BRANDYWINE REALTY TRUST
Form 10-Q
November 02, 2011

Table of Contents

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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2011

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

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

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

MARYLAND (Brandywine Realty Trust)	**23-2413352**
DELAWARE (Brandywine Operating Partnership L.P.)	**23-2862640**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**
555 East Lancaster Avenue Radnor, Pennsylvania	**19087**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Brandywine Realty Trust:

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

Brandywine Operating Partnership, L.P.:

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

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

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

A total of 135,579,643 Common Shares of Beneficial Interest, par value $0.01 per share, were outstanding as of October 26, 2011.

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2011 of Brandywine Realty Trust (the Parent Company) and Brandywine Operating Partnership L.P. (the Operating Partnership). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the Company . In addition, terms such as we , us , or our used in this report may refer to the Company, Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2011, owned a 93.2% interest in the Operating Partnership. The remaining 6.8% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership s day-to-day operations and management.

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

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

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

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

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

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

- Consolidated Financial Statements;
- Parent Company s and Operating Partnership s Equity; and
- Liquidity and Capital Resources in the Management s Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

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

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

TABLE OF CONTENTS

PART II OTHER INFORMATION

Filing Format

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Real estate investments:		
Rental properties	$ 4,920,728	$ 4,834,111
Accumulated depreciation	(860,584)	(776,078)
Operating real estate investments, net	4,060,144	4,058,033
Construction-in-progress	36,246	33,322
Land inventory	120,470	110,055
Total real estate investments, net	4,216,860	4,201,410
Cash and cash equivalents	5,706	16,565
Accounts receivable, net	15,048	16,009
Accrued rent receivable, net	107,756	95,541
Investment in real estate ventures, at equity	84,219	84,372
Deferred costs, net	113,656	106,117
Intangible assets, net	81,562	97,462
Notes receivable	19,436	18,205
Other assets	59,511	54,697
Total assets	$ 4,703,754	$ 4,690,378
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	$ 491,867	$ 711,789
Unsecured credit facility	166,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,651,360	1,352,657
Accounts payable and accrued expenses	85,942	72,235
Distributions payable	23,505	22,623
Deferred income, gains and rent	100,419	121,552
Acquired below market leases, net	37,940	29,233
Other liabilities	42,827	36,515
Total liabilities	2,782,860	2,712,604
Commitments and contingencies (Note 17)		
Brandywine Realty Trust s equity:		
Preferred Shares (shares authorized-20,000,000):		
7.50% Series C Preferred Shares, $0.01 par value; issued and outstanding-2,000,000 in 2011 and 2010, respectively	20	20
	23	23

7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding- 2,300,000 in 2011 and 2010, respectively		
Common Shares of Brandywine Realty Trust s beneficial interest, $0.01 par value; shares authorized 200,000,000; 135,579,643 and 134,601,796 issued in 2011 and 2010, respectively and 135,579,643 and 134,485,117 outstanding in 2011 and 2010, respectively	1,353	1,343
Additional paid-in capital	2,686,800	2,671,217
Deferred compensation payable in common stock	5,631	5,774
Common shares in treasury, at cost, 116,679 in 2010		(3,074)
Common shares in grantor trust, 292,646 in 2011 and 291,281 in 2010	(5,631)	(5,774)
Cumulative earnings	481,577	483,439
Accumulated other comprehensive loss	(2,424)	(1,945)
Cumulative distributions	(1,368,809)	(1,301,521)
Total Brandywine Realty Trust s equity	1,798,540	1,849,502
Non-controlling interests	122,354	128,272
Total equity	1,920,894	1,977,774
Total liabilities and equity	$ 4,703,754	$ 4,690,378

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

Table of Contents

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

	For the three-month periods ended September 30, 2011	For the three-month periods ended September 30, 2010	For the nine-month periods ended September 30, 2011	For the nine-month periods ended September 30, 2010
Revenue:				
Rents	$ 121,701	$ 116,520	$ 362,846	$ 343,568
Tenant reimbursements	19,806	19,784	61,831	57,834
Termination fees	190	1,039	2,706	4,124
Third party management fees, labor reimbursement and leasing	3,028	2,922	8,514	9,293
Other	939	1,227	3,378	3,170
Total revenue	145,664	141,492	439,275	417,989
Operating Expenses:				
Property operating expenses	42,363	41,851	128,977	124,187
Real estate taxes	13,863	14,096	42,734	40,217
Third party management expenses	1,379	1,528	4,395	4,433
Depreciation and amortization	54,252	51,644	163,940	154,962
General and administrative expenses	6,177	5,753	18,311	18,498
Total operating expenses	118,034	114,872	358,357	342,297
Operating income	27,630	26,620	80,918	75,692
Other Income (Expense):				
Interest income	523	726	1,385	2,554
Historic tax credit transaction income	12,026		12,026	
Interest expense	(32,346)	(34,488)	(99,477)	(97,222)
Interest expense amortization of deferred financing costs	(1,846)	(827)	(3,844)	(2,700)
Equity in income of real estate ventures	418	1,035	2,739	3,356
Net gain on sale of interests in real estate			2,791	
Gain (loss) on early extinguishment of debt	176	(64)	(580)	(1,701)
Income (loss) from continuing operations	6,581	(6,998)	(4,042)	(20,021)
Discontinued operations:				
Income from discontinued operations	30	385	93	1,060
Net gain (loss) on disposition of discontinued operations		(3)	3,836	6,346

Total discontinued operations	30	382	3,929	7,406
Net income (loss)	6,611	(6,616)	(113)	(12,615)
Net income from discontinued operations attributable to non-controlling interests LP units	(2)	(8)	(80)	(159)
Net (income) loss attributable to non-controlling interests LP units	(360)	187	(66)	548
Net (income) loss attributable to non-controlling interests	(362)	179	(146)	389
Net income (loss) attributable to Brandywine Realty Trust	6,249	(6,437)	(259)	(12,226)
Distribution to Preferred Shares	(1,998)	(1,998)	(5,994)	(5,994)
Amount allocated to unvested restricted shareholders	(121)	(128)	(384)	(384)
Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust	$ 4,130	$ (8,563)	$ (6,637)	$ (18,604)
Basic income (loss) per Common Share:				
Continuing operations	$ 0.03	$ (0.06)	$ (0.08)	$ (0.20)
Discontinued operations	0.00	0.00	0.03	0.06
	$ 0.03	$ (0.06)	$ (0.05)	$ (0.14)
Diluted income (loss) per Common Share:				
Continuing operations	0.03	$ (0.06)	$ (0.08)	$ (0.20)
Discontinued operations	0.00	0.00	0.03	0.06
	$ 0.03	$ (0.06)	$ (0.05)	$ (0.14)
Basic weighted average shares outstanding	135,562,487	132,208,245	135,164,424	130,841,534
Diluted weighted average shares outstanding	136,841,451	132,208,245	135,164,424	130,841,534
Net income (loss) attributable to Brandywine Realty Trust				
Income (loss) from continuing operations	$ 6,221	$ (6,811)	$ (4,108)	$ (19,473)
Income from discontinued operations	28	374	3,849	7,247

Net income (loss)	$ 6,249	$ (6,437)	$ (259)	$ (12,226)

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

Table of Contents

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

	For the three-month periods ended September 30, 2011	For the three-month periods ended September 30, 2010	For the nine-month periods ended September 30, 2011	For the nine-month periods ended September 30, 2010
Net income (loss)	$ 6,611	$ (6,616)	$ (113)	$ (12,615)
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments		2,274	(613)	6,445
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	53	13	126	12
Total comprehensive income (loss)	53	2,287	(487)	6,457
Comprehensive income (loss)	6,664	(4,329)	(600)	(6,158)
Comprehensive (income) loss attributable to non-controlling interest	(365)	131	(139)	253
Comprehensive income (loss) attributable to Brandywine Realty Trust	$ 6,299	$ (4,198)	$ (739)	$ (5,905)

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

Table of Contents

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY
For the Nine-Month Periods Ended September 30, 2011 and 2010
(unaudited, in thousands, except number of shares)

September 30, 2011

o ed s	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital	Deferred Compensation Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
00	**$ 43**	**134,601,796**	**116,679**	**291,281**	**$ 1,343**	**$ 2,671,217**	**$ (3,074)**	**$ 5,774**	**$ (5,774)**	**$ 483,439**	**$ (1,945)**	**$ (1,301,521**	
										(259)			
											(479)		
		679,285			7	8,265							
						(308)							
		92,992			1	1,098							
			(463)	463			12	6	(6)	(6)			
		85,248	(116,216)	9,043	1	(1,818)	3,062			(1,597)			
						2,228							
						1,229							
		120,179			1	658							
						1,105							
						128							

		(845)		(8,141)		(16)		(149)	149			
		(1,684)				(55)						
		2,672				32						
						3,037						
												(5,994
												(61,294
00	**$ 43**	**135,579,643**		**292,646**	**$ 1,353**	**$ 2,686,800**	**$**	**$ 5,631**	**$ (5,631)**	**$ 481,577**	**$ (2,424)**	**$ (1,368,809**

