FireEye, Inc.
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

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 001-36067

FireEye, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-1548921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1440 McCarthy Blvd.
Milpitas, CA 95035
(408) 321-6300
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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). Yes x No ¨

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

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

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

The number of shares of the registrant's common stock outstanding as of May 2, 2016 was 166,355,306.

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PART I — FINANCIAL INFORMATION
Item1. Financial Statements
FIREEYE, INC.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$175,113	$402,102
Short-term investments	746,027	767,775
Accounts receivable, net of allowance for doubtful accounts of $1,816 and $2,021 at March 31, 2016 and December 31, 2015, respectively	141,247	172,752
Inventories	10,778	13,747
Prepaid expenses and other current assets	35,078	30,883
Total current assets	1,108,243	1,387,259
Property and equipment, net	81,324	78,368
Goodwill	974,184	750,288
Intangible assets, net	290,595	214,560
Deposits and other long-term assets	12,084	10,998
TOTAL ASSETS	$2,466,430	$2,441,473
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$37,716	$43,650
Accrued and other current liabilities	36,082	29,820
Accrued compensation	105,893	79,294
Deferred revenue, current portion	329,095	305,169
Total current liabilities	508,786	457,933
Convertible senior notes, net	714,978	706,198
Deferred revenue, non-current portion	236,987	221,829
Other long-term liabilities	9,298	11,141
Total liabilities	1,470,049	1,397,101
Commitments and contingencies (NOTE 9)		
Stockholders' equity:		
Common stock, par value of $0.0001 per share; 1,000,000 shares authorized, 166,223 shares and 161,643 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	17	16
Additional paid-in capital	2,512,269	2,403,088
Treasury stock, at cost; 3,333 shares as of March 31, 2016 and December 31, 2015	(150,000)	(150,000)
Accumulated other comprehensive loss	(62)	(2,225)
Accumulated deficit	(1,365,843)	(1,206,507)
Total stockholders' equity	996,381	1,044,372
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,466,430	$2,441,473

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Product	$33,707	$40,237
Subscription and services	134,259	85,133
Total revenue	167,966	125,370
Cost of revenue:		
Product	17,133	15,200
Subscription and services	54,297	36,851
Total cost of revenue	71,430	52,051
Total gross profit	96,536	73,319
Operating expenses:		
Research and development	85,983	65,605
Sales and marketing	123,028	107,595
General and administrative	42,256	32,607
Restructuring charges	1,670	—
Total operating expenses	252,937	205,807
Operating loss	(156,401)	(132,488)
Interest income	1,465	269
Interest expense	(11,809)	—
Other income (expense), net	815	(768)
Loss before income taxes	(165,930)	(132,987)
Provision for (benefit from) income taxes	(10,030)	977
Net loss attributable to common stockholders	$(155,900)	$(133,964)
Net loss per share attributable to common stockholders, basic and diluted	$(0.98)	$(0.88)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	158,781	151,651

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	$(155,900)	$(133,964)
Change in net unrealized gains/(losses) on available-for-sale investments, net of tax	2,163	403
Comprehensive loss	$(153,737)	$(133,561)

See accompanying notes to condensed consolidated financial statements.

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FIREEYE, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(155,900)	$(133,964)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	30,503	26,581
Stock-based compensation	64,239	49,875
Non-cash interest expense related to convertible senior notes	8,780	—
Deferred income taxes	(11,053)	82
Other	938	509
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	43,144	32,736
Inventories	2,325	(2,554)
Prepaid expenses and other assets	(2,152)	127
Accounts payable	(3,391)	(4,219)
Accrued liabilities	902	2,068
Accrued transaction costs of acquiree	(7,727)	—
Accrued compensation	(8,989)	(2,675)
Deferred revenue	17,997	26,221
Other long-term liabilities	(2,132)	1,997
Net cash used in operating activities	(22,516)	(3,216)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and demonstration units	(14,257)	(12,669)
Purchases of short-term investments	(88,805)	(39,857)
Proceeds from maturities of short-term investments	111,319	34,655
Business acquisitions, net of cash acquired	(204,926)	—
Lease deposits	(678)	(370)
Net cash used in investing activities	(197,347)	(18,241)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt of acquired business	(8,842)	—
Payment related to shares withheld for taxes	(1,124)	—
Proceeds from exercise of equity awards	2,840	11,870
Net cash (used in) provided by financing activities	(7,126)	11,870
Net change in cash and cash equivalents	(226,989)	(9,587)
Cash and cash equivalents, beginning of period	402,102	146,363
Cash and cash equivalents, end of period	$175,113	$136,776
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$1,888	$536
Cash paid for interest	$22	$—
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Vesting of early exercised stock options	$496	$604
Common stock issued in connection with acquisitions	$39,300	$—
Contingent earn-out in connection with acquisitions	$35,588	$—

Purchases of property and equipment and demonstration units in accounts payable and accrued liabilities	$5,779	$5,382

See accompanying notes to condensed consolidated financial statements.

FIREEYE, INC.
Notes to Condensed Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

FireEye, Inc., with principal executive offices located in Milpitas, California, was incorporated as NetForts, Inc. on February 18, 2004, under the laws of the State of Delaware, and changed its name to FireEye, Inc. on September 7, 2005.

FireEye, Inc. and its wholly owned subsidiaries (collectively, the “Company”, “we”, “us” or “our”) is a leader in stopping advanced cyber attacks that use advanced malware, zero-day exploits, and APT (“Advanced Persistent Threat”) tactics. Our solutions supplement traditional and next-generation firewalls, Intrusion Prevention Systems (“IPS”), anti-virus, and gateways, which cannot stop advanced threats, leaving security holes in networks. We offer a solution that detects and blocks attacks across Web, email, endpoint, file and mobile threat vectors, as well as latent malware resident on file shares. Our solutions address all stages of an attack lifecycle with a signature-less engine utilizing stateful attack analysis to detect zero-day threats.

In February 2016, we acquired Invotas International Corporation (“Invotas”), a provider of security automation and orchestration technology. We paid upfront cash consideration of $17.7 million and issued 742,026 shares of our common stock with an estimated fair value of $11.1 million.

In January 2016, we acquired iSIGHT Security, Inc. (d/b/a iSIGHT Partners, Inc.) (“iSIGHT”), one of the world’s leading providers of cyber threat intelligence for global enterprises. We paid upfront cash consideration of $192.8 million, incurred liabilities of $35.6 million contingent upon the achievement of a threat intelligence bookings target on or before the end of the second quarter of 2018, and issued 1,793,305 shares of our common stock with an estimated fair value of $28.2 million.

In June 2015, we issued $460.0 million principal amount of 1.000% Convertible Senior Notes due 2035 (the “Series A Notes”) and $460.0 million principal amount of 1.625% Convertible Senior Notes due 2035 (the “Series B Notes” and together with the Series A Notes, the “Convertible Senior Notes”), in a private placement to qualified institutional purchasers pursuant to an exemption from registration provided by Section 4(a)(2) and Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). We recognized total net proceeds after the initial purchasers' discount and issuance costs of $896.5 million. In connection with the issuance of the Convertible Senior Notes, we also entered into privately negotiated prepaid forward stock purchase transactions (each a “Prepaid Forward”) with one of the initial purchasers of the Convertible Senior Notes, pursuant to which we paid approximately $150.0 million. The amount prepaid is equivalent to approximately 3.3 million shares which are to be settled on or around June 1, 2020 and June 1, 2022, respectively, subject to any early settlement in whole or part of each Prepaid Forward.

We sell the majority of our products, subscriptions and services to end-customers through distributors, resellers, and strategic partners, with a lesser percentage of sales directly to end-customers.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of FireEye, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), and following the requirements of the Securities and Exchange Commission (“SEC”), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These unaudited condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair statement of our financial information. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any other interim period or for any other future year. The balance sheet as of December 31, 2015 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for annual consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K, which was filed with the SEC on February 26, 2016.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such management estimates include, but are not limited to, the best estimate of selling price for our products and services, commissions expense, future

taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, fair value of our stock options and the purchase price allocation of acquired businesses. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods, and it is possible that actual results could differ from current or revised future estimates.

Summary of Significant Accounting Policies

There have been no significant changes to our significant accounting policies as of and for the three months ended March 31, 2016, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2015, except with respect to changes in our policy on Stock-Based Compensation.

Stock-Based Compensation

As permitted under ASU 2016-09, we have elected to recognize forfeitures as they occur, and no longer estimate a forfeiture rate when calculating the stock-based compensation for our equity awards.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (Topic 718). This standard simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements, including income taxes, forfeitures and statutory tax withholding requirements. The guidance is effective for us beginning in the first quarter of 2017. Early adoption is permitted. We elected to early adopt this standard in the current quarter.

As a result of adopting this standard, we have made an accounting policy election to account for forfeitures as they occur. This change has been applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to decrease retained earnings by $3.4 million as of January 1, 2016; the date of adoption. The adoption of this guidance also requires excess tax benefits and tax deficiencies be recorded in the income statement as opposed to additional paid-in capital when the awards vest or are settled. This change should be applied prospectively, and therefore our tax deficiencies of less than $0.1 million for the three months ended March 31, 2016 has been recorded as a component of our benefit from income taxes. The adoption of additional amendments related to the timing of when excess tax benefits are recognized and the accounting for minimum statutory withholding tax requirements included in this guidance has no impact on our current condensed consolidated financial statements or on any prior period financial statements presented.

This guidance also requires changes in the classification of shares withheld to pay employee taxes and excess tax benefits on the consolidated statements of cash flows. The amendments require cash paid by an employer when directly withholding shares for tax-withholding purposes be classified as a financing activity, and be applied retrospectively to all prior periods presented. As these cash flows have previously been presented as financing activities, there is no change resulting from the adoption of this amendment. The amendments also require excess tax benefits be classified as an operating activity, consistent with other income tax cash flows, and may be applied either on a retrospective or prospective basis. We have elected to apply this amendment on a prospective basis, as there is no impact to our prior period consolidated statements of cash flows. As such, prior periods have not been adjusted.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force). This standard clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The guidance is effective for us beginning in the first quarter of 2017 and should be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted. As we previously assessed the embedded call (put) options associated with our Convertible Senior Notes in accordance with the requirements in this guidance, the adoption of this standard will have no impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for us beginning in the first quarter of 2019, and should be applied on a modified retrospective basis. Early adoption is permitted. We expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This standard eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Under this guidance, measurement-period adjustments will be recognized during the period in which they are determined. We adopted this standard in the current quarter and the adoption did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single model for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In July 2015, the FASB decided to defer the effective date by one year, and as a result, the guidance is effective for us beginning in the first quarter of 2018. Early adoption as of the original effective date would be permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and in April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. These standards were issued to address implementation issues raised by the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG).

We are currently evaluating the impact the adoption of the new revenue guidance and related updates will have on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern. This standard provides guidance on how and when reporting entities must disclose going-concern uncertainties in their financial statements. The guidance is effective for us beginning in the first quarter of 2017. Early adoption is permitted. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

2. Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value on either a recurring or nonrecurring basis, whereby the inputs used in our valuation techniques are assigned a hierarchical level. The following are the three levels of inputs to measure fair value:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, our own or the counterparty's non-performance risk is considered in measuring the fair values of assets.

The following table presents our assets and liabilities measured at fair value on a recurring basis using the above input categories (in thousands):

	As of March 31, 2016				As of December 31, 2015			
Description	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Money market funds	$21,330	$—	$—	$21,330	$210,533	$—	$ —	$210,533
Total cash equivalents	21,330	—	—	21,330	210,533	—	—	210,533
Short-term investments:								
Certificates of deposit	—	17,254	—	17,254	—	19,124	—	19,124
Corporate notes and bonds	—	443,250	—	443,250	—	447,267	—	447,267
U.S. Government agencies	—	285,523	—	285,523	—	301,384	—	301,384
Total short-term investments	—	746,027	—	746,027	—	767,775	—	767,775
Total assets measured at fair value	$21,330	$746,027	$—	$767,357	$210,533	$767,775	$ —	$978,308
Liabilities								
Contingent earn-out	$—	$—	$35,588	$35,588	$—	$—	$ —	$—

Total liabilities measured at fair value	$—	$—	$35,588	$35,588	$—	$—	$ —	$—

The estimated fair value of the contingent earn-out incurred in connection with our acquisition of iSIGHT is considered to be a Level 3 measurement due to the use of significant unobservable inputs. The value was determined using a discounted risk-adjusted expected (probability-weighted) cash flow methodology, by applying a real options approach model. The real options approach incorporated management's estimates of expected quarterly growth rates in bookings (ranging from 30% to 120%), which could not be corroborated

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by observable market data, with the volatility of revenue for comparable companies (16.5% on average) and the correlation between comparable companies' quarterly revenue growth and that of the S&P 500 Index (44.7% on average), which are observable in the market, to determine the probability of achieving estimated bookings within the earn-out period of performance (2.5 years). The resulting expected earn-out payment was discounted back to present value using our cost of debt (ranging from 6.3% to 7.1%).

