BRANDYWINE REALTY TRUST
Form 10-Q
May 04, 2011

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 March 31, 2011

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission file number
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 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, accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer 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 135,341,358 Common Shares of Beneficial Interest, par value $0.01 per share, were outstanding as of May 2, 2011.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2011 of Brandywine Realty Trust (the Parent Company) and Brandywine Operating Partnership (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 Compa or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2011, owned a 93.1% interest in the Operating Partnership. The remaining 6.9% 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 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.

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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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EX-101 DEFINITION LINKBASE DOCUMENT

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
(unaudited, in thousands, except share and per share information)

	March 31, 2011	December 31, 2010
ASSETS		
Real estate investments:		
Rental properties	$ 4,858,470	$ 4,834,111
Accumulated depreciation	(807,631)	(776,078)
Operating real estate investments, net	4,050,839	4,058,033
Construction-in-progress	37,220	33,322
Land inventory	119,901	110,055
Total real estate investments, net	4,207,960	4,201,410
Cash and cash equivalents	249	16,565
Accounts receivable, net	18,411	16,009
Accrued rent receivable, net	99,414	95,541
Investment in real estate ventures, at equity	83,706	84,372
Deferred costs, net	107,918	106,117
Intangible assets, net	92,124	97,462
Notes receivable	19,177	18,205
Other assets	57,760	54,697
Total assets	$ 4,686,719	$ 4,690,378
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	$ 707,634	$ 711,789
Borrowing under credit facilities	197,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,353,094	1,352,657
Accounts payable and accrued expenses	81,760	72,235
Distributions payable	22,699	22,623
Deferred income, gains and rent	115,605	121,552
Acquired below market leases, net	27,550	29,233
Other liabilities	40,657	36,515
Total liabilities	2,728,999	2,712,604
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-2,000,000 in 2011 and 2010, respectively	20	20
7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding-2,300,000 in 2011 and 2010, respectively	23	23

Common Shares of Brandywine Realty Trust s beneficial interest, $0.01 par value; shares authorized 200,000,000; 134,788,025 and 134,601,796 issued in 2011 and 2010, respectively and 134,759,179 and 134,485,117 outstanding in 2011 and 2010, respectively	1,345	1,343
Additional paid-in capital	2,673,151	2,671,217
Deferred compensation payable in common stock	5,633	5,774
Common shares in treasury, at cost, 28,846 and 116,679 in 2011 and 2010, respectively	(600)	(3,074)
Common shares in grantor trust, 295,852 in 2011 and 291,281 in 2010	(5,633)	(5,774)
Cumulative earnings	482,194	483,439
Accumulated other comprehensive loss	(2,524)	(1,945)
Cumulative distributions	(1,323,889)	(1,301,521)
Total Brandywine Realty Trust s equity	1,829,720	1,849,502
Non-controlling interests	128,000	128,272
Total equity	1,957,720	1,977,774
Total liabilities and equity	$ 4,686,719	$ 4,690,378

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

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

	For the three-month periods ended March 31, 2011	For the three-month periods ended March 31, 2010
Revenue:		
Rents	$ 121,011	$ 114,378
Tenant reimbursements	23,121	20,914
Termination fees	568	1,754
Third party management fees, labor reimbursement and leasing	2,753	3,467
Other	1,098	921
Total revenue	148,551	141,434
Operating Expenses:		
Property operating expenses	46,155	44,487
Real estate taxes	14,448	12,788
Third party management expenses	1,510	1,412
Depreciation and amortization	51,721	52,102
General and administrative expenses	6,244	6,092
Total operating expenses	120,078	116,881
Operating income	28,473	24,553
Other Income (Expense):		
Interest income	441	865
Interest expense	(32,393)	(31,524)
Interest expense amortization of deferred financing costs	(928)	(1,011)
Equity in income of real estate ventures	1,233	1,296
Net gain on sale of interests in real estate	2,791	
Loss on early extinguishment of debt		(1,192)
Loss from continuing operations	(383)	(7,013)
Discontinued operations:		
Income (loss) from discontinued operations	(107)	265
Net gain on disposition of discontinued operations		6,349
Total discontinued operations	(107)	6,614
Net loss	(490)	(399)
Net loss (income) from discontinued operations attributable to non-controlling interests LP units	2	(141)
Net loss attributable to non-controlling interests LP units	49	192
Net loss attributable to non-controlling interests	51	51