September 30, 2010

r of ed s	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
000	**$ 43**	**128,849,176**	**251,764**	**255,700**	**$ 1,286**	**$ 2,610,421**	**$ (7,205)**	**$ 5,549**	**$ (5,549)**	**$ 501,384**	**$ (9,138)**	**$ (1,213,359)**	
										(12,226)			
											6,321		
		5,327,845			53	66,874							

						(1,036)						
			(32,607)	32,607			871	369	(369)	(502)		
			(76,598)	8,989		(1,114)	2,304	103	(103)	(1,417)		
						2,723						
						695						
						804						
						339						
		(314)		(3,866)				(110)	110			
			(8,412)	3,020			224	35	(35)	(125)		
						(15,874)						
										1,439		
												(5,994)
												(59,878)
000	**$ 43**	**134,176,707**	**134,147**	**296,450**	**$ 1,339**	**$ 2,663,832**	**$ (3,806)**	**$ 5,946**	**$ (5,946)**	**$ 488,553**	**$ (2,817)**	**$ (1,279,231)**

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

Table of Contents

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

	Nine-month periods ended September 30, 2011	Nine-month periods ended September 30, 2010
Cash flows from operating activities:		
Net loss	$ (113)	$ (12,615)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	164,014	156,953
Amortization of deferred financing costs	3,844	2,700
Amortization of debt discount/(premium), net	1,028	590
Straight-line rent income	(14,925)	(9,179)
Amortization of acquired above (below) market leases to rental revenue, net	(4,011)	(4,535)
Straight-line ground rent expense	1,450	1,172
Provision for doubtful accounts	1,190	2,276
Non-cash compensation expense	3,189	3,744
Real estate venture income in excess of distributions	(1,020)	(2,779)
Net gain on sale of interests in real estate	(6,627)	(6,346)
Loss on early extinguishment of debt	580	1,701
Historic tax credit transaction income	(12,026)	
Cumulative interest accretion of repayments of unsecured notes		(2,716)
Contributions from historic tax credit transaction, net of deferred costs		27,396
Changes in assets and liabilities:		
Accounts receivable	2,130	(1,540)
Other assets	(5,000)	(16,051)
Accounts payable and accrued expenses	21,382	11,238
Deferred income, gains and rent	(4,376)	(7,368)
Other liabilities	5,284	4,981
Net cash from operating activities	155,993	149,622
Cash flows from investing activities:		
Acquisition of properties	(40,674)	(50,342)
Sales of properties, net	5,639	17,352
Proceeds from repayment of mortgage notes receivable		40,000
Capital expenditures	(97,557)	(144,884)
Advances for purchase of tenant assets, net of repayments	(1,552)	(4,514)
Loan provided to an unconsolidated Real Estate Venture partner	(1,045)	
Investment in unconsolidated Real Estate Ventures	(2,259)	
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	3,432	1,453
Decrease in cash due to the deconsolidation of variable interest entities		(1,382)
Leasing costs	(28,460)	(16,720)
Net cash used in investing activities	(162,476)	(159,037)
Cash flows from financing activities:		
Proceeds from Credit Facility borrowings	407,502	344,000

Repayments of Credit Facility borrowings	(424,502)	(414,000)
Proceeds from mortgage notes payable		253,981
Repayments of mortgage notes payable	(218,959)	(6,533)
Proceeds from unsecured notes	321,498	
Repayments of unsecured notes	(25,366)	(66,408)
Net settlement of hedge transactions	(613)	
Debt financing costs	(4,199)	(492)
Refund of deferred financing costs related to forward commitment		1,659
Net proceeds from issuance of shares	7,966	65,990
Exercise of stock options	659	
Distributions paid to shareholders	(67,119)	(65,045)
Distributions to noncontrolling interest	(1,243)	(1,263)
Net cash from (used in) financing activities	(4,376)	111,889
Increase (decrease) in cash and cash equivalents	(10,859)	102,474
Cash and cash equivalents at beginning of period	16,565	1,567
Cash and cash equivalents at end of period	$ 5,706	$ 104,041
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the nine months ended September 30, 2011 and 2010 of $1,450 and $9,468, respectively	$ 78,091	$ 85,824
Supplemental disclosure of non-cash activity:		
Proceeds from mortgage notes payable retained by lender and included in other assets		2,519
Change in capital expenditures financed through accounts payable at period end	(2,114)	(7,805)
Change in capital expenditures financed through retention payable at period end	(5,863)	1,362
Change in unfunded tenant allowance	(442)	(2,926)
Change in real estate investments due to the deconsolidation of variable interest entities		(37,126)
Change in mortgage notes payable due to the deconsolidation of variable interest entities		(42,877)
Change in non-controlling interest from issuance of limited partnership units		77,733
Distributions payable	23,505	22,624

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

Table of Contents

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

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Real estate investments:		
Operating properties	$ 4,920,728	$ 4,834,111
Accumulated depreciation	(860,584)	(776,078)
Operating real estate investments, net	4,060,144	4,058,033
Construction-in-progress	36,246	33,322
Land inventory	120,470	110,055
Total real estate investments, net	4,216,860	4,201,410
Cash and cash equivalents	5,706	16,565
Accounts receivable, net	15,048	16,009
Accrued rent receivable, net	107,756	95,541
Investment in real estate ventures, at equity	84,219	84,372
Deferred costs, net	113,656	106,117
Intangible assets, net	81,562	97,462
Notes receivable	19,436	18,205
Other assets	59,511	54,697
Total assets	$ 4,703,754	$ 4,690,378
LIABILITIES AND EQUITY		
Mortgage notes payable	$ 491,867	$ 711,789
Unsecured credit facility	166,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,651,360	1,352,657
Accounts payable and accrued expenses	85,942	72,235
Distributions payable	23,505	22,623
Deferred income, gains and rent	100,419	121,552
Acquired below market leases, net	37,940	29,233
Other liabilities	42,827	36,515
Total liabilities	2,782,860	2,712,604
Commitments and contingencies (Note 17)		
Redeemable limited partnership units at redemption value; 9,809,759 and 9,902,752 issued and outstanding in 2011 and 2010, respectively	124,487	132,855
Brandywine Operating Partnership s equity:		

7.50% Series D Preferred Mirror Units; issued and outstanding- 2,000,000 in 2011 and 2010, respectively	47,912	47,912
7.375% Series E Preferred Mirror Units; issued and outstanding- 2,300,000 in 2011 and 2010, respectively	55,538	55,538
General Partnership Capital, 135,579,643 and 134,601,796 units issued in 2011 and 2010, respectively and 135,579,643 and 134,485,117 units outstanding in 2011 and 2010, respectively	1,695,526	1,743,549
Accumulated other comprehensive loss	(2,569)	(2,080)
Total Brandywine Operating Partnership s equity	1,796,407	1,844,919
Total liabilities and partners equity	$ 4,703,754	$ 4,690,378

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

Table of Contents

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2011	2010	2011	2010
Revenue:				
Rents	$ 121,701	$ 116,520	$ 362,846	$ 343,568
Tenant reimbursements	19,806	19,784	61,831	57,834
Termination fees	190	1,039	2,706	4,124
Third party management fees, labor reimbursement and leasing	3,028	2,922	8,514	9,293
Other	939	1,227	3,378	3,170
Total revenue	145,664	141,492	439,275	417,989
Operating Expenses:				
Property operating expenses	42,363	41,851	128,977	124,187
Real estate taxes	13,863	14,096	42,734	40,217
Third party management expenses	1,379	1,528	4,395	4,433
Depreciation and amortization	54,252	51,644	163,940	154,962
General & administrative expenses	6,177	5,753	18,311	18,498
Total operating expenses	118,034	114,872	358,357	342,297
Operating income	27,630	26,620	80,918	75,692
Other Income (Expense):				
Interest income	523	726	1,385	2,554
Historic tax credit transaction income	12,026		12,026	
Interest expense	(32,346)	(34,488)	(99,477)	(97,222)
Interest expense amortization of deferred financing costs	(1,846)	(827)	(3,844)	(2,700)
Equity in income of real estate ventures	418	1,035	2,739	3,356
Net gain on sale of interests in real estate			2,791	
Gain (loss) on early extinguishment of debt	176	(64)	(580)	(1,701)
Income (loss) from continuing operations	6,581	(6,998)	(4,042)	(20,021)
Discontinued operations:				
Income from discontinued operations	30	385	93	1,060
Net gain (loss) on disposition of discontinued operations		(3)	3,836	6,346