We measure certain assets, including goodwill, intangible assets and our equity-method investment in a private company at fair value on a nonrecurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. No such events or changes occurred during the three months ended March 31, 2016.

The estimated fair value of the Convertible Senior Notes as of March 31, 2016 was determined to be $762.9 million, based on quoted market prices. We consider the fair value of the Convertible Senior Notes to be a Level 2 measurement as they are not actively traded.

3. Investments

Our investments consisted of the following (in thousands):

	As of March 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Short-term investment
Certificates of deposit	$17,240	$ 15	$ (1)	$17,254	$ 17,254
Corporate notes and bonds	443,240	257	(247)	443,250	443,250
U.S. Government agencies	285,609	41	(127)	285,523	285,523
Total	$746,089	$ 313	$ (375)	$746,027	$ 746,027

	As of December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Short-term investment
Certificates of deposit	$19,160	$ —	$ (36)	$19,124	$ 19,124
Corporate notes and bonds	448,688	—	(1,421)	447,267	447,267
U.S. Government agencies	302,152	2	(770)	301,384	301,384
Total	$770,000	$ 2	$ (2,227)	$767,775	$ 767,775

The following tables present the gross unrealized losses and related fair values of our investments that have been in a continuous unrealized loss position (in thousands):

	As of March 31, 2016					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificates of deposit	$1,159	$ (1)	$—	$ —	$1,159	$ (1)
Corporate notes and bonds	256,480	(234)	15,974	(13)	272,454	(247)
U.S. Government agencies	156,623	(125)	8,998	(2)	165,621	(127)
Total	$414,262	$ (360)	$24,972	$ (15)	$439,234	$ (375)

	As of December 31, 2015					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificates of deposit	$18,404	$ (36)	$—	$ —	$18,404	$ (36)
Corporate notes and bonds	430,466	(1,407)	16,801	(15)	447,267	(1,422)
U.S. Government agencies	266,541	(761)	8,992	(8)	275,533	(769)
Total	$715,411	$ (2,204)	$25,793	$ (23)	$741,204	$ (2,227)

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of March 31, 2016 and December 31, 2015.

The following table summarizes the contractual maturities of our investments at March 31, 2016 (in thousands):

	Amortized Cost	Fair Value
Due within one year	$371,071	$370,962
Due within one to two years	375,018	375,065
Total	$746,089	$746,027

All available-for-sale securities have been classified as current, based on management's intent and ability to use the funds in current operations.

During 2015, we invested in a privately held company, obtaining an initial 12.5% ownership interest. This investment is accounted for under the equity method based on our ability to exercise significant influence over operating and financial policies of the investee, and is classified within deposits and other long-term assets on our condensed consolidated balance sheets. The carrying value of this investment was $1.6 million and $1.8 million as of March 31, 2016 and December 31, 2015, respectively.

4. Property and Equipment

Property and equipment, net consisted of the following (in thousands):

	As of March 31, 2016	As of December 31, 2015
Computer equipment and software	$132,862	$120,886
Leasehold improvements	43,901	41,626
Furniture and fixtures	14,314	13,470
Machinery and equipment	447	447
Total property and equipment	191,524	176,429
Less: accumulated depreciation	(110,200)	(98,061)
Total property and equipment, net	$81,324	$78,368

Depreciation and amortization expense related to property and equipment and demonstration units during the three months ended March 31, 2016 and 2015 was $14.1 million and $14.3 million, respectively.

5. Business Combinations

Acquisition of iSIGHT

On January 14, 2016, we acquired all of the outstanding shares of privately held iSIGHT, one of the world's leading providers of cyber threat intelligence for global enterprises. The acquisition extends our intelligence network to create an advanced and comprehensive private cyber threat intelligence operation, providing customers with higher fidelity alerts, context to prioritize threats and the strategic insights to proactively prepare for threats that might target their industry or region.

In connection with this acquisition, we paid upfront cash consideration of $192.8 million, incurred liabilities of $35.6 million contingent upon the achievement of a threat intelligence bookings target on or before the end of the second quarter of 2018, and issued 1,793,305 shares of our common stock with an estimated fair value of $28.2 million, which will be released to former stockholders of iSIGHT upon the achievement of the same threat intelligence bookings target stated above. This resulted in total purchase consideration of $256.6 million. The number of shares was fixed at the completion of the acquisition and is the maximum number of shares that can be released. The contingent earn-out liability of $35.6 million is included in accrued compensation on the condensed consolidated balance sheet as of March 31, 2016, and will result in a cash payment of $41.3 million, if and when the threat intelligence bookings target is achieved.

The acquisition of iSIGHT was accounted for in accordance with the acquisition method of accounting for business combinations with FireEye as the accounting acquirer. We expensed the related acquisition costs of $1.9 million in general and administrative expenses. We also assumed and paid liabilities of $7.0 million for transaction costs incurred by iSIGHT prior to acquisition, which were accounted for separate from consideration transferred. Under the acquisition method of accounting, the total purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The total purchase price of $256.6 million was allocated using information currently available to us. As a result, we may continue to adjust the preliminary purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revisions of preliminary estimates. Allocation of the preliminary purchase price is as follows (in thousands):

	Amount
Net tangible liabilities assumed	$(18,366)
Intangible assets	82,800
Deferred tax liability	(10,328)
Goodwill	202,532
Total preliminary purchase price allocation	$256,638

The preliminary purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired, resulting in the recognition of goodwill. Goodwill is primarily attributable to expected synergies in our subscription offerings and cross-selling opportunities. None of the goodwill is expected to be deductible for U.S. federal income tax purposes.

Intangible assets consist primarily of customer relationships, content, developed technology and other intangible assets. Customer relationship intangibles relate to iSIGHT's ability to sell current and future content, as well as products built around this content, to its existing customers. Content intangibles represent threat intelligence data gathered through the analysis of cyber-crimes, cyber-attacks, hacking, and cyber criminals. Intangible assets attributable to developed technology include a combination of patented and unpatented technology, trade secrets, computer software and research processes that represent the foundation for the existing and planned new products to facilitate the generation of new content. The estimated useful life and fair values of the identifiable intangible assets are as follows (in thousands):

	Preliminary Estimated Useful Life (in years)	Amount
Customer relationships	8	$32,600
Content	4	28,900
Developed technology	4-6	17,100
Trade name	5	3,100
Non-competition agreements	2	1,100
Total identifiable intangible assets		$82,800

The value of customer relationships and content was estimated using the excess earnings method, an income approach (Level 3), which converts projected revenues and costs into cash flows. To reflect the fact that certain other assets contribute to the cash flows generated, the returns for these contributory assets were removed to arrive at estimated cash flows solely attributable to the customer relationships and content, which were discounted at rates of 15% and 14%, respectively.

The value of developed technology and the trade name was estimated using the relief-from-royalty method, an income approach (Level 3), which estimates the cost savings that accrue to the owner of the intangibles asset that would otherwise be payable as royalties or license fees on revenues earned through the use of the asset. A royalty rate is applied to the projected revenues associated with the intangible asset to determine the amount of savings, which is then discounted to determine the fair value. The developed technology and trade name were valued using royalty rates of 10% and 1%, respectively, and discounted at rates of 14% and 15%, respectively.

The results of operations of iSIGHT have been included in our condensed consolidated statements of operations from the acquisition date, and contributed $9.4 million to our consolidated revenues and $2.3 million to our consolidated net loss during the three months ended March 31, 2016. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.

Acquisition of Invotas

On February 1, 2016, we acquired all of the outstanding shares of privately held Invotas, a provider of security automation and orchestration technology. This acquisition enables us to deliver a premier security orchestration capability as part of our global threat management platform to unify cyber attack detection results, threat intelligence and incident response elements of an organization’s security program into a single console, giving enterprises the ability to respond more quickly to attacks through automation.

In connection with this acquisition, we paid upfront cash consideration of $17.7 million and issued 742,026 shares of our common stock with an estimated fair value of $11.1 million. This resulted in total purchase consideration of $28.8 million. Additionally, we replaced unvested option awards with grants of 95,614 restricted stock units which will vest over the requisite service period of four years, and granted an additional 1,002,748 restricted stock units which will vest upon the achievement of stated performance milestones over a period of approximately three years, subject to continuing service during that time. These awards are being recognized as operating expense over the requisite service periods as they relate to post-combination services.

The acquisition of Invotas was accounted for in accordance with the acquisition method of accounting for business combinations with FireEye as the accounting acquirer. We expensed the related acquisition costs of $0.5 million in general and administrative expenses. We also assumed and paid liabilities of $0.7 million for transaction costs incurred by Invotas prior to acquisition, which were accounted for separate from consideration transferred. Under the acquisition method of accounting, the total purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The total purchase price of $28.8 million was allocated using information currently available to us. As a result, we may continue to adjust the preliminary purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revisions of preliminary estimates. Allocation of the preliminary purchase price is as follows (in thousands):

	Amount
Net tangible liabilities assumed	$(306)
Intangible assets	8,400
Deferred tax liability	(703)
Goodwill	21,364
Total preliminary purchase price allocation	$28,755

The preliminary purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired, resulting in the recognition of goodwill. Goodwill is primarily attributable to increased selling opportunities. None of the goodwill is expected to be deductible for U.S. federal income tax purposes.

Intangible assets consist primarily of developed technology, in-process research and development and other intangible assets. Developed technology intangibles include a combination of patented and unpatented technology, trade secrets, computer software and research processes that represent the foundation for the existing and planned new product offerings. The in-process research and development intangible represents the estimated fair value of acquired research projects which had not reached technological feasibility at acquisition date, but have since been developed into products. The estimated useful life and fair values of the identifiable intangible assets are as follows (in thousands):

	Preliminary Estimated Useful Life (in years)	Amount
Developed technology	4	$ 4,500
In-process research and development	N/A	2,800
Customer relationships	10	800
Non-competition agreements	3	300
Total identifiable intangible assets		$ 8,400

The value of developed technology and in-process research and development (IPR&D) was estimated using the excess earnings method, an income approach (Level 3), which converts projected revenues and costs into cash flows. To reflect that fact that certain other assets contribute to the cash flows generated, the returns for these contributory assets were removed to arrive at estimated cash flows solely attributable to the developed technology and IPR&D, which were discounted at rates of 16% and 17.3%, respectively.

The results of operations of Invotas have been included in our condensed consolidated statements of operations from the acquisition date, although such results did not have a material impact on our consolidated revenues or net loss during the three months ended March 31, 2016. Pro forma results of operations have not been presented because the acquisition was not material to our results of operations.

Goodwill and Purchased Intangible Assets

Changes in the carrying amount of goodwill for the three months ended March 31, 2016 are as follows (in thousands):

	Amount
Balance as of December 31, 2015	$750,288
Goodwill acquired	223,896
Balance as of March 31, 2016	$974,184

Purchased intangible assets consisted of the following as of the dates below (in thousands):

	As of March 31, 2016	As of December 31, 2015
Developed technology	$99,793	$78,193
Content	157,500	128,600
Customer relationships	108,700	75,300
Contract backlog	12,500	12,500
Trade names	15,500	12,400
Non-competition agreements	1,400	—
Total intangible assets subject to amortization	395,393	306,993
Less: accumulated amortization	(107,598)	(92,433)
Net intangible assets subject to amortization	287,795	214,560
In-process research and development	2,800	—
Total net intangible assets	$290,595	$214,560

Amortization expense of intangible assets for the three months ended March 31, 2016 and 2015 was $15.2 million and $11.8 million, respectively.

The expected annual amortization expense of intangible assets as of March 31, 2016 is presented below (in thousands):

Years Ending December 31,	Amount
2016 (remaining nine months)	$47,401
2017	57,378
2018	45,694
2019	43,808
2020	30,186
2021 and thereafter	63,328
Total intangible assets subject to amortization	287,795
Total intangible assets with indefinite lives	2,800
Total	$290,595

6. Restructuring Charges

In addition to our restructuring plans initiated in August 2014, we initiated a series of business restructuring plans beginning in February 2016 to reduce our cost structure and improve efficiency, resulting in workforce reductions and the consolidation of certain real estate facilities.

The following table sets forth a summary of restructuring activities during the three months ended March 31, 2016 (in thousands):

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of September 30, 2006, the Company had an aggregate investment of approximately $76.0 million in 11 unconsolidated Rea (net of returns of investment). The Company or Prentiss formed these ventures with unaffiliated third parties to develop office p acquire land in anticipation of possible development of office properties. Nine of the Real Estate Ventures own 15 office buildi aggregate of approximately 2.7 million net rentable square feet, one Real Estate Venture developed a hotel property that contai one Real Estate Venture is developing an office property located in Albemarle County, VA.

The Company also has investments in four real estate ventures that are variable interest entities under FIN No. 46R and of whic the primary beneficiary.