Net loss attributable to Brandywine Realty Trust		(439)		(348)
Distribution to Preferred Shares		(1,998)		(1,998)
Amount allocated to unvested restricted shareholders		(142)		(128)
Net loss attributable to Common Shareholders of Brandywine Realty Trust	$	(2,579)	$	(2,474)
Basic loss per Common Share:				
Continuing operations	$	(0.02)	$	(0.07)
Discontinued operations		(0.00)		0.05
	$	(0.02)	$	(0.02)
Diluted loss per Common Share:				
Continuing operations		(0.02)	$	(0.07)
Discontinued operations		(0.00)		0.05
	$	(0.02)	$	(0.02)
Basic weighted average shares outstanding		134,577,421		128,767,718
Diluted weighted average shares outstanding		134,577,421		128,767,718
Net loss attributable to Brandywine Realty Trust				
Loss from continuing operations	$	(334)	$	(6,821)
Income (loss) from discontinued operations		(105)		6,473
Net loss	$	(439)	$	(348)

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 March 31, 2011	2010
Net loss	$ (490)	$ (399)
Comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments	(613)	1,816
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	22	(15)
Total comprehensive income (loss)	(591)	1,801
Comprehensive income (loss)	(1,081)	1,402
Comprehensive loss attributable to non-controlling interest	63	13
Comprehensive income (loss) attributable to Brandywine Realty Trust	$ (1,018)	$ 1,415

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 Three-Month Periods Ended March 31, 2011 and 2010
(unaudited, in thousands, except number of shares)

March 31, 2011

r of ed s	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 Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
000	**$ 43**	**134,601,796**	**116,679**	**291,281**	**$ 1,343**	**$ 2,671,217**	**$ (3,074)**	**$ 5,774**	**$ (5,774)**	**$ 483,439**	**$ (1,945)**	**$ (1,301,521)**	
										(439)			
											(579)		
		188,400			2	2,303							
						(104)							
			(463)	463			12	5	(5)	(6)			
			(87,370)	9,043		(1,518)	2,462			(800)			
						806							
						330							
						344							
						54							
		(487)		(4,935)		(16)		(146)	146				

		(1,684)				(55)						
						(210)						
												(1,998)
												(20,370)
000	**$ 43**	**134,788,025**	**28,846**	**295,852**	**$ 1,345**	**$ 2,673,151**	**$ (600)**	**$ 5,633**	**$ (5,633)**	**$ 482,194**	**$ (2,524)**	**$ (1,323,889)**

CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY
March 31, 2010

r of red es	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 Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
000	**$ 43**	**128,849,176**	**251,764**	**255,700**	**$ 1,286**	**$ 2,610,421**	**$ (7,205)**	**$ 5,549**	**$ (5,549)**	**$ 501,384**	**$ (9,138)**	**$ (1,213,359**	
										(348)			
											1,763		
		1,325,200			13	16,421							
						(336)							
			(32,607)	32,607			871	369	(369)	(502)			
			(58,286)	8,989		(897)	1,816	103	(103)	(1,145)			
						745							

						154						
						190						
						124						
		(73)		(1,002)				(33)	33			
						(480)						
										1,439		
												(1,998
												(19,660
000	**$ 43**	**130,174,303**	**160,871**	**296,294**	**$ 1,299**	**$ 2,626,342**	**$ (4,518)**	**$ 5,988**	**$ (5,988)**	**$ 500,828**	**$ (7,375)**	**$ (1,235,017**