Total discontinued operations		30		382		3,929		7,406
Net income (loss)		6,611		(6,616)		(113)		(12,615)
Distribution to Preferred Shares		(1,998)		(1,998)		(5,994)		(5,994)
Amount allocated to unvested restricted shareholders		(121)		(128)		(384)		(384)
Net income (loss) attributable to Common Partnership Unitholders of Brandywine Operating Partnership	$	4,492	$	(8,742)	$	(6,491)	$	(18,993)
Basic income (loss) per Common Partnership Unit:								
Continuing operations	$	0.03	$	(0.06)	$	(0.07)	$	(0.19)
Discontinued operations		0.00		0.00		0.03		0.05
	$	0.03	$	(0.06)	$	(0.04)	$	(0.14)
Diluted income (loss) per Common Partnership Unit:								
Continuing operations	$	0.03	$	(0.06)	$	(0.07)	$	(0.19)
Discontinued operations		0.00		0.00		0.03		0.05
	$	0.03	$	(0.06)	$	(0.04)	$	(0.14)
Basic weighted average common partnership units outstanding		145,372,247		139,423,151		145,027,662		135,135,380
Diluted weighted average common partnership units outstanding		146,651,211		139,423,151		145,027,662		135,135,380
Net income (loss) attributable to Brandywine Operating Partnership, L.P.								
Income (loss) from continuing operations	$	6,581	$	(6,998)	$	(4,042)	$	(20,021)
Loss from discontinued operations		30		382		3,929		7,406
Net income (loss)	$	6,611	$	(6,616)	$	(113)	$	(12,615)

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

Table of Contents

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income (loss)	$ 6,611	$ (6,616)	$ (113)	$ (12,615)
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments		2,274	(613)	6,445
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	53	13	126	12
Total comprehensive income (loss)	53	2,287	(487)	6,457
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$ 6,664	$ (4,329)	$ (600)	$ (6,158)

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

Table of Contents

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

	Nine-month periods ended September 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (113)	$ (12,615)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	164,014	156,953
Amortization of deferred financing costs	3,844	2,700
Amortization of debt discount/(premium), net	1,028	590
Straight-line rent income	(14,925)	(9,179)
Amortization of acquired above (below) market leases, net	(4,011)	(4,535)
Straight-line ground rent expense	1,450	1,172
Provision for doubtful accounts	1,190	2,276
Non-cash compensation expense	3,189	3,744
Real estate venture income in excess of distributions	(1,020)	(2,779)
Net gain on sale of interests in real estate	(6,627)	(6,346)
Loss on early extinguishment of debt	580	1,701
Historic tax credit transaction income	(12,026)	
Cumulative interest accretion of repayments of unsecured notes		(2,716)
Contributions from historic tax credit transaction, net of deferred costs		27,396
Changes in assets and liabilities:		
Accounts receivable	2,130	(1,540)
Other assets	(5,000)	(16,051)
Accounts payable and accrued expenses	21,382	11,238
Deferred income, gains and rent	(4,376)	(7,368)
Other liabilities	5,284	4,981
Net cash from operating activities	155,993	149,622
Cash flows from investing activities:		
Acquisition of properties	(40,674)	(50,342)
Sales of properties, net	5,639	17,352
Proceeds from repayment of mortgage notes receivable		40,000
Capital expenditures	(97,557)	(144,884)
Advances for purchase of tenant assets, net of repayments	(1,552)	(4,514)
Loan provided to unconsolidated real estate venture partner	(1,045)	
Investment in unconsolidated Real Estate Ventures	(2,259)	
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	3,432	1,453
Decrease in cash due to the deconsolidation of variable interest entities		(1,382)
Leasing costs	(28,460)	(16,720)
Net cash used in investing activities	(162,476)	(159,037)
Cash flows from financing activities:		

Proceeds from Credit Facility borrowings		407,502		344,000
Repayments of Credit Facility borrowings		(424,502)		(414,000)
Proceeds from mortgage notes payable				253,981
Repayments of mortgage notes payable		(218,959)		(6,533)
Proceeds from unsecured notes		321,498		
Repayments of unsecured notes		(25,366)		(66,408)
Net settlement of hedge transactions		(613)		
Debt financing costs		(4,199)		(492)
Refund of deferred financing costs related to forward commitment				1,659
Net proceeds from issuance of partnership units		7,966		65,990
Exercise of stock options		659		
Distributions paid to preferred and common partnership unitholders		(68,362)		(66,308)
Net cash from (used in) financing activities		(4,376)		111,889
Increase (decrease) in cash and cash equivalents		(10,859)		102,474
Cash and cash equivalents at beginning of period		16,565		1,567
Cash and cash equivalents at end of period	$	5,706	$	104,041
Supplemental disclosure:				
Cash paid for interest, net of capitalized interest during the nine months ended September 30, 2011 and 2010 of $1,450 and $9,468, respectively	$	78,091	$	85,824
Supplemental disclosure of non-cash activity:				
Proceeds from mortgage notes payable retained by lender and included in other assets				2,519
Change in capital expenditures financed through accounts payable at period end		(2,114)		(7,805)
Change in capital expenditures financed through retention payable at period end		(5,863)		1,362
Change in unfunded tenant allowance		(442)		(2,926)
Change in real estate investments due to the deconsolidation of variable interest entities				(37,126)
Change in mortgage notes payable due to the deconsolidation of variable interest entities				(42,877)
Change in non-controlling interest from issuance of limited partnership units				77,733
Distributions payable		23,505		22,624

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

BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust (REIT) that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office and industrial properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2011, owned a 93.2% interest in the Operating Partnership. The Parent Company s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol BDN .

As of September 30, 2011, the Company owned 211 office properties, 20 industrial facilities and five mixed-use properties (collectively, the Properties) containing an aggregate of approximately 25.9 million net rentable square feet. In addition, as of September 30, 2011, the Company owned economic interests in 16 unconsolidated real estate ventures that contain approximately 6.1 million net rentable square feet (collectively, the Real Estate Ventures). The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania, Metropolitan Washington, D.C., Southern and Central New Jersey, Richmond, Virginia, Wilmington, Delaware, Austin, Texas and Oakland, Concord, Carlsbad and Rancho Bernardo, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of September 30, 2011, the management company subsidiaries were managing properties containing an aggregate of approximately 33.8 million net rentable square feet, of which approximately 25.9 million net rentable square feet related to Properties owned by the Company and approximately 7.9 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for interim financial statements. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of September 30, 2011, the results of its operations for the three- and nine-month periods ended September 30, 2011 and 2010 and its cash flows for the nine-month periods ended September 30, 2011 and 2010 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company s and the Operating Partnership s consolidated financial statements and footnotes included in their respective 2010 Annual Reports on Form 10-K filed with the SEC on February 25, 2011.

Reclassifications and Out of Period Adjustment

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

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

The consolidated statement of operations for the second quarter of 2011 also contained an out of period depreciation and amortization expense adjustment of $4.7 million relating to intangible assets representing tenant relationships and in-place leases that should have been written off in prior periods. This resulted in the overstatement of depreciation and amortization expense by $4.7 million in the current year. During the year ended December 31, 2010, depreciation and amortization expense was overstated by $1.7 million and was understated by $1.4 million, $1.8 million, $1.7 million and $1.5 million during the years ended December 31, 2009, 2008, 2007, and 2006, respectively. As management believes that this error was not material to prior years consolidated financial statements and that the impact of recording the error in the current period is not material to the Company s consolidated financial statements, the Company recorded the related adjustment in the second quarter of the current year.

Principles of Consolidation

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (VIE), and if the Company is deemed to be the primary beneficiary, in accordance with the accounting standard for the consolidation of variable interest entities. The accounting standard for the consolidation of VIEs requires the Company to qualitatively assess if the Company was the primary beneficiary of the VIEs based on whether the Company had (i) the power to direct those matters that most significantly impacted the activities of the VIE and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For entities that the Company has determined to be VIEs but for which it is not the primary beneficiary, its maximum exposure to loss is the carrying amount of its investments, as the Company has not provided any guarantees other than the guarantee described for PJP VII which was approximately $0.7 million at September 30, 2011 (see Note 4). Also, for all entities determined to be VIEs, the Company does not provide financial support to the real estate ventures through liquidity arrangements, guarantees or other similar commitments. When an entity is not deemed to be a VIE, the Company considers the provisions of the same accounting standard to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs and controlled by the Company and in which the limited partners neither have the ability to dissolve the entity or remove the Company without cause nor any substantive participating rights. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company s share of earnings or losses, plus contributions, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence and (iii) entities that are non-VIEs that the Company controls through its general partner status, but the limited partners in the entity have the substantive ability to dissolve the entity or remove the Company without cause or have substantive participating rights. The Company continuously assesses its determination of whether an entity is a VIE and who the primary beneficiary is, and whether or not the limited partners in an entity have substantive rights, more particularly if certain events occur that are likely to cause a change in the original determinations. The Company s assessment includes a review of applicable documents such as, but not limited, to applicable partnership agreements, real estate venture agreements, LLC agreements, management and leasing agreements to determine whether the Company has control to direct the business activities of the entities. The portion of the entities that are consolidated but not owned by the Company is presented as non-controlling interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Operating Properties

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

Purchase Price Allocation

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on fair values. Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) the Company s estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease (including the below market fixed renewal period, if applicable). Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. Capitalized below-market lease values are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases, including any below market fixed-rate renewal periods.