The Company accounts for its non-consolidating interests in its Real Estate Ventures using the equity method. Non-consolidati interests range from 6% to 50%, subject to specified priority allocations in certain of the Real Estate Ventures. The Company s initially recorded at cost, are subsequently adjusted for the Company s share of the Real Estate Ventures income or loss and c distributions.

The amounts reflected below (except for Company s share of equity and income) are based on the historical financial informat
Real Estate Ventures. One of the Real Estate Ventures, acquired in connection with the Prentiss acquisition, had a negative equ
historical cost basis as a result of historical depreciation and distribution of excess financing proceeds. The Company reflected
this Real Estate Venture interest at its relative fair value as of the date of the purchase of Prentiss. The difference between alloc
underlying equity in the net assets of the investee is accounted for as if the entity were consolidated (i.e., allocated to the Comp
of assets and liabilities with an adjustment to recognize equity in earnings for the appropriate additional depreciation/amortizati

The following is a summary of the financial position of the Real Estate Ventures as of September 30, 2006 and December 31, 2

	September 30, 2006	December 31, 2005
Operating property, net of accumulated depreciation	$360,194	$286,601
Other assets	50,739	32,267
Liabilities	28,009	24,855
Debt	328,388	205,018
Equity	54,536	88,995
Company s investment in real estate ventures	76,032	13,331

In addition to its $76.0 million investment in the 11 unconsolidated Real Estate Ventures, the Company also has an investment
Prentiss Properties Capital Trust I and Prentiss Properties Capital Trust II that is accounted for using the cost method of accoun
investment, which is included in investment in unconsolidated ventures at September 30, 2006, was acquired by the Company a
Prentiss acquisition on January 5, 2006.

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The following is a summary of results of operations of the Real Estate Ventures for the three- and nine-month periods ended Se and 2005 (in thousands):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenue	$19,189	$14,800	$57,623	$46,938
Operating expenses	7,696	7,123	22,433	24,573
Interest expense, net	5,282	3,238	15,356	8,844
Depreciation and amortization	4,826	2,255	14,998	6,697
Net income	1,385	2,184	4,836	6,824
Company s share of income (Company basis)	370	745	1,798	2,296

As of September 30, 2006, the Company had guaranteed repayment of approximately $0.6 million of loans for the Real Estate Company also provides customary environmental indemnities in connection with construction and permanent financing both fo and on behalf of the Real Estate Ventures.

5. INTANGIBLE ASSETS

As of September 30, 2006 and December 31, 2005, the Company s intangible assets were comprised of the following (in thous

	September 30, 2006		
	Total Cost	**Accumulated Amortization**	**Deferred Costs, net**
In-place lease value	$231,177	$(48,032)	$183,145
Tenant relationship value	133,062	(16,518)	116,544
Above market leases acquired	38,177	(12,747)	25,430
Total	$402,416	$(77,297)	$325,119

	December 31, 2005		
	Total Cost	**Accumulated**	**Deferred**

		Amortization	Costs, net
In-place lease value	$47,965	$(12,575)	$35,390
Tenant relationship value	37,845	(5,606)	32,239
Above market leases acquired	14,404	(3,936)	10,468
Total	$100,214	$(22,117)	$78,097

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6. MORTGAGE NOTES PAYABLE

The following table sets forth information regarding the Company s mortgage indebtedness outstanding at September 30, 2006
2005 (in thousands):

Property / Location	September 30, 2006	December 31, 2005	Effective Interest Rate			Maturity Date
111 Arrandale Blvd	$	$1,043	8.65	%		Aug-06
429 Creamery Way		2,927	8.30	%		Sep-06
Interstate Center	608	766	6.19	%	(b)	Mar-07
440 & 442 Creamery Way	5,462	5,581	8.55	%		Jul-07
Norriton Office Center	5,127	5,191	8.50	%		Oct-07
481 John Young Way	2,311	2,360	8.40	%		Nov-07
400 Commerce Drive	11,849	11,989	7.12	%		Jun-08
Two Logan Square	71,636	72,468	5.78	%	(a)	Jul-09
The Bluffs	10,700		6.00	%	(a)	Jul-09
Pacific Ridge	14,500		6.00	%	(a)	Aug-09
Pacific View/Camino	26,000		6.00	%	(a)	Aug-09
Computer Associates Building	31,000		6.00	%	(a)	Aug-09
200 Commerce Drive	5,860	5,911	7.12	%	(a)	Jan-10
Presidents Plaza	30,900		6.00	%	(a)	May-10
1333 Broadway	24,521		5.18	%	(a)	May-10
The Ordway	46,309		7.95	%	(a)	Aug-10
World Savings Center	27,583		7.91	%	(a)	Nov-10
Plymouth Meeting Exec.	44,253	44,687	7.00	%	(a)	Dec-10
Four Tower Bridge	10,661	10,763	6.62	%		Feb-11
Arboretum I, II, III & V	22,917	23,238	7.59	%		Jul-11
Midlantic Drive/Lenox Drive/DCC I	62,930	63,803	8.05	%		Oct-11
Research Office Center	42,314		7.64	%	(a)	Oct-11
Concord Airport Plaza	38,601		7.20	%	(a)	Jan-12
Six Tower Bridge	14,830	15,083	7.79	%		Aug-12
Newtown Square/Berwyn Park/Libertyview	63,576	64,429	7.25	%		May-13
Coppell Associates	3,794		6.89	%		Dec-13
Southpoint III	5,031	5,431	7.75	%		Apr-14
Tysons Corner	100,000		4.84	%	(a)	Aug-15
Coppell Associates	16,600		5.75	%		Mar-16
Grande A	59,816	61,092	7.48	%		Jul-27
Grande A		11,456				Jul-27
Grande A		1,551				Jul-27
Grande B	77,925	79,036	7.48	%		Jul-27

Principal balance outstanding	877,614	488,805
Plus: unamortized fixed-rate debt premiums	15,321	5,972
Total mortgage indebtedness	$892,935	$494,777

(a) Loans were assumed upon acquisition of the related property. Interest rates presented above reflect the market rate at th acquisition.

(b) For loans that bear interest at a variable rate, the rates in effect at September 30, 2006 have been presented.

During the three-month periods ended September 30, 2006 and 2005, the Company s weighted-average interest rate on its mor was 6.16% and 7.21%, respectively.

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7. UNSECURED NOTES

The following table sets forth information regarding the Company s unsecured notes outstanding (in thousands):

Year of Maturity	September 30, 2006	December 31, 2005	Maturity	Stated Interest Rate		Effective Interest Rate	
2008	113,000	113,000	Dec-08	4.34	%	4.34	% (a)
2009	300,000		Apr-09	Libor + 0.45	%	5.41	% (a)
2009	275,000	275,000	Nov-09	4.50	%	4.62	% (a)
2010	300,000	300,000	Dec-10	5.625	%	5.61	% (a)
2012	300,000		Apr-12	5.75	%	5.77	% (a)
2014	250,000	250,000	Nov-14	5.40	%	5.53	% (a)
2016	250,000		Apr-16	6.00	%	5.95	% (a)
2035	27,062		Mar-35	Libor + 1.25	%	6.57	%
2035	25,774		Apr-35	Libor + 1.25	%	6.57	%
2035	25,774		Jul-35	Libor + 1.25	%	6.57	%
Total face amount	$1,866,610	$938,000					
Less: unamortized discounts	(3,422)	(1,393)					
Total unsecured notes	$1,863,188	$936,607					

(a) Rates include the effect of amortization related to discounts and costs related to settlement of treasury lock agreements.

On March 28, 2006, the Operating Partnership consummated the public offering of (1) $300,000,000 aggregate principal amou floating rate notes due 2009 (the 2009 Notes), (2) $300,000,000 aggregate principal amount of its 5.75% notes due 2012 (th $250,000,000 aggregate principal amount of its 6.00% notes due 2016 (the 2016 Notes). The Company guaranteed the paym interest on the 2009 Notes, the 2012 Notes and the 2016 Notes.

The indenture relating to the $300 million 2009, $275 million 2009, $300 million 2010, $300 million 2012, $250 million 2014 2016 unsecured notes contains various financial restrictions and requirements, including (1) a leverage ratio not to exceed 60% leverage ratio not to exceed 40%, (3) a debt service coverage ratio of greater than 1.5 to 1.0, and (4) an unencumbered asset val 150% of unsecured debt. In addition, the note purchase agreement relating to the 2008 unsecured notes contains covenants that above covenants.

8. SECURED NOTE PAYABLE

As the result of a voluntary defeasance that was completed in the fourth quarter of 2005 by Prentiss, the Company has a secure
a maturity date of February 2007. As of September 30, 2006, the outstanding balance on the secured note payable is $181.8 mil
2005, Prentiss exercised the right to complete a voluntary defeasance of its $180.1 million PPREFI portfolio loan collateralized
properties acquired by the Company. Pursuant to the defeasance, Prentiss transferred the mortgage loan to an unrelated success
the proceeds necessary to acquire U.S. Treasury Securities sufficient to cover debt service including both interest and principal
defeasance date through maturity of the loan. The U.S. Treasury Securities of approximately $182.3 million relating to this def
included in investment in marketable securities on the balance sheet. The loan may be repaid at par beginning in November 20
intends to elect to prepay the loan at par when allowed to do so, at which point the Company expects to receive the proceeds of
securities in excess of the loan balance.

9. UNSECURED CREDIT FACILITY

The Company utilizes credit facility borrowings for general business purposes, including the acquisition, development and rede
properties and the repayment of other debt. In December 2005, the Company replaced its then existing credit facility with a $60
unsecured credit facility (the Credit Facility) that matures in December 2009, subject to a one-year extension option. Borrow
Facility generally bear interest at LIBOR plus a spread over LIBOR ranging from 0.55% to 1.10% based on the Company s un
rating. The Company has the option to increase the Credit Facility to $800.0 million subject to the absence of any defaults and
ability to acquire additional commitments from its existing lenders or new lenders. As of September 30, 2006, the Company ha
borrowings and $23.4 million of letters of credit outstanding under the Credit Facility, leaving $326.6 million of unused availab
nine-month periods ended September 30, 2006 and 2005, the weighted-average interest rate on the Company s unsecured cred
the effect of interest rate hedges, was 5.80% during 2006 and 4.40% during 2005.

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The Credit Facility requires the maintenance of certain ratios related to minimum net worth, debt-to-total capitalization and fix
and various non-financial covenants.

10. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main compon
risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities.
risk of inability or unwillingness of tenants to make contractually required payments. Market risk is the risk of declines in the v
due to changes in rental rates, interest rates or other market factors affecting the valuation of properties held by the Company.

Use of Derivative Financial Instruments

The Company s use of derivative instruments is limited to the utilization of interest rate agreements or other instruments to ma
risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or co
the Company s operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrange
financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is po
credit loss in the event of non-performance by these counterparties. However, because of the high credit ratings of the counterp
Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company
credit or property value market risks.

The Company formally assesses, both at inception of the hedge and on an on-going basis, whether each derivative is highly-eff
changes in cash flows of the hedged item. If management determines that a derivative is not highly-effective as a hedge or if a
be a highly-effective hedge, the Company will discontinue hedge accounting prospectively.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants related to the Company s investments or rental operations are eng
business activities, or are located in the same geographic region, or have similar economic features that would cause their inabi
contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant ba
potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and
any unusual concentration of credit risk. No tenant accounted for 5% or more of the Company s rents during the three- and nin
ended September 30, 2006 or 2005.

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11. DISCONTINUED OPERATIONS

For the three- and nine-month periods ended September 30, 2006, income from discontinued operations relates to thirteen prop
Company sold during 2006, including eleven properties that were acquired by the Company as part of its acquisition of Prentis
table summarizes the revenue and expense information for properties classified as discontinued operations for the three- and ni
ended September 30, 2006 (in thousands):

	Three-month period ended September 30, 2006	Nine-month period ended September 30, 2006
Revenue:		
Rents	$2,445	$13,660
Tenant reimbursements	288	2,226
Other		230
Total revenue	2,733	16,116
Expenses:		
Property operating expenses	913	5,048
Real estate taxes	353	2,152
Depreciation & amortization	319	3,545
Total operating expenses	1,585	10,745
Operating income	1,148	5,371
Interest income	2	14
Interest expense		(367
Income from discontinued operations before gain on sale of interests in real estate and minority interest	1,150	5,018
Net gain on sale of interests in real estate	5,188	5,188
Minority interest - partners share of net gain on sale	(1,757)	(1,757
Minority interest - partners share of consolidated real estate venture	(100)	(482
Minority interest attributable to discontinued operations - LP units	(208)	(376
Income from discontinued operations	$4,273	$7,591

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For the three- and nine-month periods ended September 30, 2005, income from discontinued operations relates to three propert
Company sold during 2005 and 2006. The following table summarizes the revenue and expense information for the property cl
discontinued operations for the three- and nine-month periods ended September 30, 2005 (in thousands):

	Three-month period ended September 30, 2005	Nine-mo ended Se 2005
Revenue:		
Rents	$1,134	$3,231
Tenant reimbursements	115	269
Other	1	13
Total revenue	1,250	3,513
Expenses:		
Property operating expenses	486	1,151
Real estate taxes	122	443
Depreciation & amortization	348	978
Total operating expenses	956	2,572
Operating income	294	941
Interest income		
Interest expense		
Income from discontinued operations before gain on sale of interests in real estate and minority interest	294	941
Net gain on sale of interests in real estate	2,196	2,196
Minority interest attributable to discontinued operations - LP units	(84)	(108
Income from discontinued operations	$2,406	$3,029

Discontinued operations have not been segregated in the consolidated statements of cash flows. Therefore, amounts for certain
agree with respective data in the consolidated statements of operations.