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

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

	Three-month periods ended March 31, 2011	2010
Cash flows from operating activities:		
Net loss	$ (490)	$ (399)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	51,721	52,566
Amortization of deferred financing costs	928	1,011
Amortization of debt discount/(premium), net	217	310
Straight-line rent income	(4,729)	(2,915)
Amortization of acquired above (below) market leases to rental revenue, net	(1,238)	(1,548)
Straight-line ground rent expense	501	370
Provision for doubtful accounts	367	1,309
Non-cash compensation expense	1,355	1,355
Real estate venture income in excess of distributions	(830)	(1,114)
Net gain on sale of interests in real estate	(2,791)	(6,349)
Loss on early extinguishment of debt		1,192
Cumulative interest accretion of repayments of unsecured notes		(1,586)
Changes in assets and liabilities:		
Accounts receivable	(263)	(795)
Other assets	(4,093)	(4,387)
Accounts payable and accrued expenses	15,314	6,424
Deferred income, gains and rent	(2,649)	(6,696)
Other liabilities	4,427	1,190
Net cash from operating activities	57,747	39,938
Cash flows from investing activities:		
Acquisition of properties	(22,032)	
Sales of properties, net		10,445
Capital expenditures	(33,787)	(52,132)
Advances for purchase of tenant assets, net of repayments	(2,318)	
Loan provided to an unconsolidated Real Estate Venture partner	(999)	
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	1,496	393
Decrease in cash due to the deconsolidation of variable interest entities		(1,382)
Leasing costs	(4,830)	(4,685)
Net cash used in investing activities	(62,470)	(47,361)
Cash flows from financing activities:		
Proceeds from Credit Facility borrowings	103,500	122,000
Repayments of Credit Facility borrowings	(89,500)	(54,000)
Repayments of mortgage notes payable	(3,913)	(2,303)
Repayments of unsecured notes		(46,479)

Net settlement of hedge transactions	(613)	
Debt financing costs	(556)	3
Net proceeds from issuance of shares	2,200	16,100
Distributions paid to shareholders	(22,292)	(21,454)
Distributions to noncontrolling interest	(419)	(421)
Net cash from (used in) financing activities	(11,593)	13,446
Increase (decrease) in cash and cash equivalents	(16,316)	6,023
Cash and cash equivalents at beginning of period	16,565	1,567
Cash and cash equivalents at end of period	$ 249	$ 7,590
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the quarter ended March 31, 2011 and 2010 of $380 and $3,245, respectively	$ 14,184	$ 13,551
Supplemental disclosure of non-cash activity:		
Change in capital expenditures financed through accounts payable at period end	(853)	(889)
Change in capital expenditures financed through retention payable at period end	(5,151)	2,520
Change in unfunded tenant allowance	(814)	411
Change in real estate investments due to the deconsolidation of variable interest entities		(37,126)
Change in mortgage notes payable due to the deconsolidation of variable interest entities		(42,877)

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

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

	March 31, 2011	December 31, 2010
ASSETS		
Real estate investments:		
Operating properties	$ 4,858,470	$ 4,834,111
Accumulated depreciation	(807,631)	(776,078)
Operating real estate investments, net	4,050,839	4,058,033
Construction-in-progress	37,220	33,322
Land inventory	119,901	110,055
Total real estate investments, net	4,207,960	4,201,410
Cash and cash equivalents	249	16,565
Accounts receivable, net	18,411	16,009
Accrued rent receivable, net	99,414	95,541
Investment in real estate ventures, at equity	83,706	84,372
Deferred costs, net	107,918	106,117
Intangible assets, net	92,124	97,462
Notes receivable	19,177	18,205
Other assets	57,760	54,697
Total assets	$ 4,686,719	$ 4,690,378
LIABILITIES AND EQUITY		
Mortgage notes payable	$ 707,634	$ 711,789
Borrowing under credit facilities	197,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,353,094	1,352,657
Accounts payable and accrued expenses	81,760	72,235
Distributions payable	22,699	22,623
Deferred income, gains and rent	115,605	121,552
Acquired below market leases, net	27,550	29,233
Other liabilities	40,657	36,515
Total liabilities	2,728,999	2,712,604
Commitments and contingencies (Note 17)		
Redeemable limited partnership units at redemption value; 9,902,752 issued and outstanding in 2011 and 2010, respectively	133,316	132,855
Brandywine Operating Partnership s equity:		
7.50% Series D Preferred Mirror Units; issued and outstanding- 2,000,000 in 2011 and 2010, respectively	47,912	47,912

7.375% Series E Preferred Mirror Units; issued and outstanding- 2,300,000 in 2011 and 2010, respectively	55,538	55,538
General Partnership Capital, 134,788,025 and 134,601,796 units issued in 2011 and 2010, respectively and 134,759,179 and 134,485,117 units outstanding in 2011 and 2010, respectively	1,723,627	1,743,549
Accumulated other comprehensive loss	(2,673)	(2,080)
Total Brandywine Operating Partnership s equity	1,824,404	1,844,919
Total liabilities and partners equity	$ 4,686,719	$ 4,690,378