Table of Contents

Other intangible assets also include amounts representing the value of tenant relationships and in-place leases based on the Company s evaluation of the specific characteristics of each tenant s lease and the Company s overall relationship with the respective tenant. The Company generally estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, including leasing commissions, legal and other related expenses. This intangible asset is generally amortized to expense over the remaining term of the respective leases and any fixed-rate bargain renewal periods. Company estimates of value are made using methods similar to those used by independent appraisers or by using independent appraisals. Factors considered by the Company in this analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. The Company also uses the information obtained as a result of its pre-acquisition due diligence as part of its consideration of the accounting standard governing asset retirement obligations, and, when necessary, will record a conditional asset retirement obligation as part of its purchase price.

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

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

Impairment or Disposal of Long-Lived Assets

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

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

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

During the Company s impairment review for the nine month periods ended September 30, 2011 and 2010, the Company determined that no impairment charges were necessary.

The Company entered into development agreements related to two parcels of land under option for ground lease that require the Company to commence development by December 31, 2012. If the Company determines that it will not be able to start the construction by the date specified, or if the Company determines development is not in its best economic interest and an extension of the development period cannot be negotiated, the Company will have to write off all costs that it has incurred in preparing these parcels of land for development amounting to $7.7 million as of September 30, 2011.

Investments in Unconsolidated Real Estate Ventures

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

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

Revenue Recognition

Rental revenue is recognized on the straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The straight-line rent adjustment increased revenue by approximately $4.9 million and $13.2 million for the three and nine-month periods ended September 30, 2011 and approximately $3.1 million and $7.0 million for the three and nine-month periods ended September 30, 2010, respectively. Deferred rents on the balance sheet represent rental revenue received prior to their due dates and amounts paid by the tenant for certain improvements considered to be landlord assets that will remain as the Company s property at the end of the tenant s lease term. The amortization of the amounts paid by the tenant for such improvements is calculated on a straight-line basis over the term of the tenant s lease and is a component of straight-line rental income and increased revenue by $0.6 million and $1.7 million for the three and nine-month periods ended September 30, 2011 and by $0.6 million and $2.2 million for the three and nine-month periods ended September 30, 2010, respectively. Lease incentives, which are included as reductions of rental revenue in the accompanying consolidated statements of operations, are recognized on a straight-line basis over the term of the lease. Lease incentives decreased revenue by $0.4 million and $1.0 million for the three and nine-month periods ended September 30, 2011 and by $0.2 million and $1.2 million for the three and nine-month periods ended September 30, 2010, respectively.

Leases also typically provide for tenant reimbursement of a portion of common area maintenance and other operating expenses to the extent that a tenant s pro rata share of expenses exceeds a base year level set in the lease or to the extent that the tenant has a lease on a triple net basis. For certain leases, significant assumptions and judgments are made by the Company in determining the lease term such as when termination options are provided to the tenant. The lease term impacts the period over which minimum rents are determined and recorded and also considers the period over which lease related costs are amortized. Termination fees received from tenants, bankruptcy settlement fees, third party management fees, labor reimbursement and leasing income are recorded when earned.

Stock-Based Compensation Plans

The Parent Company maintains a shareholder-approved equity-incentive plan known as the Amended and Restated 1997 Long-Term Incentive Plan (the 1997 Plan). The 1997 Plan is administered by the Compensation Committee of the Parent Company s Board of Trustees. Under the 1997 Plan, the Compensation Committee is authorized to award equity and equity-based awards, including incentive stock options, non-qualified stock options, restricted shares and performance-based shares. On June 2, 2010, the Parent Company s shareholders approved amendments to the 1997 Plan that, among other things, increased the number of common shares available for future awards under the 1997 Plan by 6,000,000 (of which 3,600,000 shares are available solely for options and share appreciation rights). As of September 30, 2011, 5,788,395 common shares remained available for future awards under the 1997 Plan (including 4,578,737 shares available solely for options and share appreciation rights). Through September 30, 2011, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $1.6 million and $4.9 million during the three and nine-month periods ended September 30, 2011, of which $0.4 million and $1.1 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. The Company recognized stock-based compensation expense of $1.7 million and $4.8 million during the three and nine-month periods ended September 30, 2010, of which $0.4 million and $1.0 million, respectively, were also capitalized. The expensed amounts are included in general and administrative expense on the Company s consolidated income statement in the respective periods.

Accounting for Derivative Instruments and Hedging Activities

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

Table of Contents

For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in other comprehensive income while the ineffective portions are recognized in earnings.

The Company actively manages its ratio of fixed-to-floating rate debt. To manage its fixed and floating rate debt in a cost-effective manner, the Company, from time to time, enters into interest rate swap agreements as cash flow hedges, under which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts.

Fair Value Measurements

The Company estimates the fair value of its outstanding derivatives and available-for-sale-securities in accordance with the accounting standard for fair value measurements and disclosures. The accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Financial assets and liabilities recorded on the Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and

Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little, if any, related market activity or information.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

There were no items that were accounted for at fair value on a recurring basis as of September 30, 2011.

The following table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010:

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

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

Non-financial assets and liabilities initially measured at fair value in an acquisition or business combination that are not remeasured at least quarterly at fair value,
Long-lived assets measured at fair value due to an impairment in accordance with the accounting standard for the impairment or disposal of long-lived assets,

Equity and cost method investments measured at fair value due to an impairment in accordance with the accounting standard for investments,
Notes receivable adjusted for any impairment in its value in accordance with the accounting standard for loan receivables, and
Asset retirement obligations initially measured at fair value under the accounting standard for asset retirement obligations.

Table of Contents

There were no items that were accounted for at fair value on a non-recurring basis as of September 30, 2011.

As of September 30, 2011, the Company has an outstanding purchase money mortgage note with a principal balance of $7.2 million that it extended to a buyer (the Borrower) of its parcel of land in Newtown, Pennsylvania in December 2006. During 2011, the Borrower, who is developing a residential community, defaulted on the note and as a result, a forbearance agreement was entered into between the Company and the Borrower. The Borrower also entered into another forbearance agreement with a third party senior creditor bank related to its own loan. The forbearance agreement between the Company and the Borrower outlined the repayment terms of the outstanding debt and the payment of accrued interest by the Borrower and included, among other things, the metrics for selling and settling on home sales over an agreed period of time. With the inherent credit risk in collecting interest from the note, as provided in the forbearance agreement, the Company will provide a full allowance for any accrued interest receivable. Construction has already recommenced while loan repayments are scheduled to start in 2012. The Company believes that based on terms of the forbearance agreement, the total note will be fully paid by 2014. Given the current circumstances, the Company performed an impairment assessment of its note through a valuation analysis of the land and other Borrower assets that are encumbered by the note and determined that, as of September 30, 2011, the fair value of the land and other Borrowers assets, net of carrying costs and estimated costs to sell exceeded the outstanding balance of the note and therefore the note is recoverable based on the estimated fair values of the aforementioned assets as of September 30, 2011. However, it is possible that the terms of the forbearance agreement may not be met due to non-performance by the Borrower of the conditions set forth in the said agreement or due to further deterioration in the housing market and could cause an impairment of the Company s note receivable which could be material to its consolidated results of operations.

<u>*Income Taxes*</u>

Parent Company

The Parent Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). In order to continue to qualify as a REIT, the Parent Company is required to, among other things, distribute at least 90% of its annual REIT taxable income to its shareholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Parent Company is not subject to federal and state income taxes with respect to the portion of its income that meets certain criteria and is distributed annually to its shareholders. Accordingly, no provision for federal and state income taxes is included in the accompanying consolidated financial statements with respect to the operations of the Parent Company. The Parent Company intends to continue to operate in a manner that allows it to meet the requirements for taxation as a REIT. If the Parent Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income taxes and may not be able to qualify as a REIT for the four subsequent tax years. The Parent Company is subject to certain local income taxes. Provision for such taxes has been included in general and administrative expenses in the Parent Company s Consolidated Statements of Operations and Comprehensive Income.

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

Operating Partnership

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

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

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

Recent Accounting Pronouncement

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

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

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

3. REAL ESTATE INVESTMENTS

As of September 30, 2011 and December 31, 2010 the gross carrying value of the Company s rental properties was as follows (in thousands):

	September 30, 2011	December 31, 2010
Land	$ 698,985	$ 697,724
Building and improvements	3,748,256	3,693,579
Tenant improvements	473,487	442,808
	$ 4,920,728	$ 4,834,111

Acquisitions

On August 12, 2011, the Company acquired an office property located in Philadelphia, Pennsylvania, together with related ground tenancy rights under a long-term ground lease, through the foreclosure of a note receivable amounting to $18.8 million under which the said property was encumbered. The Company obtained the note receivable from a third party on August 2, 2011 and was funded through an advance under its $600.0 million Credit Facility (the Credit Facility) and with available corporate funds. The office property contains 192,707 of net rentable square feet and is 57.2% leased as of September 30, 2011. The Company recognized $0.3 million of transaction costs to acquire the office property and is included as part of general and administrative expenses in the Company s consolidated statements of operations. On the acquisition date of the office property, the total purchase price was allocated as follows: $21.4 million to building, $12.0 million to intangible assets and $14.4 million to below market lease liabilities assumed. The Company also acquired other assets of $0.2 million and assumed certain liabilities of $0.4 million.