12. MINORITY INTEREST IN OPERATING PARTNERSHIP AND JOINT VENTURES

The Company is the sole general partner of the Operating Partnership and, as of September 30, 2006, owned a 95.4% interest i
Partnership. On September 18, 2006, the Operating Partnership declared a $0.44 per unit cash distribution to holders of Class A
million. On August 15, 2006 the Company acquired, through the Operating Partnership, two office properties in Northern Virg
with these acquisitions, the Operating Partnership issued 424,608 Class A Units valued at $32.546 per unit totaling $13.8 millio

As of September 30, 2006 the Company owned interests in four consolidated real estate ventures that own 15 office properties approximately 1.5 million net rentable square feet. Minority interest in joint ventures represents the portion of these consolidate ventures not owned by the Company.

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13. BENEFICIARIES EQUITY
Earnings per Share (EPS)

The following table details the number of shares and net income used to calculate basic and diluted earnings per share (in thous
and per share amounts; results may not add due to rounding):

	Three-month periods ended September 30,			
	2006		2005	
	Basic	Diluted	Basic	Diluted
Income (loss) from continuing operations	$(3,709)	$(3,709)	$13,388	$13,388
Income (loss) from discontinued operations	4,273	4,273	2,406	2,406
Income allocated to Preferred Shares	(1,998)	(1,998)	(1,998)	(1,998)
Net income available to common shareholders	$(1,434)	$(1,434)	$13,796	$13,796
Weighted-average shares outstanding	90,042,270	90,042,270	56,071,973	56,071,973
Options				300,040
Total weighted-average shares outstanding	90,042,270	90,042,270	56,071,973	56,372,013
Earnings per Common Share:				
Continuing operations	$(0.06)	$(0.06)	$0.20	$0.20
Discontinued operations	0.05	0.05	0.04	0.04
	$(0.02)	$(0.02)	$0.25	$0.24

	Nine-month periods ended September 30,			
	2006		2005	
	Basic	Diluted	Basic	Diluted
Income (loss) from continuing operations	$(21,225)	$(21,225)	$31,110	$31,110
Income (loss) from discontinued operations	7,591	7,591	3,029	3,029
Income allocated to Preferred Shares	(5,994)	(5,994)	(5,994)	(5,994)

Net income available to common shareholders	$(19,628)	$(19,628)	$28,145	$28,145
Weighted-average shares outstanding	89,963,541	89,963,541	55,734,114	55,734,114
Options				234,543
Total weighted-average shares outstanding	89,963,541	89,963,541	55,734,114	55,968,657
Earnings per Common Share:				
Continuing operations	$(0.30)	$(0.30)	$0.45	$0.45
Discontinued operations	0.08	0.08	0.05	0.05
	$(0.22)	$(0.22)	$0.50	$0.50

Securities (including Class A Units of the Operating Partnership) totaling 4,893,669 and 1,945,267 as of September 30, 2006 ar
respectively, were excluded from the earnings per share computations because their effect would have been antidilutive.

Common and Preferred Stock

On September 18, 2006, the Company declared a distribution of $0.44 per Common Share, totaling $39.8 million, which was p
2006 to shareholders of record as of October 5, 2006. On September 18, 2006, the Company declared distributions on its Series
and Series D Preferred Shares to holders of record as of September 30, 2006. These shares are entitled to a preferential return o
7.375%, respectively. Distributions paid on October 16, 2006 to holders of Series C Preferred Shares and Series D Preferred Sh
million and $1.1 million, respectively.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Common Stock Repurchases

The Company repurchased 1,180,200 shares during the nine month period ending September 30, 2006 for an aggregate conside
million under its share repurchase program. As of September 30, 2006, the Company may purchase an additional 2,319,800 sha
Repurchases may be made from time to time in the open market or in privately negotiated transactions, subject to market condi
compliance with legal requirements. The share repurchase program does not contain any time limitation and does not obligate t
repurchase any shares. The Company may discontinue the program at any time.

In September 2006, the Company obtained separate authorization to repurchase its common stock in connection with the Octob
Offering (see Note 18). Concurrently with the October 2006 Debt Offering, pursuant to such separate authorization, 1,829,000
repurchased and retired at an average purchase price of $32.80 per share (approximately $60.0 million in aggregate value). Due
Company completed the offering on October 3, 2006, no additional repurchases may be made pursuant to this authorization

Stock Based Compensation

Stock Options

At September 30, 2006, the Company had 1,368,878 options outstanding under its shareholder approved equity incentive plan.
unvested as of September 30, 2006 and therefore there is no remaining unrecognized compensation expense associated with the
activity as of September 30, 2006 and changes during the nine months ended September 30, 2006 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2006	1,276,722	$26.82	2.15
Prentiss options converted to Company options as part of the Prentiss acquisition (see Note 3)	496,037	22.00	2.01
Exercised	(403,881)	20.25	0.55
Forfeited			
Outstanding at September 30, 2006	1,368,878		
Vested at September 30, 2006	1,368,878	$26.44	1.92
Exercisable at September 30, 2006	1,368,878	$26.44	1.92

There were no option awards granted to employees during the three-and nine-month periods ended September 30, 2006 and 20

The Company has the ability and intent to issue shares upon stock option exercises. Historically, the Company has issued new c
satisfy such exercises.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Restricted Stock Awards

The Company s primary form of share-based compensation has been restricted shares issued under a shareholder approved equ
that authorizes various equity-based awards. As of September 30, 2006, 347,377 restricted shares were outstanding and vest ov
the initial grant date. The remaining compensation expense to be recognized for the 347,377 restricted shares outstanding at Se
was approximately $9.8 million. That expense is expected to be recognized over a weighted average remaining vesting period o
three-month and nine-month periods ended September 30, 2006, the Company recognized $744,000 and $2,189,000 of compen
related to outstanding restricted shares. The following table summarizes the Company s restricted share activity for the nine-m
September 30, 2006:

	Shares	Weighted Average Grant Date Fair value
Non-vested at January 1, 2006	315,027	$25.71
Granted	239,469	30.42
Vested	(160,972)	26.28
Forfeited	(46,147)	29.21
Non-vested at September 30, 2006	347,377	$28.23

Outperformance Program

On August 28, 2006, the Compensation Committee of the Company s Board of Trustees adopted a long-term incentive compen
outperformance program). The Company will make payments (in the form of common shares) to executive-participants unc
program only if total shareholder return exceeds percentage hurdles established under the outperformance program. The dollar
payments will depend on the extent to which our performance exceeds the hurdles. The Company established the outperforman
the 1997 Plan.

The Compensation Committee adopted the outperformance program following extensive analysis of long-term, performance-ba
compensation programs. In its analysis, the Compensation Committee considered data and recommendations of an independent
consulting firm, alternative approaches to compensation both within and outside of the REIT industry and the Company s curre
long-term compensation arrangements. The Compensation Committee believes that the outperformance program will enhance t
compensation goals. These goals include: (1) attracting best-in-class talent, (2) retaining our key leaders, (3) providing incentiv
performance and (4) aligning the long-term interests of the Company s executives with the interests of the Company s sharehol

If the total shareholder return (share price appreciation plus cash dividends) during a three-year measurement period exceeds ei
(with one hurdle keyed to the greater of a fixed percentage and an industry-based index, and the other hurdle keyed to a fixed p
Company will fund an incentive compensation pool in accordance with a formula and make pay-outs from the compensation po
vested and restricted common shares. The awards issued are accounted for in accordance with FASB No. 123R. The fair value
the date of grant, as adjusted for estimated forfeitures, was approximately $5.6 million and will be amortized into expense over
period beginning on the date of grant using a graded vesting attribution model. The fair value of $5.6 million on the date of gra
approximately 89.9% of the total that may be awarded; the remaining amount available will be valued when the awards are gra
For the three-month and nine-month periods ended September 30, 2006, the Company recognized $143,000 of compensation e
the outperformance program.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

14. SEGMENT INFORMATION

The Company currently manages its portfolio within nine segments: (1) Pennsylvania West, (2) Pennsylvania North, (3) New
Richmond, Virginia, (6) California North, (7) California South, (8) Mid-Atlantic and (9) Southwest. The Pennsylvania West
properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs of Pennsylvania. The Pennsylvania Nor
properties north of Philadelphia in Berks, Bucks, Cumberland, Dauphin, Lehigh and Montgomery counties. The New Jersey se
properties in counties in the southern part of New Jersey including Burlington, Camden and Mercer counties and in Bucks Cou
The Urban segment includes properties in the City of Philadelphia, Pennsylvania and the state of Delaware. The Richmond, Vi
includes properties primarily in Albemarle, Chesterfield and Henrico counties, the City of Richmond and Durham, North Carol
California North segment includes properties in the City of Oakland and Concord. The California South segment includes pro
Carlsbad and San Diego. The Mid-Atlantic segment includes properties in Northern Virginia and the City of Bethesda and Roc
The Southwest segment includes properties in Dallas and Travis counties of Texas. Corporate is responsible for cash and inves
development of certain real estate properties during the construction period, and certain other general support functions.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Segment information as of and for the three-month periods ended September 30, 2006 and 2005 is as follows (in thousands):

	Pennsylvania West	Pennsylvania North	New Jersey	Urban	Richmond, Virginia	California North	California South	Mid-Atlanti	Southwest	Co
As of September 30, 2006:										
Real estate investments, at cost:										
Operating properties	$916,128	$536,002	$594,322	$413,727	$245,019	$393,639	$95,920	$1,191,798	$485,423	$
Construction-in-progress										30
Land held for development										11
As of December 31, 2005:										
Real estate investments, at cost:										
Operating properties	$867,089	$558,803	$562,832	$351,407	$219,930	$	$	$	$	$
Construction-in-progress										27
Land held for development										98
For the three-months ended September 30, 2006:										
Total revenue	$35,143	$18,702	$25,999	$22,185	$8,509	$14,655	$3,035	$28,774	$21,462	$3,
Property operating expenses and real estate taxes	10,682	9,776	13,028	9,243	3,027	5,726	898	9,347	9,567	39
Net operating income	$24,461	$8,926	$12,971	$12,942	$5,482	$8,929	$2,137	$19,427	$11,895	$2,
For the three-months ended September 30, 2005:										
Total revenue	$26,240	$18,361	$24,845	$16,389	$7,336	$	$	$	$	$1,
Property operating expenses and real estate taxes	8,187	8,312	10,541	6,546	2,818					4
Net operating income	$18,053	$10,049	$14,304	$9,843	$4,518	$	$	$	$	$1,

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Segment information as of and for the nine-month periods ended September 30, 2006 and 2005 is as follows (in thousands):

	Pennsylvania West	**Pennsylvania North**	**New Jersey**	**Urban**	**Richmond, Virginia**	**California North**	**California South**	**Mid-Atlantic**	**Southwest**	**C**
For the nine-months ended September 30, 2006:										
Total revenue	$ 93,529	$ 55,008	$ 75,090	$62,826	$ 24,009	$ 42,914	$ 8,591	$ 81,157	$ 61,019	$
Property operating expenses and real estate taxes	30,147	29,553	33,893	26,060	9,045	16,175	2,425	25,179	28,399	
Net operating income	$ 63,382	$ 25,455	$ 41,197	$36,766	$ 14,964	$ 26,739	$ 6,166	$ 55,978	$ 32,620	$
For the nine-months ended September 30, 2005:										
Total revenue	$ 83,160	$ 55,014	$ 74,724	$48,814	$ 21,653	$	$	$	$	$
Property operating expenses and real estate taxes	28,259	25,125	30,811	19,584	8,515					
Net operating income	$ 54,901	$ 29,889	$ 43,913	$29,230	$ 13,138	$	$	$	$	$

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Net operating income is defined as total revenue less property operating expenses and real estate taxes. Below is a reconciliatio
net operating income to net income (in thousands):