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

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

	For the three-month periods ended March 31, 2011	2010
Revenue:		
Rents	$ 121,011	$ 114,378
Tenant reimbursements	23,121	20,914
Termination fees	568	1,754
Third party management fees, labor reimbursement and leasing	2,753	3,467
Other	1,098	921
Total revenue	148,551	141,434
Operating Expenses:		
Property operating expenses	46,155	44,487
Real estate taxes	14,448	12,788
Third party management expenses	1,510	1,412
Depreciation and amortization	51,721	52,102
General & administrative expenses	6,244	6,092
Total operating expenses	120,078	116,881
Operating income	28,473	24,553
Other Income (Expense):		
Interest income	441	865
Interest expense	(32,393)	(31,524)
Interest expense amortization of deferred financing costs	(928)	(1,011)
Equity in income of real estate ventures	1,233	1,296
Net gain on sale of interests in real estate	2,791	
Loss on early extinguishment of debt		(1,192)
Loss from continuing operations	(383)	(7,013)
Discontinued operations:		
Income (loss) from discontinued operations	(107)	265
Net gain on disposition of discontinued operations		6,349
Total discontinued operations	(107)	6,614
Net loss	(490)	(399)
Distribution to Preferred Shares	(1,998)	(1,998)
Amount allocated to unvested restricted shareholders	(142)	(128)

Net loss attributable to Common Partnership Unitholders of Brandywine Operating Partnership	$	(2,630)	$	(2,525)
Basic loss per Common Partnership Unit:				
Continuing operations	$	(0.02)	$	(0.07)
Discontinued operations		(0.00)		0.05
	$	(0.02)	$	(0.02)
Diluted loss per Common Partnership Unit:				
Continuing operations	$	(0.02)	$	(0.07)
Discontinued operations		(0.00)		0.05
	$	(0.02)	$	(0.02)
Basic weighted average common partnership units outstanding		144,480,173		131,576,826
Diluted weighted average common partnership units outstanding		144,480,173		131,576,826
Net loss attributable to Brandywine Operating Partnership, L.P.				
Loss from continuing operations	$	(383)	$	(7,013)
Loss from discontinued operations		(107)		6,614
Net loss	$	(490)	$	(399)

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

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

	For the three-month periods ended March 31, 2011	2010
Net loss	$ (490)	$ (399)
Comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments	(613)	1,816
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	22	(15)
Total comprehensive income (loss)	(591)	1,801
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$ (1,081)	$ 1,402

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)

	Three-month periods ended March 31, 2011	2010
Cash flows from operating activities:		
Net loss	$ (490)	$ (399)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	51,721	52,566
Amortization of deferred financing costs	928	1,011
Amortization of debt discount/(premium), net	217	310
Straight-line rent income	(4,729)	(2,915)
Amortization of acquired above (below) market leases to rental revenue, net	(1,238)	(1,548)
Straight-line ground rent expense	501	370
Provision for doubtful accounts	367	1,309
Non-cash compensation expense	1,355	1,355
Real estate venture income in excess of distributions	(830)	(1,114)
Net gain on sale of interests in real estate	(2,791)	(6,349)
Loss on early extinguishment of debt		1,192
Cumulative interest accretion of repayments of unsecured notes		(1,586)
Changes in assets and liabilities:		
Accounts receivable	(263)	(795)
Other assets	(4,093)	(4,387)
Accounts payable and accrued expenses	15,314	6,424
Deferred income, gains and rent	(2,649)	(6,696)
Other liabilities	4,427	1,190
Net cash from operating activities	57,747	39,938
Cash flows from investing activities:		
Acquisition of properties	(22,032)	
Sales of properties, net		10,445
Capital expenditures	(33,787)	(52,132)
Advances for purchase of tenant assets, net of repayments	(2,318)	
Loan provided to unconsolidated real estate venture partner	(999)	
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	1,496	393
Decrease in cash due to the deconsolidation of variable interest entities		(1,382)
Leasing costs	(4,830)	(4,685)
Net cash used in investing activities	(62,470)	(47,361)
Cash flows from financing activities:		
Proceeds from Credit Facility borrowings	103,500	122,000
Repayments of Credit Facility borrowings	(89,500)	(54,000)
Repayments of mortgage notes payable	(3,913)	(2,303)
Repayments of unsecured notes		(46,479)