On March 28, 2011, the Company acquired two office properties totaling 126,496 of net rentable square feet in Glen Allen, Virginia known as Overlook I and II for $12.6 million. The acquired properties are 100% leased as of September 30, 2011. The Company funded the acquisition price through an advance under its Credit Facility and with available corporate funds. The Company recognized a nominal amount of acquisition related costs, which are included as part of general and administrative expenses in the Company s consolidated statements of operations.

19

Table of Contents

On January 20, 2011, the Company acquired a one acre parcel of land in Philadelphia, Pennsylvania for $9.3 million. The Company funded the cost of this acquisition with available corporate funds and a draw on its Credit Facility. The Company capitalized $0.5 million of acquisition related costs as part of land inventory on its consolidated balance sheet. The Company expects to contribute the acquired property into a real estate venture in return for a 50% limited interest in the partnership. The real estate venture is expected to be formed to construct a mixed-use development property in the city of Philadelphia. The Company received $4.9 million from the prospective partner in anticipation of the real estate venture formation. The amount received is included as part of other liabilities in the Company s consolidated balance sheet as of September 30, 2011.

On August 5, 2010, the Company acquired a 53 story Class A office tower at 1717 Arch Street (Three Logan Square) in Philadelphia, Pennsylvania, together with related ground tenancy rights under a long-term ground lease, from BAT Partners, L.P. Three Logan Square contains approximately 1.0 million of net rentable square feet and is 67.2% leased as of September 30, 2011. The Company acquired Three Logan Square for approximately $129.0 million funded through a combination of $51.2 million in cash and the issuance of 7,111,112 units of a newly-established class of its limited partnership interest in the Operating Partnership designated as Class F (2010) Units. The Class F (2010) Units did not accrue any dividends and were not entitled to income or loss allocations prior to August 5, 2011, the first anniversary of the closing. Total cash paid after the assumption of security deposit obligations of existing tenants in the property of $0.9 million amounted to $50.3 million. The assumed security deposit obligation is included in the tenant security deposits and deferred rents in the Company s consolidated balance sheets. The Company funded the cash portion of the acquisition price through an advance under its Credit Facility and with available corporate funds.

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

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

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

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

	August 5, 2010	Weighted Average Amortization Period (in years)
Intangible assets:		
In-place lease value	$ 13,584	3
Tenant relationship value	8,870	5

Above market tenant leases acquired		895	1
Below market ground lease acquired		5,507	82
Total	$	28,856	23
Intangible liabilities:			
Below market leases acquired	$	683	1

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

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

The unaudited pro forma information below summarizes the Company s combined results of operations for the three and nine-months ended September 30, 2010 as though the acquisition of Three Logan Square was completed on January 1, 2010. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transaction had been completed as set forth above, nor do they purport to represent the Company s results of operations for future periods (in thousands except for per share amounts).

Table of Contents

	Three-months ended September 30, 2010	Nine-months ended September 30, 2010
Pro forma revenues	$ 142,920	$ 433,734
Pro forma loss from continuing operations	(7,408)	(19,279)
Pro forma net loss attributable to common shareholders	(8,973)	(17,862)
Loss per common share from continuing operations:		
Basic as reported	$ (0.06)	$ (0.20)
Basic as pro forma	$ (0.06)	$ (0.20)
Diulted as reported	$ (0.06)	$ (0.20)
Diulted as pro forma	$ (0.06)	$ (0.20)
Loss per common share:		
Basic as reported	$ (0.06)	$ (0.14)
Basic as pro forma	$ (0.06)	$ (0.14)
Diulted as reported	$ (0.06)	$ (0.14)
Diulted as pro forma	$ (0.06)	$ (0.14)

Dispositions

On June 27, 2011, the Company sold Three Greentree Center, a 69,300 net rentable square feet office property located in Marlton, New Jersey, for a sales price of $5.9 million. The property was 13.9% occupied as of the date of sale. This sale is included in discontinued operations (see Note 10).

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

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of September 30, 2011, the Company had an aggregate investment of approximately $84.2 million in 16 unconsolidated Real Estate Ventures. The Company formed these ventures with unaffiliated third parties, or acquired interests in them, to develop or manage office properties or to acquire land in anticipation of possible development of office properties. As of September 30, 2011, 14 of the Real Estate Ventures owned 49 office buildings that contain an aggregate of approximately 6.1 million net rentable square feet; one Real Estate Venture owned three acres of undeveloped parcel of land; and one Real Estate Venture developed a hotel property that contains 137 rooms in Conshohocken, PA.

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

The amounts reflected in the following tables (except for the Company s share of equity and income) are based on the historical financial information of the individual Real Estate Ventures. One of the Real Estate Ventures, acquired in connection with the Prentiss Properties Trust merger in 2006, had a negative equity balance on a historical cost basis as a result of historical depreciation and distributions of excess financing proceeds. The Company reflected its acquisition of this Real Estate Venture interest at its relative fair value as of the date of the merger. The difference between allocated cost and the underlying equity in the net assets of the investee is accounted for as if the entity were consolidated (i.e., allocated to the Company s relative share of assets and liabilities with an adjustment to recognize equity in earnings for the appropriate additional depreciation/amortization). The Company does not record operating losses of the Real Estate Ventures in excess of its investment balance unless the Company is liable for the obligations of the Real Estate Venture or is otherwise committed to provide financial support to the Real Estate Venture.

Table of Contents

The following is a summary of the financial position of the Real Estate Ventures as of September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	December 31, 2010
Net property	$ 723,108	$ 804,705
Other assets	127,863	105,576
Other liabilities	48,320	44,509
Debt	680,505	748,387
Equity	122,146	117,385
Company s share of equity (Company s basis)	84,219	84,372

The following is a summary of results of operations of the Real Estate Ventures for the three and nine-month periods ended September 30, 2011 and 2010 (in thousands):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Revenue	$ 36,345	$ 27,713	$ 108,743	$ 82,310
Operating expenses	15,863	9,766	46,407	28,767
Interest expense, net	10,326	8,928	31,999	25,936
Depreciation and amortization	9,869	8,336	28,836	22,860
Net income	287	683	1,501	4,747
Company s share of income (Company s basis)	418	1,035	2,739	3,356

As of September 30, 2011, the Company had guaranteed repayment of approximately $0.7 million of loans on behalf of a Real Estate Venture. The Company also provides customary environmental indemnities in connection with construction and permanent financing both for its own account and on behalf of its Real Estate Ventures.

On June 29, 2011, one of the unconsolidated Real Estate Ventures sold its only office building, a 347,620 net rentable square feet office property located in Conshohocken, Pennsylvania, through an assignment of all of the partnerships interests for a sales price of $86.7 million. The property was 87.0% occupied as of the date of sale. The Company had a three percent ownership percentage in the Real Estate Venture and recognized $0.6 million of income from the sale as part of its equity in income from the Real Estate Venture.

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

Table of Contents

5. DEFERRED COSTS

As of September 30, 2011 and December 31, 2010, the Company s deferred costs were comprised of the following (in thousands):

	September 30, 2011		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$ 137,299	$ (50,321)	$ 86,978
Financing Costs	39,057	(12,379)	26,678
Total	$ 176,356	$ (62,700)	$ 113,656

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

During the three and nine-month periods ended September 30, 2011, the Company capitalized internal direct leasing costs of $1.7 million and $5.4 million, and $1.4 million and $4.7 million during the three and nine-months ended September 30, 2010, respectively, in accordance with the accounting standard for the capitalization of leasing costs.

