are subject to federal, state and local income tax.

Recent Accounting Pronouncements

In January 2012, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting standard for the presentation of comprehensive income. The amendment requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the amendment requires entities to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This amendment is effective for fiscal years and interim periods beginning after December 15, 2011. The Company's adoption of the new standard did not have a material impact on its consolidated financial position or results of operations as the amendment relates only to changes in financial statement presentation.

In January 2012, the FASB issued amendments to the accounting standard for fair value measurements and disclosures. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments are intended to create comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. These amendments are effective for fiscal years and interim periods beginning after December 15, 2011. The Company's adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

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3. REAL ESTATE INVESTMENTS

As of June 30, 2012 and December 31, 2011 the gross carrying value of the Company's Properties was as follows (in thousands):

	June 30, 2012	December 31, 2011
Land	$649,690	$677,891
Building and improvements	3,522,597	3,631,388
Tenant improvements	466,760	483,801
	$4,639,047	$4,793,080

Acquisitions

On January 6, 2012, the Company acquired a vacant office property containing 154,392 net rentable square feet in Plymouth Meeting, Pennsylvania known as 660 West Germantown Pike for $9.1 million. The Company is currently redeveloping this property. The Company funded the acquisition price through an advance under its Credit Facility, since repaid with available corporate funds. The Company also capitalized $0.1 million of acquisition related costs, in accordance with guidance on asset acquisitions.

Dispositions

On June 22, 2012, the Company sold Pacific Ridge Corporate Center, a 121,381 net rentable square feet, two-building office property located in Carlsbad, California, for a sales price of $29.0 million. The property was 83.7% occupied as of the sale date.

On March 22, 2012, the Company sold South Lake at Dulles Corner, a 268,240 net rentable square feet office property located in Herndon, Virginia, for a sales price of $91.1 million. The property was 100.0% occupied as of the date of sale.

On January 17, 2012, the Company sold 304 Harper Drive, a 32,978 net rentable square feet office property located in Moorestown, New Jersey, for a sales price of $3.0 million. The property was 90.1% occupied as of the date of sale.

Each of these three sales is included in discontinued operations (see Note 10).

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of June 30, 2012, the Company had an aggregate investment of approximately $133.3 million in 18 unconsolidated Real Estate Ventures. The Company formed or acquired interests in these ventures with unaffiliated third parties to develop or manage office properties or to acquire land in anticipation of possible development of office properties. As of June 30, 2012, 15 of the Real Estate Ventures owned 51 office buildings that contain an aggregate of approximately 6.5 million net rentable square feet; two Real Estate Ventures owned four acres of undeveloped parcels of land; and one Real Estate Venture developed a hotel property that contains 137 rooms in Conshohocken, PA.

The Company accounts for its unconsolidated interests in its Real Estate Ventures using the equity method. The Company's unconsolidated interests range from 20% to 65%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The amounts reflected in the following tables (except for the Company's share of equity and income) are based on the historical financial information of the individual Real Estate Ventures. The Company does not record operating losses of the Real Estate Ventures in excess of its investment balance unless the Company is liable for the obligations of the Real Estate Venture or is otherwise committed to provide financial support to the Real Estate Venture.

The following is a summary of the financial position of the Real Estate Ventures as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Net property	$840,292	$846,643
Other assets	113,449	110,520
Other liabilities	46,225	48,798
Debt	679,026	745,830
Equity	228,490	162,535
Company's share of equity (Company's basis)	133,292	115,807

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The following is a summary of results of operations of the Real Estate Ventures for the three and six-month periods ended June 30, 2012 and 2011 (in thousands):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
Revenue	$39,008	$32,722	$77,601	$72,398
Operating expenses	11,000	14,370	27,815	30,544
Interest expense, net	9,840	9,550	21,089	21,673
Depreciation and amortization	13,887	8,487	25,358	18,968
Net income (loss)	4,281	315	3,339	1,213
Company's share of income (Company's basis)	838	1,088	882	2,321

As of June 30, 2012, the Company had guaranteed repayment of approximately $0.7 million of loans on behalf of a Real Estate Venture. The Company, from time to time, also provides customary environmental indemnities in connection with construction and permanent financing both for its own account and on behalf of its Real Estate Ventures.