Net settlement of hedge transactions		(613)		
Debt financing costs		(556)		3
Net proceeds from issuance of shares		2,200		16,100
Distributions paid to preferred and common partnership unitholders		(22,711)		(21,875)
Net cash from (used in) financing activities		(11,593)		13,446
Increase (decrease) in cash and cash equivalents		(16,316)		6,023
Cash and cash equivalents at beginning of period		16,565		1,567
Cash and cash equivalents at end of period	$	249	$	7,590
Supplemental disclosure:				
Cash paid for interest, net of capitalized interest during the quarter ended March 31, 2011 and 2010 of $380 and $3,245, respectively	$	14,184	$	13,551
Supplemental disclosure of non-cash activity:				
Change in capital expenditures financed through accounts payable at period end		(853)		(889)
Change in capital expenditures financed through retention payable at period end		(5,151)		2,520
Change in unfunded tenant allowance		(814)		411
Change in real estate investments due to the deconsolidation of variable interest entities				(37,126)
Change in mortgage notes payable due to the deconsolidation of variable interest entities				(42,877)

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

BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011

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 March 31, 2011, owned a 93.1% 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 March 31, 2011, the Company owned 210 office properties, 20 industrial facilities and four mixed-use properties (collectively, the Properties) containing an aggregate of approximately 25.8 million net rentable square feet. The Company also has a garage property under redevelopment. Therefore, as of March 31, 2011, the Company owned 235 properties containing an aggregate of 25.8 million net rentable square feet. In addition, as of March 31, 2011, the Company owned economic interests in 17 unconsolidated real estate ventures that contain approximately 6.5 million net rentable square feet (collectively, the Real Estate Ventures). 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 March 31, 2011, the management company subsidiaries were managing properties containing an aggregate of approximately 33.6 million net rentable square feet, of which approximately 25.8 million net rentable square feet related to Properties owned by the Company and approximately 7.8 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 information. 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 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 March 31, 2011, the results of its operations for the three-month periods ended March 31, 2011 and 2010 and its cash flows for the three-month periods ended March 31, 2011 and 2010 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 respective 2010 Annual Reports on Form 10-K filed with the SEC on February 25, 2011.

Reclassifications and Out of Period Adjustment

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. In addition, the Company changed $6.3 million from leasing costs to capital expenditures in the investing section of the statements of cash flows for the three months ended March 31, 2010. This change had no effect on the subtotals within the consolidated statement of cash flows.

During the three-months ended March 31, 2011, the Company recorded additional income of $0.5 million related to electricity charges in prior years that were under-billed to a certain tenant. This resulted in the overstatement of total revenue of $0.5 million during the three months ended March 31, 2011 and in the understatement of total revenue of $0.3 million and $0.2 million for the years ended December 31, 2009, and 2008, respectively. As this error was not material to prior years consolidated financial statements and the impact of recording the error in the current period is not material to the Company s consolidated financial statements, the Company recorded the related adjustment in the current period.

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 March 31, 2011 (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-VIE s 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, 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 (includes 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 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 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 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 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 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; broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations; and changes 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 dispose of properties to meet its liquidity needs or for other 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.

During the Company s impairment review for the three month periods ended March 31, 2011 and 2010, the Company determined 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 it will not be able to start the construction by the date specified, or if the Company determines development is not in its best economic interest and an extension of the development period cannot be negotiated, the Company will have to write off all costs that it has incurred in preparing these parcels of land for development amounting to $7.7 million as of March 31, 2011.

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 VIE s) 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.

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.

The Company s Broadmoor Real Estate Venture owns an office park in Austin, Texas which is currently leased to a single tenant who is also the Company s partner in the Real Estate Venture. The tenant is also the owner of the land which the Real Estate Venture currently leases under a ground lease agreement. A lease amendment pertaining to renewals on certain of the buildings within the office park is currently under negotiation. Given the current circumstances, the Company performed an impairment assessment of its investment in the venture using probability weighted scenarios that include varying outcomes. The Company believes that a market participant would assess the probabilities of these outcomes in the same fashion. In evaluating the scenarios, the Company has determined that the fair value of its investment marginally exceeded its carrying value and the investment is not impaired at March 31, 2011. However, given the lease amendment has not yet been executed and the negotiations of specific terms of the lease renewal are ongoing, the ultimate outcome is uncertain and could cause an impairment of the Company s investment that could be material.