6. INTANGIBLE ASSETS

As of September 30, 2011 and December 31, 2010, the Company s intangible assets were comprised of the following (in thousands):

	September 30, 2011		
	Total Cost	Accumulated Amortization	Intangible Assets, net
In-place lease value	$ 104,581	$ (62,542)	$ 42,039
Tenant relationship value	79,110	(47,036)	32,074
Above market leases acquired	16,037	(8,588)	7,449
Total	$ 199,728	$ (118,166)	$ 81,562
Below market leases acquired	$ 79,966	$ (42,026)	$ 37,940

December 31, 2010
Accumulated

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

As of September 30, 2011, the Company s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no early lease terminations):

	Assets	Liabilities
2011 (three months remaining)	$ 7,282	$ 1,964
2012	21,458	7,009
2013	13,303	6,493
2014	10,250	4,926
2015	7,699	2,751
Thereafter	21,570	14,797
Total	$ 81,562	$ 37,940

7. DEBT OBLIGATIONS

The following table sets forth information regarding the Company s consolidated debt obligations outstanding at September 30, 2011 and December 31, 2010 (in thousands):

MORTGAGE DEBT:

Property / Location	September 30, 2011	December 31, 2010	Effective Interest Rate	Maturity Date
Arboretum I, II, III & V	$	$ 20,386	7.59% (a)	Jul-11
Midlantic Drive/Lenox Drive/DCC I		56,514	8.05% (b)	Oct-11
Research Office Center		39,145	5.30% (c), (d)	Oct-11
Concord Airport Plaza		34,494	5.55% (d), (e)	Jan-12
Newtown Square/Berwyn Park/Libertyview	56,940	58,102	7.25 %	May-13
Southpoint III	2,070	2,597	7.75%	Apr-14
Tysons Corner	95,299	96,507	5.36% (d)	Aug-15
Two Logan Square	89,800	89,800	7.57%	Apr-16
One Logan Square		60,000	4.50% (f)	Jul-16
IRS Philadelphia Campus	204,301	208,366	7.00%	Sep-30
Cira South Garage	44,879	46,335	7.12%	Sep-30
Principal balance outstanding	493,288	712,246		
Plus: unamortized fixed-rate debt premiums (discounts), net	(1,421)	(457)		
Total mortgage indebtedness	$ 491,867	$ 711,789		

UNSECURED DEBT:

$345.0M 3.875% Guaranteed Exchangeable Notes due 2026	59,835	59,835	5.50 % (g)	Oct-11
Bank Term Loan	183,000	183,000	LIBOR + 0.800% (h)	Jun-12
Credit Facility	166,000	183,000	LIBOR + 0.725% (h)	Jun-12
	152,296	175,200	5.73%	Apr-12

$300.0M 5.750% Guaranteed Notes due 2012				
$250.0M 5.400% Guaranteed Notes due 2014	242,681	242,681	5.53%	Nov-14
$250.0M 7.500% Guaranteed Notes due 2015	248,585	250,000	7.77%	May-15
$250.0M 6.000% Guaranteed Notes due 2016	250,000	250,000	5.95%	Apr-16
$300.0M 5.700% Guaranteed Notes due 2017	300,000	300,000	5.68%	May-17
$325.0M 4.950% Guaranteed Notes due 2018	325,000		5.14%	Apr-18
Indenture IA (Preferred Trust I)	27,062	27,062	LIBOR + 1.25%	Mar-35
Indenture IB (Preferred Trust I)	25,774	25,774	LIBOR + 1.25%	Apr-35
Indenture II (Preferred Trust II)	25,774	25,774	LIBOR + 1.25%	Jul-35
Principal balance outstanding	2,006,007	1,722,326		
Less: unamortized exchangeable debt discount	(91)	(906)		
unamortized fixed-rate debt discounts, net	(5,556)	(2,763)		
Total unsecured indebtedness	$ 2,000,360	$ 1,718,657		
Total Debt Obligations	$ 2,492,227	$ 2,430,446		

(a) On April 1, 2011, the Company prepaid the remaining balance of the loan without penalty.

(b) On June 3, 2011, the Company prepaid the remaining balance of the loan without penalty.

(c) On June 30, 2011, the Company prepaid the remaining balance of the loan without penalty. The unamortized fixed-rate debt premium of $0.3 million related to this loan was included as part of the gain (loss) on early extinguishment of debt in the Company s consolidated statement of operations during the current year.

(d) These loans were assumed upon acquisition of the related properties. The interest rates reflect the market rate at the time of acquisition.

Table of Contents

(e) On September 1, 2011, the Company prepaid the remaining balance of the loan without penalty. The unamortized fixed-rate debt premium of $0.2 million related to this loan was included as part of the gain (loss) on early extinguishment of debt in the Company s consolidated statement of operations during the quarter.

(f) This mortgage was subject to an interest rate floor of 4.50% on a monthly basis. On July 11, 2011, the Company prepaid the balance of the loan without penalty.

(g) On October 20, 2011, holders representing $59.5 million of the outstanding Exchangeable Notes as of September 30, 2011, exercised their right to cause the Company to redeem their notes at par plus accrued and unpaid interest leaving an outstanding balance of $0.4 million. On October 15, 2016, the remaining holders have the right to request, with proper notice, the redemption of all or a portion of their Exchangeable Notes at a price equal to 100% of the principal amount of the Exchangeable Notes plus accrued and unpaid interest. Accordingly, the remaining balance of the Exchangeable Notes after October 20, 2011 will reflect a maturity date of October 15, 2016, notwithstanding their final maturity date of October 15, 2026.

(h) On March 31, 2011, the maturity dates of the Bank Term Loan and the Credit Facility were extended to June 29, 2012 from June 29, 2011. On June 29, 2011, the Company paid a total extension fee amounting to $1.2 million which is equal to 15 basis points of the outstanding principal balance of the Bank Term Loan and of the committed amount under the Credit Facility. The extension of the maturity dates was at the Company s option under the Bank Term Loan and the Credit Facility agreements. There were no changes in the terms and conditions of the loan agreements as a result of the maturity date extensions.

During the nine-month periods ended September 30, 2011 and 2010, the Company s weighted-average effective interest rate on its mortgage notes payable was 6.83% and 6.62%, respectively.

During the nine-months ended September 30, 2011, the Company repurchased $24.3 million of its outstanding unsecured Notes in a series of transactions which are summarized in the table below (in thousands):

Notes	Repurchase Amount	Principal	Loss	Deferred Financing Amortization
2012 5.750% Notes	$ 23,765	$ 22,904	$ (857)	$ 32
2015 7.500% Notes	1,600	1,415	(212)	8
	$ 25,365	$ 24,319	$ (1,069)	$ 40

The Parent Company unconditionally guarantees the unsecured debt obligations of the Operating Partnership (or is a co-borrower with the Operating Partnership) but does not, by itself incur indebtedness.

The Company utilizes credit facility borrowings for general business purposes, including the acquisition, development and redevelopment of properties and the repayment of other debt. The per annum variable interest rate on the outstanding balances is LIBOR plus 0.725%. The interest rate and facility fee are subject to adjustment upon a change in the Company s unsecured debt ratings. The Company has the option to increase the Credit Facility to $800.0 million provided that the Company has not committed any defaults under the Credit Facility and is able to acquire additional commitments from its existing lenders or new lenders. As of September 30, 2011, the Company had $166.0 million of borrowings and $10.6 million in letters of credit outstanding, leaving $423.4 million of unused availability under the Credit Facility. During the nine-month periods ended September 30, 2011 and 2010, the weighted-average interest rate on Credit Facility borrowings was 0.98% and 1.14%, respectively. As of September 30, 2011 and 2010, the weighted average interest rate on the Credit Facility was 0.95% and 0.98%, respectively.

The Credit Facility requires the maintenance of ratios related to minimum net worth, debt-to-total capitalization and fixed charge coverage and includes non-financial covenants. The Company was in compliance with all financial covenants as of September 30, 2011.

The Company accounts for its outstanding 3.875% Guaranteed Exchangeable Notes in accordance with the accounting standard for convertible debt instruments. The accounting standard requires the initial proceeds from the Company s issuance of the 3.875% Guaranteed Exchangeable Notes to be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of a similar nonconvertible debt that could have been issued by the Company at such time. This is accomplished through the creation of a discount on the debt that would be accreted using the effective interest method as additional non-cash interest expense over the period the debt is expected to remain outstanding (i.e. through the first optional redemption date).

The principal amount outstanding of the 3.875% Guaranteed Exchangeable Notes was $59.8 million, both at September 30, 2011 and December 31, 2010, respectively. At certain times and upon certain events, the notes are exchangeable for cash up to their principal amount and, with respect to the remainder, if any, of the exchange value in excess of such principal amount, cash or common shares or a combination of both at the Company s option. The initial exchange rate is 25.4065 shares per $1,000 principal amount of notes (which is equivalent to an initial exchange price of $39.36 per share). The carrying amount of the equity component is $24.4 million and is reflected within additional paid-in capital in the Company s consolidated balance sheets. The unamortized debt discount is $0.1 million at September 30, 2011 and $0.9 million at December 31, 2010, respectively, and will be amortized through October 15, 2011. The effective interest rate at September 30, 2011 and December 31, 2010 was 5.5%. The Company recognized contractual coupon interest of $0.6 million and $1.7 million for the three and nine-month periods ended September 30, 2011 and $0.7 million and $2.6 million for the three and nine-month periods ended September 30, 2010, respectively. In addition, the Company recognized interest expense on amortization of debt discount of $0.3 million and $0.8 million during the three and nine-month periods ended September 30, 2011 and $0.3 million and $1.3 million during the three and nine-month periods ended September 30, 2010, respectively. Debt discount write-offs resulting from debt repurchases amounted to $1.6 million for the nine-month period ended September 30, 2010. There were no repurchases of the notes during the three and nine-month periods ended September 30, 2011. See note (g) to the above table for activity subsequent to September 30, 2011.