5. DEFERRED COSTS

As of June 30, 2012 and December 31, 2011, the Company's deferred costs were comprised of the following (in thousands):

	June 30, 2012		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$136,451	$(53,224)	$83,227
Financing Costs	40,800	(9,107)	31,693
Total	$177,251	$(62,331)	$114,920

	December 31, 2011		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$140,772	$(50,990)	$89,782
Financing Costs	38,929	(13,349)	25,580
Total	$179,701	$(64,339)	$115,362

During the three and six-month periods ended June 30, 2012, the Company capitalized internal direct leasing costs of $1.4 million and $2.7 million, respectively, and $1.7 million and $3.2 million during the three and six-month periods ended June 30, 2011, respectively, in accordance with the accounting standard for the capitalization of leasing costs.

6. INTANGIBLE ASSETS

As of June 30, 2012 and December 31, 2011, the Company's intangible assets were comprised of the following (in thousands):

	June 30, 2012		
	Total Cost	Accumulated Amortization	Intangible Assets, net
In-place lease value	$82,861	$(54,017)	$28,844
Tenant relationship value	67,414	(44,560)	22,854
Above market leases acquired	8,729	(2,500)	6,229
Total	$159,004	$(101,077)	$57,927
Below market leases acquired	$74,100	$(42,574)	$31,526

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	December 31, 2011		
	Total Cost	Accumulated Amortization	Intangible Assets, net
In-place lease value	$91,426	$(55,498)	$35,928
Tenant relationship value	72,813	(45,114)	27,699
Above market leases acquired	12,744	(5,856)	6,888
Total	$176,983	$(106,468)	$70,515
Below market leases acquired	$75,685	$(40,579)	$35,106

As of June 30, 2012, the Company’s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no early lease terminations):

	Assets	Liabilities
2012 (six months remaining)	$8,083	$3,321
2013	12,358	6,308
2014	9,549	4,741
2015	7,159	2,597
2016	4,526	1,704
Thereafter	16,252	12,855
Total	$57,927	$31,526

7. DEBT OBLIGATIONS

The following table sets forth information regarding the Company’s consolidated debt obligations outstanding at June 30, 2012 and December 31, 2011 (in thousands):

MORTGAGE DEBT:

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Property / Location	June 30, 2012		December 31, 2011		Effective Interest Rate			Maturity Date
Newtown Square/Berwyn Park/Libertyview	$55,713		$56,538		7.25	%		May-13
Southpoint III	1,511		1,887		7.75	%		Apr-14
Tysons Corner	94,045		94,882		5.36	%	(a)	Aug-15
Two Logan Square	89,687		89,800		7.57	%		Apr-16
Fairview Eleven Tower	22,000		22,000		4.25	%		Jan-17
IRS Philadelphia Campus	200,051		202,905		7.00	%		Sep-30
Cira South Garage	43,356		44,379		7.12	%		Sep-30
Principal balance outstanding	506,363		512,391					
Plus: fair market value premiums (discounts), net	(1,149	)	(1,330	)				
Total mortgage indebtedness	$505,214		$511,061					
UNSECURED DEBT:								
Former Term Loan	—		37,500		LIBOR + 0.80%		(b)	Feb-12
Former Revolving Credit Facility	—		275,500		LIBOR + 0.725%		(b)	Feb-12
New Revolving Credit Facility	—		—		LIBOR + 1.50%		(b)	Feb-16
Three-Year Term Loan - Swapped to fixed	150,000		—		2.60	%	(b)	Feb-15
Four-Year Term Loan - Swapped to fixed	150,000		—		2.88	%	(b)	Feb-16
Four-Year Term Loan - Variable	100,000		—		LIBOR + 1.75%		(b)	Feb-16
Seven-Year Term Loan - Swapped to fixed	200,000		—		3.62	%	(b)	Feb-19
$300.0M 5.750% Guaranteed Notes due 2012	—		151,491		5.73	%	(c)	Apr-12
$250.0M 5.400% Guaranteed Notes due 2014	238,379		242,681		5.53	%		Nov-14
$250.0M 7.500% Guaranteed Notes due 2015	217,239		227,329		7.77	%		May-15
$250.0M 6.000% Guaranteed Notes due 2016	250,000		250,000		5.95	%		Apr-16
$300.0M 5.700% Guaranteed Notes due 2017	300,000		300,000		5.75	%		May-17
$325.0M 4.950% Guaranteed Notes due 2018	325,000		325,000		5.14	%		Apr-18
Indenture IA (Preferred Trust I)	27,062		27,062		2.75	%		Mar-35
Indenture IB (Preferred Trust I)	25,774		25,774		3.30	%		Apr-35
Indenture II (Preferred Trust II)	25,774		25,774		3.09	%		Jul-35
Principal balance outstanding	2,009,228		1,888,111					
plus: original issue premium (discount), net	(4,601	)	(5,177	)				
Total unsecured indebtedness	$2,004,627		$1,882,934					
Total Debt Obligations	$2,509,841							