Revenue Recognition

Rental revenue is recognized on the straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The straight-line rent adjustment increased revenue by approximately $4.2 million and $2.0 million for the three-month periods ended March 31, 2011 and 2010, 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 $0.9 million for the three-month periods ended March 31, 2011 and 2010, 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 $0.2 million and $0.8 million for the three-month periods ended March 31, 2011 and 2010, 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 March 31, 2011, 5,809,631 common shares remained available for future awards under the 1997 Plan (including 4,671,392 shares available solely for options and share appreciation rights). Through March 31, 2011, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $1.4 million and $1.1 million during the three-month periods ended March 31, 2011 and 2010, of which, $0.3 million and $0.2 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. 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 Company s adoption of the accounting standard for fair value measurements and disclosures.

For derivatives designated as fair value hedges, the changes in 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 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 derivatives and available-for-sale-securities 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 March 31, 2011:

		Fair Value Measurements at Reporting Date Using:		
Description	**March 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**

Recurring Assets:								
Available-for-Sale Securities	$	277	$	277	$		$	

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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 December 31, 2010:

Description	December 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring Assets:				
Available-for-Sale Securities	$ 248	$ 248	$	$

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 as of March 31, 2011.

<u>*Income Taxes*</u>

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 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 has elected to treat several 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 Pronouncement

In December 2010, the FASB issued a new accounting standard for the disclosure of supplementary pro-forma information for business combinations. This guidance clarifies that the disclosure of supplementary pro-forma information for business combinations should be presented such that revenues and earnings of the combined entity are calculated as though the relevant business combinations that occurred during the current reporting period had occurred as of the beginning of the comparable prior annual reporting period. The guidance also seeks to improve the usefulness of the supplementary pro-forma information by requiring a description of the nature and amount of material, non-recurring pro-forma adjustments that are directly attributable to the business combinations. This new standard is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company s adoption of this new standard did not have a material impact on its consolidated financial position or results of operations.

3. REAL ESTATE INVESTMENTS

As of March 31, 2011 and December 31, 2010 the gross carrying value of the Company s rental properties was as follows (in thousands):

	March 31, 2011	December 31, 2010
Land	$ 699,221	$ 697,724
Building and improvements	3,706,927	3,693,579
Tenant improvements	452,322	442,808
	$ 4,858,470	$ 4,834,111

Acquisitions and Dispositions

On March 28, 2011, the Company acquired two office properties totaling 126,496 of net rentable square feet in Glen Allen, Virginia known as Overlook I and II for $12.6 million. The acquired properties are currently 100% leased. The Company funded the acquisition price through an advance under its $600.0 million Credit Facility (the Credit Facility) and with available corporate funds. The Company recognized a nominal amount of acquisition related costs which are included as part of general and administrative expenses in the Company s consolidated statements of operations.

On January 20, 2011, the Company acquired a one acre parcel of land in Philadelphia, Pennsylvania for $9.3 million. The Company funded the cost of this acquisition with available corporate cash and a draw on its Credit Facility. The Company capitalized $0.5 million of acquisition related costs as part of land inventory in its consolidated balance sheet. The Company will contribute the acquired property into a real estate venture in return for a 50% limited interest in the partnership. The real estate venture will be formed to construct a mixed-use development property in the city of Philadelphia. The Company received $4.9 million from the prospective partner in anticipation of the real estate venture formation. The amount received is included as part of other liabilities in the Company s consolidated balance sheet as of March 31, 2011.