	Three-month periods ended September 30,		Nine-month period ended September 3	
	2006	**2005**	**2006**	**200**
Consolidated net operating income (loss)	$109,909	$58,619	$312,541	$17
Less:				
Interest income	2,479	304	7,702	96
Interest expense	(45,402)	(17,762)	(128,869)	(5
Depreciation and amortization	(68,277)	(28,230)	(199,275)	(8
Administrative expenses	(6,490)	(4,486)	(22,704)	(1
Minority interest - partners share of consolidated real estate ventures	279		560	
Minority interest attributable to continuing operations - LP units	276	(442)	1,267	(1,
Plus:				
Equity in income of real estate ventures	370	745	1,798	2,
Net gain on sales of interests in real estate		4,640	2,608	4,
Gain on termination of purchase contract	3,147		3,147	
Income (loss) from continuing operations	(3,709)	13,388	(21,225)	31
Income (loss) from discontinued operations	4,273	2,406	7,591	3,
Net income (loss)	$564	$15,794	$(13,634)	$34

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved from time to time in litigation on various matters, including disputes with tenants and disputes arisin
to purchase or sell properties. Given the nature of the Company s business activities, these lawsuits are considered routine to t
business. The result of any particular lawsuit cannot be predicted, because of the very nature of litigation, the litigation process
nature, and the jury system. The Company does not expect that the liabilities, if any, that may ultimately result from such legal
material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

There have been lawsuits against owners and managers of multifamily and office properties asserting claims of personal injury
damage caused by the presence of mold in residential units or office space. The Company has been named as a defendant in tw
State of New Jersey that allege personal injury as a result of the presence of mold. In 2005, one lawsuit was dismissed by way
judgment with prejudice. Unspecified damages are sought on the remaining lawsuit. The Company has referred this lawsuit to i

insurance carrier and, as of the date of this Form 10-Q, the insurance carrier is tendering a defense to this claim.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state, and local governments. The
compliance with existing laws has not had a material adverse effect on its financial condition and results of operations, and the
believe it will have a material adverse effect in the future. However, the Company cannot predict the impact of unforeseen envi
contingencies or new or changed laws or regulations on its current Properties or on properties that the Company may acquire.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Related Party Transaction

The Company held a fifty percent economic interest in an approximately 141,724 square foot office building located at 101 Par
Montvale, New Jersey. The remaining fifty percent interest was held by Donald E. Axinn, one of the Company s Trustees. Alt
and Mr. Axinn had each committed to provide one half of the $11 million necessary to repay the mortgage loan secured by this
maturity of the loan, in February 2006 an unaffiliated third party entered into an agreement to purchase this property for $18.3
of the purchase by an unaffiliated third party during August 2006, the Company recognized a $3.1 million gain on termination
1998 contribution agreement, modified in 2005, that entitled the Company to the 50% interest in the joint venture to operate the
gain is shown separately on the Company s income statement as a gain on termination of purchase contract.

Ground Rent

Future minimum rental payments under the terms of all non-cancelable ground leases under which the Company is the lessee a
straight-line basis regardless of when payments are due.

Other Commitments or Contingencies

As part of the Company s September 2004 acquisition of a portfolio of 14 properties (the TRC Acquisition), the Operating
issue to the sellers up to a maximum of $9.7 million of Class A Units of the Operating Partnership if certain of the acquired pro
least 95% occupancy prior to September 21, 2007. At September 30, 2006, the maximum amount payable under this arrangeme
million.

As part of the TRC acquisition, the Company acquired an interest in Two Logan Square, a 696,477 square foot office building
Pennsylvania, primarily through a second and third mortgage secured by this property pursuant to which the Company receives
cash flows from the property. The Company currently does not expect to take title to Two Logan Square until, at the earliest, S
the event that the Company takes title to Two Logan Square upon a foreclosure of its mortgages, the Company has agreed to m
unaffiliated third party with a residual interest as a fee owner of this property. The amount of the payment would be $0.6 millio
must pay a state and local transfer tax upon taking title, or $2.9 million if no transfer tax is payable upon the transfer.

As part of the Prentiss acquisition, TRC acquisition and several of our other acquisitions, the Company has agreed not to sell ce
acquired properties. In the case of TRC, the Company agreed not to sell certain of the acquired properties for periods ranging f
years from the acquisition date as follows: 201 Radnor Financial Center, 555 Radnor Financial Center and 300 Delaware Aven
One Rodney Square and 130/150/170 Radnor Financial Center (10 years); and One Logan Square, Two Logan Square and Rad
Center (15 years). In the case of the Prentiss acquisition, the Company assumed the obligation of Prentiss not to sell Concord A
March 2018 and 6600 Rockledge before July 2008. The Company also owns 14 other properties that aggregate 1.0 million squa
agreed not to sell these properties for periods that expire through 2008. These agreements generally provide that the Company
subject Properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Code or in other tax deferre
the event that the Company sells any of the properties within the applicable restricted period in non-exempt transactions, the Co
to pay significant tax liabilities that would be incurred by the parties who sold the applicable property.

The Company invests in its Properties and regularly incurs capital expenditures in the ordinary course of business to maintain t
Company believes that such expenditures enhance the competitiveness of the Properties. The Company also enters into constru
service contracts in the ordinary course of business which may extend beyond one year. These contracts include terms that pro

with insignificant or no cancellation penalties.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

16. SUBSEQUENT EVENT

On October 4, 2006, the Company s operating partnership issued $300 million aggregate principal amount of exchangeable gu
October 15, 2026 with a coupon of 3.875%. On October 16, 2006, the Company s operating partnership issued an additional $
principal amount of notes to cover over-allotments.

The Company used the net proceeds from the sale of the notes to repurchase approximately $60 million of outstanding commo
common shares at a price of $32.80 per share); to repay approximately $180 million under the Company s revolving credit fac
the balance in short term securities pending redemption of the Operating Partnership s $300 million Floating Rate Guaranteed
January 2, 2007.

The notes will be exchangeable for cash and common shares at an initial exchange rate of 25.4065 common shares per $1,000 p
notes (equivalent to an initial exchange price of approximately $39.36 per common share). The initial exchange price represent
to the last reported sales price prior to issuance for the common shares on the New York Stock Exchange on September 28, 20
value will be based on the exchange rate and the then trading price of the common shares. The initial exchange rate is subject t
certain circumstances.

The repurchase of 1,829,000 common shares with a portion of the proceeds of the notes did not reduce the 2,319,800 common
repurchased under the Company s Board-approved share repurchase program.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Quarterly and other materials filed by us with the SEC (as well as information included in oral or other written statements made by us) co that are forward-looking, including statements relating to business and real estate development activities, acquisitions, dispositi expenditures, financing sources, governmental regulation (including environmental regulation) and competition. The words a estimate, expect, intend, will, should and similar expressions, as they relate to us, are intended to identify forwar we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can giv our expectations will be achieved. As forward-looking statements, these statements involve important risks, uncertainties and o could cause actual results to differ materially from the expected results and, accordingly, such results may differ from those exp forward-looking statements made by us or on our behalf. Factors that could cause actual results to differ materially from our ex but are not limited to, changes in general economic conditions, changes in local real estate conditions (including changes in ren number of competing properties), changes in the economic conditions affecting industries in which our principal tenants compe lease unoccupied space in accordance with our projections, our failure to re-lease occupied space upon expiration of leases, the major tenants, changes in prevailing interest rates, the unavailability of equity and debt financing, unanticipated costs associate acquisition and integration of our acquisitions, unanticipated costs to complete and lease-up pending developments, impairmen costs for, or lack of availability of, adequate insurance, including for terrorist acts, demand for tenant services beyond those tra by landlords, potential liability under environmental or other laws, earthquakes and other natural disasters, the existence of com relating to our status as a REIT and to our acquisition, disposition and development activities, the adverse consequences of our a REIT, the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of and the other risks identified in the Risk Factors section and elsewhere in our Annual Report on Form 10-K for the year end Given these uncertainties, we caution readers not to place undue reliance on forward-looking statements. We assume no obliga supplement forward-looking statements that become untrue because of subsequent events except as required by law.

OVERVIEW

As of September 30, 2006, we managed our portfolio within nine geographic segments: (1) Pennsylvania West, (2) Pennsylva Jersey, (4) Urban, (5) Richmond, Virginia, (6) California North, (7) California South, (8) Mid-Atlantic and (9) Southwest. W established an effective platform in these office and industrial markets for maximizing market penetration, optimizing operatin scale and creating long-term investment value.

Through our January 2006 acquisition of Prentiss, we acquired interests in properties that contain an aggregate of 14.0 million feet. Through this acquisition, we also entered into new markets, including markets in California, Northern Virginia, Maryland

Subsequent to our acquisition of Prentiss and the related sale of certain of Prentiss s properties to Prudential, we sold 11 additi contain an aggregate of 2.3 million net rentable square feet and one parcel of land containing 10.9 acres.

As of September 30, 2006, our portfolio consisted of 277 office properties, 23 industrial facilities and one mixed-use property t aggregate of approximately 30.0 million net rentable square feet. We held economic interests in 11 unconsolidated real estate v approximately 2.7 million net rentable square feet (the Real Estate Ventures) formed with third parties to develop or own co In addition, as of September 30, 2006 we owned interests in four consolidated real estate ventures that own 15 office properties approximately 1.5 million net rentable square feet.

We receive income primarily from rental revenue (including tenant reimbursements) from our properties and, to a lesser extent management of properties owned by third parties and from investments in the Real Estate Ventures.

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Our financial performance is dependent upon the demand for office, industrial and other commercial space in our markets and u
interest rates.

We continue to seek revenue growth through an increase in occupancy of our portfolio and our investment strategies. Our occu
September 30, 2006, or 90.2% including four lease-up properties that we acquired in our September 2004 acquisition of a portf
properties (the TRC Properties or the TRC acquisition).

The Prentiss acquisition and the TRC acquisition, and to a lesser extent, other property acquisitions have already or will materi
operations. Accordingly, the reported historical financial information for periods prior to these transactions is not believed to b
our future operating results or financial condition.

As we seek to increase revenue through our operating activities, our management also focuses on strategies to minimize operat
(i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

Tenant Rollover Risk:

We are subject to the risk that tenant leases, upon expiration, are not renewed, that space may not be relet, or that the terms of r
(including the cost of renovations) may be less favorable to us than the current lease terms. Leases accounting for approximatel
aggregate annualized base rents as of September 30, 2006 (representing approximately 2.9% of the net rentable square feet of t
expire without penalty through the end of 2006. We maintain an active dialogue with our tenants in an effort to achieve a high l
renewals. Our retention rate for leases that were scheduled to expire in the nine-month period ended September 30, 2006 was 7
unable to renew leases for a substantial portion of the space under expiring leases, or to promptly relet this space, at anticipated
cash flow would be adversely impacted.

Tenant Credit Risk:

In the event of a tenant default, we may experience delays in enforcing our rights as a landlord and may incur substantial costs
investment. Our management regularly evaluates our accounts receivable reserve policy in light of its tenant base and general a
conditions. The accounts receivable allowances were $8.8 million or 8.9% of total receivables (including accrued rent receivab
30, 2006 compared to $4.9 million or 7.6% of total receivables (including accrued rent receivable) as of December 31, 2005.

Development Risk:

As of September 30, 2006, we had in development or redevelopment eleven sites aggregating approximately 2.2 million square
the total cost of these projects to be $523.2 million and we had incurred $302.9 million of these costs as of September 30, 2006
marketing space at these projects to prospective tenants but can provide no assurance as to the timing or terms of any leases of
projects. As of September 30, 2006, we owned approximately 378 acres of undeveloped land. Risks associated with developme
include construction cost increases or overruns and construction delays, insufficient occupancy rates, building moratoriums and
zoning, land-use, building, occupancy and other required governmental approvals.

ACQUISITIONS AND DISPOSITIONS OF REAL ESTATE INVESTMENTS

On January 5, 2006, we acquired Prentiss pursuant to an Agreement and Plan of Merger that we entered into with Prentiss on O
conjunction with our acquisition of Prentiss, designees of The Prudential Insurance Company of America (Prudential) acqui
properties that contain an aggregate of approximately 4.32 million net rentable square feet for total consideration of approxima
Through our acquisition of Prentiss (and after giving effect to the Prudential acquisition of certain Prentiss properties), we acqu
79 office properties (including 13 properties that are owned by consolidated real estate ventures and seven properties that are o
unconsolidated real estate ventures) that contain an aggregate of 14.0 million net rentable square feet.

Subsequent to our acquisition of Prentiss and the related sale of properties to Prudential, through September 30, 2006, we sold
properties acquired from Prentiss that contain an aggregate of 2.3 million net rentable square feet and one parcel of land contai

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In our acquisition of Prentiss, each then outstanding Prentiss common share was converted into the right to receive 0.69 of a Br share and $21.50 in cash except that 497,884 Prentiss common shares held in the Prentiss Deferred Compensation Plan convert 720,737 Brandywine common shares. In addition, each then outstanding unit of limited partnership interest in Prentiss s opera subsidiary was, at the option of the holder, converted into Prentiss Common Shares with the right to receive the per share merg 1.3799 Class A Units of our Operating Partnership. Accordingly, based on 49,375,723 Prentiss common shares outstanding and OP Units electing to receive merger consideration at closing of the acquisition, we issued 34,541,946 Brandywine common sha aggregate of approximately $1.05 billion in cash for the accounts of the former Prentiss shareholders. Based on 1,572,612 Pren outstanding at closing of the acquisition, we issued 2,170,047 Brandywine Class A Units. In addition, options issued by Prentis exercisable for an aggregate of 342,662 Prentiss common shares were converted into options exercisable for an aggregate of 49 common shares at a weighted average exercise price of $22.00 per share. Through our acquisition of Prentiss we assumed appro million in aggregate principal amount of Prentiss debt.