As of September 30, 2011, the Company s aggregate scheduled principal payments of debt obligations, excluding amortization of discounts and premiums, were as follows (in thousands):

2011	$ 62,732
2012	513,694
2013	66,467
2014	254,401
2015	348,079
Thereafter	1,253,922
Total principal payments	2,499,295
Net unamortized premiums/(discounts)	(7,068)
Outstanding indebtedness	$ 2,492,227

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following fair value disclosure was determined by the Company using available market information and discounted cash flow analyses as of September 30, 2011 and December 31, 2010, respectively. The discount rate used in calculating fair value is the sum of the current risk free rate and the risk premium on the date of measurement of the instruments or obligations. Considerable judgment is necessary to interpret market data and to develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize upon disposition. The use of different estimation methodologies may have a material effect on the estimated fair value amounts. The Company believes that the carrying amounts reflected in the consolidated balance sheets at September 30, 2011 and December 31, 2010 approximate the fair values for cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses.

The following are financial instruments for which the Company s estimates of fair value differ from the carrying amounts (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage payable, net of discounts	$ 491,867	$ 506,042	$ 711,789	$ 726,348

Unsecured notes payable, net of discounts	$ 1,572,750	$ 1,610,233	$ 1,274,047	$ 1,338,743
Variable rate debt instruments	$ 427,610	$ 416,089	$ 444,610	$ 432,556
Notes receivable	$ 32,407(a)	$ 32,309	$ 31,216(a)	$ 28,921

(a) For purposes of this disclosure, one of the notes is presented gross of the deferred gain of $12.9 million arising from the sale of two properties in 2009 accounted for under the accounting standard for installment sales.

9. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Risk Management

In the course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is primarily the risk of inability or unwillingness of tenants to make contractually required payments and counterparties on derivatives not fulfilling their obligations. Market risk is the risk of declines in the value of properties due to changes in rental rates, interest rates or other market factors affecting the valuation of properties held by the Company.

Table of Contents

Risks and Uncertainties

Significantly challenging and sluggish economic conditions have reduced the volume of real estate transactions and created credit stresses on many businesses. Vacancy rates may increase through 2012 and possibly beyond as the current economic climate negatively impacts tenants. The current financial markets also have an adverse effect on the Company s other counter parties such as the counter parties in its derivative contracts.

The Company expects that the impact of the current state of the economy, including high unemployment and the unprecedented volatility in the financial and credit markets, will continue to have a dampening effect on the fundamentals of its business, including increases in past due accounts, tenant defaults, lower occupancy and reduced effective rents. These conditions would negatively affect the Company s future net income and cash flows and could have a material adverse effect on its financial condition.

The Company s Credit Facility, Bank Term Loan and the indenture governing the unsecured public debt securities (Note 7) contain restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt which it must maintain. The ability to borrow under the Credit Facility is subject to compliance with such financial and other covenants. In the event that the Company fails to satisfy these covenants, it would be in default under the Credit Facility, the Bank Term Loan and the indenture and may be required to repay such debt with capital from other sources. Under such circumstances, other sources of capital may not be available, or may be available only on unattractive terms.

Availability of borrowings under the Credit Facility is subject to a traditional material adverse effect clause. Each time the Company borrows it must represent to the lenders that there have been no events of a nature which would have a material adverse effect on the business, assets, operations, condition (financial or otherwise) or prospects of the Company taken as a whole or which could negatively affect the ability of the Company to perform its obligations under the Credit Facility. While the Company believes that there are currently no material adverse effect events, the Company is operating in unprecedented economic times and it is possible that such event could arise which would limit the Company s borrowings under the Credit Facility. If an event occurs which is considered to have a material adverse effect, the lenders could consider the Company in default under the terms of the Credit Facility and the borrowings under the Credit Facility would become due and payable. If the Company is unable to obtain a waiver, this would have a material adverse effect on the Company s financial position and results of operations.

The Company was in compliance with all financial covenants as of September 30, 2011. Management continuously monitors the Company s compliance with and anticipated compliance with the covenants. Certain of the covenants restrict management s ability to obtain alternative sources of capital. While the Company currently believes it will remain in compliance with its covenants, in the event of a continued slow-down and continued crisis in the credit markets, the Company may not be able to remain in compliance with such covenants and if the lender would not provide a waiver, it could result in an event of default.

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

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

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

To comply with the provisions of the accounting standard for fair value measurements and disclosures, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

On March 31, 2011, in anticipation of the offering of $325.0 million of 4.95% unsecured guaranteed notes due April 15, 2018, the Company entered into seven intra-day treasury lock agreements. The treasury lock agreements were designated as cash flow hedges on interest rate risk and qualified for hedge accounting. The total notional amount of the treasury lock agreements was $230.0 million with an expiration of 7 years at treasury rates of 2.891%, 2.873%, and 2.858% and a fair value of $0.6 million at March 31, 2011. The agreements were settled on the day we completed the debt offering at a total expense of $0.6 million. This expense was recorded as a component of accumulated other comprehensive income in the accompanying consolidated balance sheet and will be amortized over the term of the note.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, in connection with the intra-day treasury lock agreement that the Company entered into and the remaining interest swaps which matured on October 18, 2010, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The changes in fair values of the hedges during the three and nine months ended September 30, 2010 were included in other liabilities and accumulated other comprehensive income in the accompanying balance sheet.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants related to the Company s investments or rental operations are engaged in similar business activities, or are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No tenant accounted for 10% or more of the Company s rents during the three and nine-month periods ended September 30, 2011 and 2010. Conditions in the general economy and the global credit markets have had a significant adverse effect on companies in numerous industries. The Company has tenants concentrated in various industries that may be experiencing adverse effects from the current economic conditions and the Company could be adversely affected if such tenants go into default under their leases.

10. DISCONTINUED OPERATIONS

For the three and nine-month periods ended September 30, 2011, income from discontinued operations relates to one property that the Company sold during 2011. The following table summarizes the revenue and expense information for the property classified as discontinued operations for the three and nine-month periods ended September 30, 2011 (in thousands):

	Three-month period ended September 30, 2011	Nine-month period ended September 30, 2011
Revenue:		
Rents	$	$ 475
Tenant reimbursements	1	84
Other	14	(64)
Total revenue	15	495

Expenses:				
Property operating expenses		(2)		258
Real estate taxes				70
Depreciation and amortization		(13)		74
Total operating expenses		(15)		402
Income from discontinued operations before gain on sale of interests in real estate		30		93
Net gain on disposition of discontinued operations				3,836
Income from discontinued operations	$	30	$	3,929

Table of Contents

For the three and nine-month periods ended September 30, 2010, income from discontinued operations relates to nine properties that the Company sold since January 1, 2010 through September 30, 2011. The following table summarizes the revenue and expense information for properties classified as discontinued operations for the three and nine-month periods ended September 30, 2010 (in thousands):

	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010
Revenue:		
Rents	$ 1,423	$ 4,416
Tenant reimbursements	518	1,875
Other	37	39
Total revenue	1,978	6,330
Expenses:		
Property operating expenses	751	2,357
Real estate taxes	293	924
Depreciation and amortization	549	1,989
Total operating expenses	1,593	5,270
Income from discontinued operations before gain on sale of interests in real estate	385	1,060
Net gain on disposition of discontinued operations	(3)	6,346
Income from discontinued operations	$ 382	$ 7,406

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

11. NON-CONTROLLING INTERESTS IN THE PARENT COMPANY

Non-controlling interests in the Parent Company s financial statements relate to redeemable common limited partnership interests in the Operating Partnership held by parties other than the Parent Company.

As of September 30, 2011 and December 31, 2010, the aggregate book value of the non-controlling interests associated with the redeemable common limited partnership interests in the accompanying consolidated balance sheet of the Parent Company was $122.4 million and $128.3 million, respectively. The Parent Company believes that the aggregate settlement value of these interests (based on the number of units outstanding and the closing price of the common shares on the balance sheet date) was approximately $78.6 million and $115.4 million, respectively.