On August 5, 2010, the Company acquired a 53 story Class A office tower at 1717 Arch Street (Three Logan Square) in Philadelphia, Pennsylvania, together with related ground tenancy rights under a long-term ground lease, from BAT Partners, L.P. Three Logan Square contains approximately 1.0 million of net rentable square feet and is currently 67.2% leased. The Company acquired Three Logan Square for approximately $129.0 million funded through a combination of $51.2 million in cash and the issuance of 7,111,112 units of a newly-established class of its limited partnership interest in the Operating Partnership designated as Class F (2010) Units. The Class F (2010) Units do not accrue a dividend and are not entitled to income or loss allocations prior to the first anniversary of the closing. Total cash paid after the assumption of security deposit obligations of existing tenants in the property of $0.9 million amounted to $50.3 million. The assumed security deposit obligation is included in the tenant security deposits and deferred rents in the Company s consolidated balance sheets. The Company funded the cash portion of the acquisition price through an advance under its Credit Facility and with available corporate funds.

For purposes of computing the total purchase price, the Class F (2010) Units were valued based on the closing market price of the Parent Company s common shares on the acquisition date of $11.54 less the annual dividend rate per share of $0.60 since these units do not accrue a dividend prior to the first anniversary. The Class F (2010) Units are subject to redemption at the option of the holder after the first anniversary of the acquisition. The Operating Partnership may, at its option, satisfy the redemption either for an amount, per unit, of cash equal to the market price of one of the Parent Company s common shares (based on the five-day trading average ending on the date of the exchange) or for one of the Parent Company s common shares.

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The Company accounted for the acquisition using the acquisition method of accounting. As discussed in Note 2, the Company utilized a number of sources in making estimates of fair values for purposes of allocating the purchase price to tangible and intangibles assets acquired and intangible liabilities assumed. The purchase price is allocated as follows (in thousands):

	August 5, 2010
Building and tenant improvements	$ 98,188
Intangible assets acquired	28,856
Below market lease liabilities assumed	(683)
Total	$ 126,361

Intangible assets acquired and intangible liabilities assumed consist of the following (in thousands):

	August 5, 2010	Weighted Average Amortization Period (in years)
Intangible assets:		
In-place lease value	$ 13,584	3
Tenant relationship value	8,870	5
Above market tenant leases acquired	895	1
Below market ground lease acquired	5,507	82
Total	$ 28,856	23
Intangible liabilities:		
Below market leases acquired	$ 683	1

The Company also recognized tenant and other receivables of $1.1 million and prepaid real estate taxes of $1.5 million from the acquisition and both are included as part of the accounts receivable and the other asset sections, respectively, of the Company s consolidated balance sheets.

The Company recognized $0.4 million of acquisition related costs which are included as part of general and administrative expenses of the Company s prior year consolidated statements of operations.

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The unaudited pro forma information below summarizes the Company s combined results of operations for the three month ended March 31, 2010 as though the acquisition of Three Logan Square was completed on January 1, 2010. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transaction had been completed as set forth above, nor do they purport to represent the Company s results of operations for future periods (in thousands except for per share amounts).

	March 31, 2010 (unaudited)
Pro forma revenues	$ 148,475
Pro forma loss from continuing operations	(6,673)
Pro forma net loss attributable to common shareholders	(2,134)
Loss per common share from continuing operations:	
Basic as reported	$ (0.07)
Basic as pro forma	$ (0.07)
Diulted as reported	$ (0.07)
Diulted as pro forma	$ (0.07)
Loss per common share:	
Basic as reported	$ (0.02)
Basic as pro forma	$ (0.02)
Diulted as reported	$ (0.02)
Diulted as pro forma	$ (0.02)

During the three months ended March 31, 2011, the Company recognized a $2.8 million net gain upon the sale of its remaining 11% ownership interest in three properties which it partially sold to one of its unconsolidated Real Estate Ventures in December 2007. The Company had retained an 11% equity interest in these properties subject to a put/call at fixed prices for a period of three years from the time of the sale. In January 2011, the Company exercised the put/call and transferred full ownership in the three properties to the Real Estate Venture. Accordingly, the Company s direct continuing involvement through its 11% interest in the properties ceased as a result of the transfer of the ownership interest. The Company has also presented the gain as part of its continuing operations in its consolidated statements of operations because of its prior significant continuing involvement with the properties through its interest in the unconsolidated Real Estate Venture and its management and leasing activities at the properties.

The Company had no property dispositions during the three months ended March 31, 2011.