Each Brandywine Class A Unit that we issued in the merger is subject to redemption at the option of the holder. At our option, redemption either for an amount, per unit, of cash equal to the then market price of one Brandywine common share (based on t trading average) or for one Brandywine common share.

In addition to the acquisition activity related to Prentiss, during the nine-month period ended September 30, 2006, we also acqu properties containing 681,688 net rentable square feet and 76.6 acres of developable land for an aggregate purchase price of $1 addition to sales of assets acquired in the Prentiss merger, we sold two office properties containing 216,554 net rentable square parcels of land containing 6.8 acres for an aggregate $43.5 million, realizing net gains totaling $6.0 million.

In addition to the acquisition activity related to Prentiss, during the three-month period ended September 30, 2006, we acquired properties containing 443,581 net rentable square feet for $133.2 million. In addition to sales of assets acquired in the Prentiss r office properties containing 216,554 net rentable square feet for $38.6 million, realizing net gains totaling $3.4 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparati financial statements in conformity with accounting principles generally accepted in the United States of America requires mana estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies be critical accounting policies, as it requires management to make assumptions about matters that are highly uncertain at the tin made and changes in accounting policies are reasonably likely to occur from period to period. Management bases its estimates historical experience and current economic conditions. On an on-going basis, management evaluates its estimates and assumpti related to revenue, impairment of long-lived assets and the allowance for doubtful accounts. Actual results may differ from tho assumptions.

Our Annual Report on Form 10-K for the year ended December 31, 2005 contains a discussion of our critical accounting polici no significant changes in our critical accounting policies since December 31, 2005. See also Note 2 in our unaudited consolidat statements for the nine-month period ended September 30, 2006 as set forth herein. Management discusses our critical account management s judgments and estimates with our Audit Committee.

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RESULTS OF OPERATIONS

Comparison of the Three-Month Periods Ended September 30, 2006 and 2005

The table below shows selected operating information for the Same Store Property Portfolio and the Total Portfolio. The Same
Portfolio consists of 238 Properties containing an aggregate of approximately 17.8 million net rentable square feet that we own
three-month periods ended September 30, 2006 and 2005. This table also includes a reconciliation from the Same Store Propert
Total Portfolio net income (i.e., all properties owned by us during the three-month periods ended September 30, 2006 and 2005
information for the properties which were acquired, under development (including lease-up assets) or placed into service and
administrative/elimination information for the three-month periods ended September 30, 2006 and 2005 (in thousands).

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Comparison of three-months ended September 30, 2006 to the three-months ended September 30, 2005

	Same Store Property Portfolio				Prentiss Portfolio		Properties Acquired		Development Properties (a)		Administrative/ Eliminations (b)		Total P
(dollars in thousands)	**2006**	**2005**	**Increase/ (Decrease)**	**% Change**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
Revenue:													
Cash rents	$75,669	$73,742	$1,927	3 %	$54,059	$	$3,231	$41	$6,518	$1,916	$157	$41	$139,63
Straight-line rents	1,272	3,461	(2,189)	-63 %	2,602		230		3,379	825			7,483
Rents - FAS 141	688	324	364	112 %	1,413		218		(62)	(62)			2,257
Total rents	77,629	77,527	102	0 %	58,074		3,679	41	9,835	2,679	157	41	149,37
Tenant reimbursements	14,026	11,397	2,629	23 %	8,566		253	3	890	217	67	93	23,802
Other (c)	5,127	1,176	3,951	336 %	454		156		52	528	2,629	1,325	8,418
Total revenue	96,782	90,100	6,682	7 %	67,094		4,088	44	10,777	3,424	2,853	1,459	181,59
Operating Expenses:													
Property operating expenses	30,856	27,748	3,108	11 %	20,319		900	8	3,797	1,537	(2,407)	(2,629)	53,465
Real estate taxes	9,619	8,851	768	9 %	6,332		389	2	1,173	768	707	123	18,220
Administrative expenses				0 %							6,490	4,486	6,490
Total property operating expenses	40,475	36,599	3,876	11 %	26,651		1,289	10	4,970	2,305	4,790	1,980	78,175
Subtotal	56,307	53,501	2,806	5 %	40,443		2,799	34	5,807	1,119	(1,937)	(521)	103,41
Depreciation and amortization	29,588	26,581	3,007	11 %	31,875		1,048		5,157	1,704	609	(55)	68,277
Operating Income (loss)	$26,719	$26,920	$(201)	-1 %	$8,568	$	$1,751	$34	$650	$(585)	$(2,546)	$(466)	$35,142
Number of properties	238				61		6		11				316
Square feet	17,828				10,590		964		2,101				31,483
Other Income (Expense):													
Interest income													2,479
Interest expense													(45,40

Equity in income of real estate ventures	370
Net gain on sales of interests in real estate	
Gain on termination of purchase contract	3,147
Income (loss) before minority interest	(4,264
Minority interest - partners share of consolidated real estate ventures	279
Minority interest attributable to continuing operations - LP units	276
Income (loss) from continuing operations	(3,709
Income (loss) from discontinued operations	4,273
Net Income (loss)	$564
Earnings per common share	($0.02

EXPLANATORY NOTES

(a) - Results include: three redevelopments; four lease-up assets; three properties placed in service; and Cira Centre

(b) - Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated i

(c) - Includes net termination fee income of $4,338 for 2006 and $510 for 2005 for the same store property portfolio and $165 f
Prentiss portfolio

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Revenue

Revenue increased by $86.6 million primarily due to the acquisition of Prentiss, which represents $67.1 million of this increase also the result of two properties that we acquired in the fourth quarter of 2005, one property acquired in the first quarter of 2006 acquired in the second quarter of 2006, two properties acquired in the third quarter of 2006 and additional tenant occupancy at (included in Development Properties).

Revenues also increased by $2.6 million for tenant reimbursements as a result of increased property operating expenses for our portfolio. Our termination fee income increased by $3.8 million as result of tenant move-outs.

Operating Expenses and Real Estate Taxes

Property operating expenses increased by $26.8 million primarily due to the acquisition of Prentiss, which represents $20.3 mil increase. Property operating expenses attributable to the occupied portion of Cira Centre and other properties acquired account of the increase with the remainder of the increase attributable to increased property operating expenses for our same store portf

Real estate taxes increased by $8.5 million primarily due to the acquisition of Prentiss, which represents $6.3 million of this inc remainder of the increase is primarily the result of increased real estate tax assessments in our same store properties and proper under development.

Depreciation and Amortization Expense

Depreciation and amortization increased by $40.0 million primarily due to the acquisition of Prentiss, which increased total por expense by $31.9 million. The remaining increase is the result of the timing of assets being placed in service upon completion o improvement and capital improvement projects subsequent to the end of the three month period ending September 30, 2005. A of the remaining increased depreciation for tenant improvements relates to Cira Centre where tenants have taken occupancy.

Administrative Expenses

Administrative expenses increased by approximately $2.0 million primarily due to the acquisition of Prentiss. Of this increase, primarily attributable to increased payroll and related costs associated with employees that we hired as part of the acquisition o incurred an additional $0.6 million in professional fees in connection with our merger integration activities. The remainder of t other increased costs of the combined companies.

Interest Income/ Expense

Interest expense increased by approximately $27.6 million primarily as a result of 14 fixed rate mortgages, three unsecured note secured by U.S. treasury notes (PPREFI debt) that we assumed or entered into to finance the Prentiss merger. The mortgage maturity dates ranging from July 2009 through March 2016 and the unsecured notes have maturities of March, April, and July PPREFI debt has a maturity of February 2007.

The PPREFI debt was defeased by Prentiss in the fourth quarter of 2005 and is secured by an investment in U.S. treasury notes earned on the treasury notes is included in interest income and substantially offsets the amount of interest expense incurred on resulting in an immaterial amount of net interest expense incurred. The increase of $2.2 million in interest income is primarily interest income earned on these treasury notes.

See the Notes to the Unconsolidated Combined Financial Statements in Part I, Item I for details of our mortgage indebtedness outstanding.

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Minority Interest-partners share of consolidated real estate ventures

Minority interest-partners share of consolidated real estate ventures increased by $0.3 million from the prior year as a result o
one consolidated joint venture as part of our acquisition of Prentiss. This consolidated joint venture, of which we own 51%, ow
which aggregate approximately 1.2 million square feet of office space.

Subsequent to our acquisition of Prentiss, we entered into a joint venture with IBM. We consolidate this joint venture, and own
it.

As of September 30, 2006 we held an ownership interest in 15 properties through consolidated joint ventures, compared to two
by consolidated joint ventures at September 30, 2005.

Minority Interest attributable to continuing operations LP units

Minority interest attributable to continuing operations LP units, represents the equity in loss (income) attributable to the porti
Partnership not owned by us. The increase from the prior year is primarily the result of the fact that at September 30, 2006 the l
our net loss compared to their share of net income in the prior year. Minority interests owned 4.6% and 3.4% of the Operating l
September 30, 2006 and 2005, respectively. The change in minority interest ownership is primarily the result of Operating Part
in the Prentiss merger.

Discontinued Operations

Income from discontinued operations increased by $1.9 million from the prior year as a result of the sale of one property in Dal
property in Chicago, IL that we acquired in the Prentiss acquisition. We also sold two properties that were previously included
portfolio. These four properties combined had net income of $1.2 million and gains on sale of $5.2 million during the quarter e
2006. Included in the gain on sale amount was $1.8 million attributable to minority interest in the Chicago property. During the
September 30, 2005, we sold one property that had net income of $0.1 million and a gain on sale of $2.2 million.

Net Income

Net income declined in the third quarter of 2006, compared to the third quarter of 2005, by $15.2 million as increased revenues
increases in operating costs (primarily depreciation and amortization) and financing costs. All major financial statement captio
result of our acquisition of Prentiss and the related financing required to complete the transaction. A significant element of thes
additional depreciation and amortization charges relating to the significant property additions (including both the TRC acquisit
acquisition) and the values ascribed to related acquired intangibles (e.g., in-place leases). These charges do not affect our abilit
and may not be comparable to those of other real estate companies that have not made such acquisitions. Such charges can be e
until the values ascribed to the lease intangibles are fully amortized. These intangibles are amortizing over the related lease ter
tenant relationship.

Earnings Per Share

Earnings per share was $0.24 in the third quarter of 2005 as compared to a loss per share of $(0.02) in the third quarter of 2006
factors described in Net Income above and an increase in the average number of common shares outstanding. We issued 34.
common shares in our acquisition of Prentiss.

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Comparison of the Nine-Month Periods Ended September 30, 2006 and 2005

The table below shows selected operating information for the Same Store Property Portfolio and the Total Portfolio. The Same Portfolio consists of 238 Properties containing an aggregate of approximately 17.8 million net rentable square feet that we own nine-month periods ended September 30, 2006 and 2005. This table also includes a reconciliation from the Same Store Property Total Portfolio net income (i.e., all properties owned by us during the nine-month periods ended September 30, 2006 and 2005) information for the properties which were acquired, under development (including lease-up assets) or placed into service and administrative/elimination information for the nine-month periods ended September 30, 2006 and 2005 (in thousands).