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of March 31, 2011, the Company had an aggregate investment of approximately $83.7 million in 17 unconsolidated Real Estate Ventures. The Company formed these ventures with unaffiliated third parties, or acquired interests in them, to develop or manage office properties or to acquire land in anticipation of possible development of office properties. As of March 31, 2011, 15 of the Real Estate Ventures owned 50 office buildings that contain an aggregate of approximately 6.5 million net rentable square feet; one Real Estate Venture owned three acres of undeveloped parcel 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 3% 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. One of the Real Estate Ventures, acquired in connection with the Prentiss Properties Trust merger in 2006, had a negative equity balance on a historical cost basis as a result of historical depreciation and distributions of excess financing proceeds. The Company reflected its acquisition of this Real Estate Venture interest at its relative fair value as of the date of the merger. The difference between allocated cost and the underlying equity in the net assets of the investee is accounted for as if the entity were consolidated (i.e., allocated to the Company s relative share of assets and liabilities with an adjustment to recognize equity in earnings for the appropriate additional depreciation/amortization). 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 March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	December 31, 2010
Net property	$ 797,198	$ 804,705
Other assets	99,524	105,576
Other Liabilities	40,213	44,509
Debt	745,206	748,387
Equity	111,303	117,385
Company s share of equity (Company s basis)	83,706	84,372

The following is a summary of results of operations of the Real Estate Ventures for the three month periods ended March 31, 2011 and 2010 (in thousands):

	Three-month periods ended March 31, 2011	2010
Revenue	$ 36,434	$ 24,069
Operating expenses	15,705	8,695
Interest expense, net	11,207	7,738
Depreciation and amortization	10,126	6,222
Net income	(604)	1,414
Company s share of income (Company s basis)	1,233	1,296

As of March 31, 2011, the Company had guaranteed repayment of approximately $0.7 million of loans on behalf of a Real Estate Venture. The Company 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.

In November 2010, the Company acquired a 25% interest in two partnerships which own two office buildings in Philadelphia, Pennsylvania. The other partner holds the remaining 75% interest in each of the two partnerships. In connection with the closing, the Company contributed an initial $5.0 million, out of a total of $25.0 million of committed preferred equity. The Company expects to contribute the remaining $20.0 million by December 31, 2012. Failure to fund the remaining commitment will result in an adjustment to the Company s 25% limited partnership ownership percentage.

5. DEFERRED COSTS

As of March 31, 2011 and December 31, 2010, the Company s deferred costs were comprised of the following (in thousands):

	March 31, 2011		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$ 128,658	$ (46,691)	$ 81,967
Financing Costs	37,813	(11,862)	25,951
Total	$ 166,471	$ (58,553)	$ 107,918

	December 31, 2010		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$ 123,724	$ (43,930)	$ 79,794
Financing Costs	37,257	(10,934)	26,323
Total	$ 160,981	$ (54,864)	$ 106,117

During the three-month periods ended March 31, 2011 and 2010, the Company capitalized internal direct leasing costs of $1.5 million and $1.8 million, respectively, in accordance with the accounting standard for the capitalization of leasing costs.

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6. INTANGIBLE ASSETS

As of March 31, 2011 and December 31, 2010, the Company s intangible assets were comprised of the following (in thousands):

	March 31, 2011		
	Total Cost	Accumulated Amortization	Deferred Costs, net
In-place lease value	$ 107,114	$ (64,732)	$ 42,382
Tenant relationship value	94,823	(53,840)	40,983
Above market leases acquired	18,765	(10,006)	8,759
Total	$ 220,702	$ (128,578)	$ 92,124
Below market leases acquired	$ 66,954	$ (39,404)	$ 27,550

	December 31, 2010		
	Total Cost	Accumulated Amortization	Deferred Costs, net
In-place lease value	$ 108,456	$ (63,010)	$ 45,446
Tenant relationship value	95,385	(52,113)	43,272
Above market leases acquired	18,319	(9,575)	8,744
Total	$ 222,160	$ (124,698)	$ 97,462
Below market leases acquired	$ 67,198	$ (37,965)	$ 29,233

As of March 31, 2011, the Company s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no early lease terminations):

	Assets	Liabilities
2011	$ 22,169	$ 5,396
2012	22,143	6,473
2013	13,441	5,930
2014	10,118	4,348
2015	7,161	2,141
Thereafter	17,092	