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Comparison of the nine-months ended September 30, 2006 to the nine-months ended September 30, 2005

	Same Store Property Portfolio				**Prentiss Portfolio**		**Properties Acquired**		**Development Properties (a)**		**Administ Eliminati**
(dollars in thousands)	**2006**	**2005**	**Increase/ (Decrease)**	**% Change**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
Revenue:											
Cash rents	$ 226,393	$ 224,811	$ 1,582	1 %	$ 158,050	$	$ 6,843	$ 41	$ 16,743	$ 5,069	$ 531
Straight-line rents	6,591	8,346	(1,755)	-21 %	8,424		483		7,464	1,854	
Rents - FAS 141	1,938	951	987	104 %	4,486		152		(186)	(180)	1
Total rents	234,922	234,108	814	0 %	170,960		7,478	41	24,021	6,743	532
Tenant reimbursements	34,803	33,665	1,138	3 %	20,429		560	3	1,987	554	424
Other (c)	8,009	7,377	632	9 %	1,264		157	2	93	593	7,933
Total revenue	277,734	275,150	2,584	1 %	192,653		8,195	46	26,101	7,890	8,889
Operating Expenses:											
Property operating expenses	87,154	85,779	1,375	2 %	58,229		2,252	8	10,072	4,936	(7,879)
Real estate taxes	27,858	25,997	1,861	7 %	18,556		807	2	3,087	2,553	895
Administrative expenses				%							22,704
Total property operating expenses	115,012	111,776	3,236	3 %	76,785		3,059	10	13,159	7,489	15,720
Subtotal	162,722	163,374	(652)	0 %	115,868		5,136	36	12,942	401	(6,831)
Depreciation and amortization	92,168	77,454	14,714	19 %	94,344		2,051		9,009	4,364	1,703
Operating Income (loss)	$ 70,554	$ 85,920	$ (15,366)	-18 %	$ 21,524	$	$ 3,085	$ 36	$ 3,933	$ (3,963)	$ (8,534)
Number of properties	238				61		6		11		
Square feet	17,828				10,590		964		2,101		
Other Income (Expense):											
Interest income											
Interest expense											

Equity in income of real estate ventures
Net gain on sales of interests in real estate
Gain on termination of purchase contract

Income (loss) before minority interest

Minority interest - partners share of consolidated real estate ventures
Minority interest attributable to continuing operations - LP units

Income (loss) from continuing operations
Income (loss) from discontinued operations

Net Income (loss)

Earnings per common share

EXPLANATORY NOTES

(a) - Results include: three redevelopments; four lease-up assets; three properties placed in service; and Cira Centre

(b) - Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated i

(c) - Includes net termination fee income of $5,890 for 2006 and $5,888 for 2005 for the same store property portfolio and $47
Prentiss portfolio

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Revenue

Revenue increased by $225.8 million primarily due to the acquisition of Prentiss, which represents $195.4 million of this increa of the properties acquired from Prentiss contributed $192.7 million to this increase and $2.7 million resulted from additional th management fees as a result of management contracts assumed and entered into at the time of acquisition. The increase is also t properties that were acquired in the fourth quarter of 2005, one property acquired in the first quarter of 2006, one property acqu quarter of 2006 and two properties acquired in the third quarter of 2006, as well as additional tenant occupancy at Cira Centre (development properties) that will continue throughout 2006.

The increase in revenue of $2.6 million for our same store portfolio is due to increased occupancy and increased tenant reimbu from increased property operating expenses.

Operating Expenses and Real Estate Taxes

Property operating expenses increased by $66.1 million primarily due to the acquisition of Prentiss, which represents $58.2 mil increase. Property operating expenses attributable to the occupied portion of Cira Centre and other property acquisitions accou remainder of the increase.

Real estate taxes increased by $22.4 million primarily due to the acquisition of Prentiss, which represents $18.6 million of this remainder of the increase primarily is the result of increased real estate tax assessments in our same store portfolio and properti under development.

Depreciation and Amortization Expense

Depreciation and amortization increased by $115.3 million primarily due to the acquisition of Prentiss, which increased total po expense by $94.3 million. A significant portion of the increase is also due to accelerated depreciation expense for one of our pr $11.9 million that is associated with the planned demolition of an existing building as part of an office park development in sub This property was part of our same store portfolio; therefore the remaining increase in depreciation and amortization for our sa $2.8 million. This increase resulted from the timing of assets being placed in service upon completion of tenant improvement a improvement projects subsequent to the end of the nine month period ending September 30, 2005. The six properties that we ac to September 30, 2005 caused an increase of $2.1 million in depreciation and amortization expense. Depreciation and amortiza development properties increased by $4.6 million as a result of Cira Centre where tenants have taken occupancy.

Administrative Expenses

Administrative expenses increased by approximately $9.1 million primarily due to the acquisition of Prentiss. Of this increase, primarily attributable to increased payroll and related costs associated with employees that we hired as part of the acquisition o incurred an additional $3.6 million in professional fees in connection with our merger integration activities. The remainder of t other increased costs of the combined companies which includes an increase in deferred compensation expense of $1.0 million.

Interest Income/ Expense

Interest expense increased by approximately $75.5 million primarily as a result of 14 fixed rate mortgages, three unsecured not secured by U.S. treasury notes (PPREFI debt) that we assumed or entered into to finance the Prentiss merger. The mortgage maturity dates ranging from July 2009 through March 2016 and the unsecured notes have maturities of March, April, and July PPREFI debt has a maturity of February 2007.

The PPREFI debt was defeased by Prentiss in the fourth quarter of 2005 and is secured by an investment in U.S. treasury notes earned on the treasury notes is included in interest income and substantially offsets the amount of interest expense incurred on t

resulting in an immaterial amount of net interest expense incurred. The increase of $6.7 million in interest income is primarily a
interest income earned on these treasury notes.

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See the Notes to the Unconsolidated Combined Financial Statements in Part I, Item I for details of our mortgage indebtedness a
outstanding.

Minority Interest-partners share of consolidated real estate ventures

Minority interest-partners share of consolidated real estate ventures increased by $0.8 million from the prior year as a result o
one consolidated joint venture as part of our acquisition of Prentiss. This consolidated joint venture, of which we own 51%, ow
which aggregate approximately 1.2 million square feet of office space.

Subsequent to our acquisition of Prentiss, we entered into a joint venture with IBM. We consolidate this joint venture, and own
it.

As of September 30, 2006 we hold an ownership interest in 15 properties through consolidated joint ventures, compared to two
by consolidated joint ventures at September 30, 2005.

Minority Interest attributable to continuing operations LP units

Minority interest attributable to continuing operations LP units, represents the equity in loss (income) attributable to the porti
Partnership not owned by us. The increase from the prior year is primarily the result of the fact that at September 30, 2006 the l
our net loss compared to their share of net income in the prior year. Minority interests owned 4.6% and 3.4% of the Operating l
September 30, 2006 and 2005, respectively. The change in minority interest ownership is primarily the result of Operating Part
in the Prentiss merger.

Discontinued Operations

Income from discontinued operations increased by $4.6 million from the prior year as a result of the sale of eight properties in C
Dallas, TX, and one in Allen, TX that we acquired in the Prentiss acquisition. We also sold two properties that were previously
same store portfolio. These 13 properties combined had net income of $5.0 million and gain on sale of $5.2 million during the n
ended September 30, 2006. Included in the gain on sale amount was $1.8 million attributable to minority interest in the Chicago
the nine-month ended September 30, 2005, we sold one property that had net operating income of $0.1 million and a gain on sa
The two properties that we sold from our same store portfolio during the quarter ended September 30, 2006 had net income of $

Net Income

Net income declined in the nine month period ending September 30, 2006, compared to the same period in 2005 by $47.8 milli
revenues were offset by increases in operating costs (primarily depreciation and amortization) and financing costs. All major fi
captions increased as a result of our acquisition of Prentiss and the related financing required to complete the transaction. A sig
these costs relate to additional depreciation and amortization charges relating to the significant property additions (including bo
acquisition and the Prentiss acquisition) and the values ascribed to related acquired intangibles (e.g., in-place leases). These cha
our ability to pay dividends and may not be comparable to those of other real estate companies that have not made such acquisi
can be expected to continue until the values ascribed to the lease intangibles are fully amortized. These intangibles are amortizi
lease terms or estimated tenant relationship. In addition, a significant portion of the decrease in net income is attributable to the
depreciation expense described in the Depreciation and Amortization Expense section above.

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Earnings Per Share

Earnings per share was $0.51 for the nine month period ended September 30, 2005 as compared to a loss per share of $(0.22) in
period ended September 30, 2006 as a result of the factors described in Net Income above and an increase in the average nu
shares outstanding. We issued 34.6 million of our common shares in our acquisition of Prentiss.

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LIQUIDITY AND CAPITAL RESOURCES

General

Our principal liquidity needs for the next twelve months are as follows:

- fund normal recurring expenses,
- fund capital expenditures, including capital and tenant improvements and leasing costs,
- fund current development and redevelopment costs, and
- fund distributions declared by our Board of Trustees.

We believe that our liquidity needs will be satisfied through cash flows generated by operations and financing activities. Rental recoveries from tenants, and other income from operations are our principal sources of cash that we use to pay operating expen recurring capital expenditures and the minimum distributions required to maintain our REIT qualification. We seek to increase our properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in re reducing tenant turnover and controlling operating expenses. Our revenue also includes third-party fees generated by our prope leasing, development and construction businesses. We believe our revenue, together with proceeds from equity and debt financ to provide funds for our short-term liquidity needs. However, material changes in our operating or financing activities may adv cash flows. Such changes, in turn, would adversely affect our ability to fund distributions, debt service payments and tenant im addition, a material adverse change in our cash provided by operations would affect the financial performance covenants under credit facility and unsecured notes.

Our principal liquidity needs for periods beyond twelve months are for costs of developments, redevelopments, property acquis debt maturities, major renovations, expansions and other non-recurring capital improvements. We draw on multiple financing s long-term capital needs. We use our credit facility for general business purposes, including the acquisition, development and re properties and the repayment of other debt. In March 2006 and December 2005, we sold $850 million and $300 million, respec notes and expect to utilize the debt and equity markets for other long-term capital needs.

As a result of our acquisition of Prentiss, we will have additional short and long-term liquidity requirements. Historically, we h types of requirements principally through the most advantageous source of capital at that time, which has included public offer debt and private placements of secured and unsecured debt, sales of common and preferred equity, capital raised through the di and joint venture transactions. We believe these sources of capital will continue to be available in the future to fund our capital

We funded the approximately $1.05 billion cash portion of the Prentiss merger consideration, related transaction costs and prep approximately $543.3 million in Prentiss mortgage debt at the closing of the merger through (i) a $750 million unsecured term matured on January 4, 2007; (ii) approximately $676.5 million of cash from Prudential s acquisition of certain of the Prentiss p approximately $195.0 million through borrowing under our revolving credit facility. We repaid in full the $750 million term lo 2006 with the proceeds of the $850 million unsecured notes described more fully in Capitalization below.

Our ability to incur additional debt is dependent upon a number of factors, including our credit ratings, the value of our unencu degree of leverage and borrowing restrictions imposed by our current lenders. We currently have investment grade ratings for p unsecured debt offerings from three major rating agencies. If a rating agency were to downgrade our credit rating, our access to unsecured debt market would be more limited and the interest rate under our existing credit facility would increase.

Our ability to sell common and preferred shares is dependent on, among other things, general market conditions for REITs, ma about our company and the current trading price of our shares. We regularly analyze which source of capital is most advantage particular point in time. The equity markets may not be consistently available on terms that we consider attractive.

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Cash Flows

The following summary discussion of our cash flows is based on the consolidated statement of cash flows and is not meant to b discussion of the changes in our cash flows for the periods presented.

As of September 30, 2006 and December 31, 2005, we maintained cash and cash equivalents of $16.5 million and $7.2 million increase of $9.3 million. This increase was the result of the following changes in cash flow from our activities for the nine-mon September 30 (in thousands):

Activity	2006	2005
Operating	$213,679	$103,766
Investing	(1,053,043)	(206,150)
Financing	848,728	110,378
Net cash flows	$9,364	$7,994

Our increased cash flow from operating activities in the nine-months ended September 30, 2006 compared to the same period i attributable to our acquisition of Prentiss.

The increase in cash outflows from investing activities is primarily attributable to our acquisition of Prentiss and other property acquisitions totaling $1,105.3 million. In addition, we incurred approximately $180.7 million of capital expenditures for the pro own. These increases in investing activity are offset by the net proceeds of $221.3 million received from the sale of eight prope and three in Texas that we acquired in our acquisition of Prentiss and subsequently sold. We received net proceeds of $37.6 mi properties in our same store portfolio.

Increased cash flow from financing activities is primarily attributable to the issuance of $850.0 million of unsecured notes resul of $847.8 million. The proceeds of the note issuance were used to satisfy the $750.0 million term loan that was obtained in con acquisition of Prentiss, as well to repay a portion of the outstanding borrowings on our credit facility. We also had net borrowin million on our line of credit. These cash inflows are offset by our repurchase of common shares totaling $34.5 million and our t payments totaling $110.1 million.

Capitalization

Indebtedness

On October 4, 2006 our Operating Partnership consummated the offering of $300,000,000 aggregate principal amount of 3.875 guaranteed notes due October 15, 2026 (the 2026 Notes). On October 16, 2006, our Operating Partnership issued an additio aggregate principal amount of 3.875% exchangeable guaranteed notes due October 15, 2026 to cover over-allotments. The Co proceeds from the sale of the notes to repurchase approximately $60 million of outstanding common shares (1,829,000 commo of $32.80 per share); to repay approximately $180 million under the Company s revolving credit facility; and to invest the bala securities pending redemption of the Operating Partnership s $300 million Floating Rate Guaranteed Notes due 2009 on Janua

On March 28, 2006, our Operating Partnership consummated the public offering of (1) $300,000,000 aggregate principal amou

floating rate notes due 2009 (the 2009 Notes), (2) $300,000,000 aggregate principal amount of its 5.75% notes due 2012 (th
$250,000,000 aggregate principal amount of its 6.00% notes due 2016 (the 2016 Notes and, together with the 2009 Notes an
Notes). We guaranteed the payment of principal of and interest on the Notes.

On March 28, 2006, we terminated, and repaid all amounts outstanding under, the $750 million Term Loan Agreement that we
January 5, 2006 with JPMorgan Chase Bank, N.A., as Administrative Agent and Syndication Agent, J.P. Morgan Securities Inc
and Sole Bookrunner, and the lenders identified therein. We entered into the Term Loan Agreement in connection with our acq
merger of Prentiss on January 5, 2006.

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As of September 30, 2006, we had approximately $3.2 billion of outstanding indebtedness. The table below summarizes our m
payable, our secured note payable, our unsecured notes and our revolving credit facility at September 30, 2006 and December 3

	September 30, 2006	December 31, 2005
	(dollars in thousands)	
Balance:		
Fixed rate	$2,558,664	$ 1,417,611
Variable rate	629,216	103,773
Total	$3,187,880	$ 1,521,384
Percent of Total Debt:		
Fixed rate	80 %	93 %
Variable rate	20 %	7 %
Total	100 %	100 %
Weighted-average interest rate at period end:		
Fixed rate	5.9 %	5.9 %
Variable rate	5.8 %	5.3 %
Total	5.8 %	5.8 %

The variable rate debt shown above generally bears interest based on various spreads over LIBOR (the term of which is selecte

We have used credit facility borrowings for general business purposes, including the acquisition, development and redevelopm
and the repayment of other debt. In December 2005, we replaced our then existing unsecured credit facility with a $600 million
facility (the Credit Facility) that matures in December 2009, subject to a one year extension option upon payment of a fee ar
defaults. Borrowings under the new Credit Facility generally bear interest at LIBOR (LIBOR was 5.32% as of September 30, 2
over LIBOR ranging from 0.55% to 1.10% based on our unsecured senior debt rating. We have an option to increase the maxin
under the Credit Facility to $800 million subject to the absence of any defaults and our ability to obtain additional commitment
or new lenders. The Credit Facility requires the maintenance of certain ratios related to minimum net worth, debt to total capita
charge coverage and various non-financial covenants. We believe that we are in compliance with all financial covenants as of S

We utilize unsecured notes as a long-term financing alternative. The indentures and note purchase agreements relating to our ur
contain financial restrictions and requirements, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage rat
40%, (3) a debt service coverage ratio of greater than 1.5 to 1.0, and (4) an unencumbered asset value of not less than 150% of
addition, the note purchase agreement relating to the 2008 Notes contains covenants that are similar to the above covenants. At
2006, we were in compliance with each of these financial restrictions and requirements.

We have mortgage loans that are collateralized by certain of our properties. Payments on mortgage loans are generally due in m
of principal and interest, or interest only.

We intend to refinance or repay our mortgage loans as they mature, primarily through the use of unsecured debt or equity.

The amount of indebtedness that we may incur, and the policies with respect thereto, are not limited by our declaration of trust
solely within the discretion of our board of trustees, limited only by various financial covenants in our credit agreements.

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Equity

On September 18, 2006, we declared a distribution of $0.44 per Common Share, totaling $39.8 million, which we paid on Octo
shareholders of record as of October 5, 2006. The Operating Partnership simultaneously declared a $0.44 per unit cash distribut
Class A Units totaling $2.0 million.

On September 18, 2006, we declared distributions on our Series C Preferred Shares and Series D Preferred Shares to holders of
September 30, 2006. These shares are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on
to holders of Series C Preferred Shares and Series D Preferred Shares totaled $0.9 million and $1.1 million, respectively.

At September 30, 2006, we had a share repurchase program under which our Board has authorized us to repurchase from time t
6,700,000 common shares. Through September 30, 2006, we had repurchased approximately 4.4 million common shares under
average price of $20.82 per share. Our Board placed no time limit on the duration of the program. As of September 30, 2006, w
additional 2,319,800 additional shares under the plan.

We used a portion of the net proceeds from the issuance of the 2026 Notes to repurchase 1,829,000 common shares. This repu
reduce the number of common shares that may be repurchased under the Board-approved share repurchase program.

Shelf Registration Statement

Together with our Operating Partnership, we maintain a shelf registration statement that registered common shares, preferred sl
shares and warrants and unsecured debt securities. Subject to our ongoing compliance with securities laws, and if warranted by
we may offer and sell equity and debt securities from time to time under the registration statement.

Short- and Long-Term Liquidity

We believe that our cash flow from operations is adequate to fund its short-term liquidity requirements. Cash flow from operati
primarily from rental revenues and operating expense reimbursements from tenants and management services income from pro
third parties. We intend to use these funds to meet short-term liquidity needs, which are to fund operating expenses, debt servic
recurring capital expenditures, tenant allowances, leasing commissions and the minimum distributions required to maintain our
under the Internal Revenue Code.

We expect to meet our long-term liquidity requirements, such as for property acquisitions, development, investments in real est
scheduled debt maturities, major renovations, expansions and other significant capital improvements, through cash from operat
under its Credit Facility, other long-term secured and unsecured indebtedness, the issuance of equity securities and the proceed
disposition of selected assets.

Inflation

A majority of our leases provide for reimbursement of real estate taxes and operating expenses either on a triple net basis or ove
addition, many of our office leases provide for fixed base rent increases. We believe that inflationary increases in expenses will
offset by expense reimbursement and contractual rent increases.

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Commitments and Contingencies

The following table outlines the timing of payment requirements related to our contractual commitments as of September 30, 2

	Payments by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Mortgage notes payable (a)	$877,615	$17,965	$197,467	$228,381	$433,802
Secured note payable	181,759	181,759			
Revolving credit facility	249,998		249,998		
Unsecured debt (a)	1,866,610		688,000	600,000	578,610
Ground leases (b)	280,413	1,736	3,472	3,636	271,569
Other liabilities	688				688
	$3,457,083	$201,460	$1,138,937	$832,017	$1,284,669

(a) Amounts do not include unamortized discounts and/or premiums.

(b) Future minimum rental payments under the terms of all non-cancelable ground leases under which we are the lessee are straight-line basis regardless of when payments are due.

We intend to refinance our mortgage notes payable as they become due or repay those that are secured by properties being sold

As part of our acquisition of the TRC Properties in September 2004, we agreed to issue to the sellers up to a maximum of $9.7 Units of the Operating Partnership if certain of the acquired properties achieve at least 95% occupancy prior to September 21, 2 maximum number of Units that we are obligated to issue declines monthly and, as of September 30, 2006, the maximum balanc this arrangement was $2.4 million, with no amount currently due.

As part of the TRC acquisition, we acquired our interest in Two Logan Square, a 696,477 square foot office building in Philade through a second and third mortgage secured by this property. We currently do not expect to take title to Two Logan Square un September 2019. In the event that we take fee title to Two Logan Square upon a foreclosure of our mortgage, we have agreed t to an unaffiliated third party with a residual interest in the fee owner of this property. The amount of the payment would be $0. pay a state and local transfer upon taking title, and $2.9 million if no transfer tax is payable upon the transfer.

As part of the Prentiss acquisition, the TRC acquisition and several of our other acquisitions, we agreed not to sell certain of th properties. In the case of the TRC acquisition, we agreed not to sell certain of the acquired properties for periods ranging from from the acquisition date as follows: 201 Radnor Financial Center, 555 Radnor Financial Center and 300 Delaware Avenue (th Rodney Square and 130/150/170 Radnor Financial Center (10 years); and One Logan Square, Two Logan Square and Radnor C (15 years). In the case of the Prentiss acquisition, we assumed the obligation of Prentiss not to sell Concord Airport Plaza befor 6600 Rockledge before July 2008. We also own 14 other properties that aggregate 1.0 million square feet and have agreed not t properties for periods that expire by the end of 2008. Our agreements generally provide that we may dispose of the subject prop transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transac that we sell any of the properties within the applicable restricted period in non-exempt transactions, we would be required to pa liabilities that would be incurred by the parties who sold us the applicable property.

We held a fifty percent economic interest in an approximately 141,724 square foot office building located at 101 Paragon Drive
Jersey. The remaining fifty percent interest was held by Donald E. Axinn, one of our Trustees. Although we and Mr. Axinn had
provide one half of the $11 million necessary to repay the mortgage loan secured by this property, in February 2006, an unaffil
entered into an agreement to purchase this property for $18.3 million. As a result of the purchase by an unaffiliated third party
2006, we recognized a $3.1 million gain on termination of our rights under a 1998 contribution agreement, modified in 2005, th
50% interest in the joint venture to operate the property. This gain is shown separately on our income statement as a gain on ter
purchase contract.

We invest in our properties and regularly incur capital expenditures in the ordinary course to maintain the properties. We believ
expenditures enhance our competitiveness. We also enter into construction, utility and service contracts in the ordinary course
may extend beyond one year. These contracts typically provide for cancellation with insignificant or no cancellation penalties.

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Interest Rate Risk and Sensitivity Analysis

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. changes chosen reflects our view of changes which are reasonably possible over a one-year period. Market values are the prese projected future cash flows based on the market rates chosen.

Our financial instruments consist of both fixed and variable rate debt. As of September 30, 2006, our consolidated debt consist in fixed rate mortgages and $0.6 million in variable rate mortgage notes, $181.8 million in fixed rate secured note payable, $25 rate borrowings under our Credit Facility and $1.9 billion in unsecured notes (net of discounts) of which $1.5 billion are fixed $0.4 billion are variable rate borrowings. All financial instruments were entered into for other than trading purposes and the net these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fix portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instr has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts incurred and cash flows, but does not impact the net financial instrument position.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate future earnings and cash flows by approximately $6.3 million. If market rates of interest on our variable rate debt decrease by 1 interest expense on our variable rate debt would increase future earnings and cash flows by approximately $6.3 million.

If market rates of interest increase by 1%, the fair value of our outstanding fixed-rate debt would decrease by approximately $9 market rates of interest decrease by 1%, the fair value of our outstanding fixed-rate debt would increase by approximately $101

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, commodity prices and equity prices. In pursuing our primary market risk to which we are exposed is interest rate risk. Changes in the general level of interest rates prevailing in the may affect the spread between our yield on invested assets and cost of funds and, in turn, our ability to make distributions or pa shareholders. While we have not experienced any significant credit losses, in the event of a significant rising interest rate enviro economic downturn, defaults could increase and result in losses to us which adversely affect our operating results and liquidity

There have been no material changes in Quantitative and Qualitative disclosures in 2006 from the disclosures included in our A Form 10-K for the year ended December 31, 2005. Reference is made to Item 7 included in our Annual Report on Form 10-K f December 31, 2005 and the caption Interest Rate Risk and Sensitivity Analysis under Item 2 of this Quarterly Report on For

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our manag our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure cont as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amend Act) as of the end of the period covered by this quarterly report, have concluded that the Company s disclosure procedures are effective to ensure that information required to be disclosed by the Company in the reports that it Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specif forms of the Securities and Exchange Commission.

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(b) *Changes in internal controls over financial reporting.* There was no change in the Company s internal control c reporting that occurred during the period covered by this quarterly report that has materially affected, or is reaso materially affect, the Company s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There has been no material change to the risk factors previously disclosed by us in our Form 10-K for the fiscal year ended Dec

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the share repurchases during the three-month period ended September 30, 2006:

	Total Number of Shares Purchased	Average Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs (a)
2006:				
July				2,319,800
August				2,319,800
September				2,319,800
Total				

(a) On May 2, 2006, our Board of Trustees authorized an increase in the number of common shares that we may repurchase, wl open-market or privately negotiated transactions. The Board authorized us to purchase up to an aggregate of 3,500,000 commo of the remaining share repurchase availability under the Board's prior authorization from September 2001). There is no expirati share repurchase program.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

10.1 Form of Fifteenth Amendment to Agreement of Limited Partnership of Brandywine Operating Partnership, L.P. reference to Brandywine s Current Report on Form 8-K filed on August 18, 2006)

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10.2	2006 Long-Term Outperformance Compensation Program (incorporated by reference to Brandywine s Current filed on September 1, 2006)**
12.1	Statement re Computation of Ratios
31.1	Certification Pursuant to 13a-14 under the Securities Exchange Act of 1934
31.2	Certification Pursuant to 13a-14 under the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Ac
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Ac
**	Management contract or compensatory plan or arrangement

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SIGNATURES OF REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on
undersigned thereunto duly authorized.

BRANDYWINE REALTY TRUST
(Registrant)

Date: November 9, 2006

By: /s/ Gerard H. Sweeney

Gerard H. Sweeney, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2006

By: /s/ Timothy M. Martin

Timothy M. Martin, Vice President and Treasurer
(Principal Financial Officer)

Date: November 9, 2006

By: /s/ Scott W. Fordham

Scott W. Fordham, Vice President and Chief Accounting Off
(Principal Accounting Officer)