Table of Contents

12. BENEFICIARIES EQUITY OF THE PARENT COMPANY

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 thousands, except share and per share amounts; results may not add due to rounding):

	Three-month periods ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (loss) from continuing operations	$ 6,581	$ 6,581	$ (6,998)	$ (6,998)
Net income (loss) from continuing operations attributable to non-controlling interests	(360)	(360)	187	187
Amount allocable to unvested restricted shareholders	(121)	(121)	(128)	(128)
Preferred share dividends	(1,998)	(1,998)	(1,998)	(1,998)
Income (loss) from continuing operations available to common shareholders	4,102	4,102	(8,937)	(8,937)
Income (loss) from discontinued operations	30	30	382	382
Discontinued operations attributable to non-controlling interests	(2)	(2)	(8)	(8)
Discontinued operations attributable to common shareholders	28	28	374	374
Net income (loss) attributable to common shareholders	$ 4,130	$ 4,130	$ (8,563)	$ (8,563)
Denominator				
Weighted-average shares outstanding	135,562,487	135,562,487	132,208,245	132,208,245
Contingent securities/Share based compensation		1,278,964		
Total weighted-average shares outstanding	135,562,487	136,841,451	132,208,245	132,208,245
Earnings per Common Share:				
Income (loss) from continuing operations attributable to common shareholders	$ 0.03	$ 0.03	$ (0.06)	$ (0.06)
Discontinued operations attributable to common shareholders				
	$ 0.03	$ 0.03	$ (0.06)	$ (0.06)

Net income (loss) attributable to common shareholders

	Nine-month periods ended September 30, 2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				
Loss from continuing operations	$ (4,042)	$ (4,042)	$ (20,021)	$ (20,021)
Net income (loss) from continuing operations attributable to non-controlling interests	(66)	(66)	548	548
Amount allocable to unvested restricted shareholders	(384)	(384)	(384)	(384)
Preferred share dividends	(5,994)	(5,994)	(5,994)	(5,994)
Loss from continuing operations available to common shareholders	(10,486)	(10,486)	(25,851)	(25,851)
Income from discontinued operations	3,929	3,929	7,406	7,406
Discontinued operations attributable to non-controlling interests	(80)	(80)	(159)	(159)
Discontinued operations attributable to common shareholders	3,849	3,849	7,247	7,247
Loss attributable to common shareholders	$ (6,637)	$ (6,637)	$ (18,604)	$ (18,604)
Denominator				
Weighted-average shares outstanding	135,164,424	135,164,424	130,841,534	130,841,534
Earnings per Common Share:				
Loss from continuing operations attributable to common shareholders	$ (0.08)	$ (0.08)	$ (0.20)	$ (0.20)
Discontinued operations attributable to common shareholders	0.03	0.03	0.06	0.06
Net loss attributable to common shareholders	$ (0.05)	$ (0.05)	$ (0.14)	$ (0.14)

Redeemable limited partnership units totaling 9,809,759 and 9,920,220 as of September 30, 2011 and 2010, respectively, were excluded from the diluted earnings per share computations because their effect would have been anti-dilutive.

Table of Contents

The contingent securities/share based compensation impact is calculated using the treasury stock method and relates to employee awards settled in shares of the Parent Company. The effect of these securities is anti-dilutive for periods that the Parent Company incurs a net loss available to common shareholders and therefore is excluded from the dilutive earnings per share calculation in such periods.

Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the nine months ended September 30, 2011 and 2010, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted shares issued to the Company s executives and other employees under the 1997 Plan.

Common and Preferred Shares

On September 13, 2011, the Parent Company declared a distribution of $0.15 per common share, totaling $20.5 million, which was paid on October 19, 2011 to shareholders of record as of October 5, 2011. On September 13, 2011, the Parent Company declared distributions on its Series C Preferred Shares and Series D Preferred Shares to holders of record as of September 30, 2011. These shares are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on October 17, 2011 to holders of Series C Preferred Shares and Series D Preferred Shares totaled $0.9 million and $1.1 million, respectively.

In March 2010, the Parent Company commenced a continuous equity offering program (the Offering Program), under which the Parent Company may sell up to an aggregate amount of 15,000,000 common shares until March 10, 2013. The Company may sell common shares in amounts and at times to be determined by the Parent Company. Actual sales will depend on a variety of factors as determined by the Company, including market conditions, the trading price of its common shares and determinations by the Parent Company of the appropriate sources of funding. In conjunction with the Offering Program, the Parent Company engages sales agents who receive compensation, in aggregate, of up to 2% of the gross sales price per share sold. During the nine months ended September 30, 2011, the Parent Company sold 679,285 shares under this program at an average sales price of $12.18 per share resulting in net proceeds of $8.0 million. The Parent Company contributed the net proceeds from the sale of its shares to the Operating Partnership in exchange for the issuance of 679,285 common partnership units to the Parent Company. The Operating Partnership used the net proceeds from the sales contributed by the Parent Company to repay balances on its Credit Facility and for general corporate purposes. From the inception of the Offering Program in March 2010 through September 30, 2011, the Parent Company had sold 6,421,553 shares under this program resulting in 8,578,447 remaining shares available for sale. There was no sale activity under the Offering Program during the three months ended September 30, 2011.

Common Share Repurchases

The Parent Company maintains a share repurchase program pursuant to which the Parent Company is authorized to repurchase its common shares from time to time. The Parent Company s Board of Trustees initially authorized this program in 1998 and has periodically replenished capacity under the program. On May 2, 2006 the Board of Trustees restored capacity to 3.5 million common shares.

The Parent Company did not repurchase any shares during the nine-month period ended September 30, 2011. As of September 30, 2011, the Parent Company may purchase an additional 0.5 million shares under the program.

Repurchases may be made from time to time in the open market or in privately negotiated transactions, subject to market conditions and compliance with legal requirements. The share repurchase program does not contain any time limitation and does not obligate the Parent Company to repurchase any shares. The Parent Company may discontinue the program at any time.

Table of Contents

13. PARTNERS EQUITY OF THE OPERATING PARTNERSHIP

Earnings per Common Partnership Unit

The following table details the number of units and net income used to calculate basic and diluted earnings per common partnership unit (in thousands, except unit and per unit amounts; results may not add due to rounding):

	Three-month periods ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (loss) from continuing operations	$ 6,581	$ 6,581	$ (6,998)	$ (6,998)
Amount allocable to unvested restricted unitholders	(121)	(121)	(128)	(128)
Preferred unit dividends	(1,998)	(1,998)	(1,998)	(1,998)
Income (loss) from continuing operations available to common unitholders	4,462	4,462	(9,124)	(9,124)
Discontinued operations attributable to common unitholders	30	30	382	382
Net income (loss) attributable to common unitholders	$ 4,492	$ 4,492	$ (8,742)	$ (8,742)
Denominator				
Weighted-average units outstanding	145,372,247	145,372,247	139,423,151	139,423,151
Contingent securities/Share based compensation		1,278,964		
Total weighted-average units outstanding	145,372,247	146,651,211	139,423,151	139,423,151
Earnings per Common Partnership Unit:				
Income (loss) from continuing operations attributable to common unitholders	$ 0.03	$ 0.03	$ (0.06)	$ (0.06)
Discontinued operations attributable to common unitholders				
Net income (loss) attributable to common unitholders	$ 0.03	$ 0.03	$ (0.06)	$ (0.06)

	Nine-month periods ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				

Loss from continuing operations	$	(4,042)	$	(4,042)	$	(20,021)	$	(20,021)
Amount allocable to unvested restricted unitholders		(384)		(384)		(384)		(384)
Preferred unit dividends		(5,994)		(5,994)		(5,994)		(5,994)
Loss from continuing operations available to common unitholders		(10,420)		(10,420)		(26,399)		(26,399)
Discontinued operations attributable to common unitholders		3,929		3,929		7,406		7,406
Loss attributable to common unitholders	$	(6,491)	$	(6,491)	$	(18,993)	$	(18,993)
Denominator								
Weighted-average units outstanding		145,027,662		145,027,662		135,135,380		135,135,380
Earnings per Common Partnership Unit:								
Income (loss) from continuing operations attributable to common unitholders	$	(0.07)	$	(0.07)	$	(0.19)	$	(0.19)
Discontinued operations attributable to common unitholders		0.03		0.03		0.05		0.05
Net income (loss) attributable to common unitholders	$	(0.04)	$	(0.04)	$	(0.14)	$	(0.14)

Unvested restricted units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the nine-months ended September 30, 2011 and 2010, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted units.

Common Partnership Unit and Preferred Mirror Units

On September 13, 2011, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $20.5 million, which was paid on October 19, 2011 to unitholders of record as of October 5, 2011.

On September 13, 2011, the Operating Partnership declared distributions on its Series D Preferred Mirror Units and Series E Preferred Mirror Units to holders of record as of September 30, 2011. These units are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on October 17, 2011 to holders of Series D Preferred Mirror Units and Series E Preferred Mirror Units totaled $0.9 million and $1.1 million, respectively.

During the nine-month period ended September 30, 2011, the Parent Company contributed net proceeds amounting to $8.0 million from the sale of 679,285 common shares under its Offering Program to the Operating Partnership in exchange for the issuance of 679,285 common partnership units to the Parent Company. The Operating Partnership used the net proceeds from the sales to repay balances on its unsecured revolving Credit Facility and for general corporate purposes.

The Operating Partnership issued 7,111,112 Class F (2010) Units on August 5, 2010 in connection with its acquisition of Three Logan Square. The Class F (2010) Units were valued based on the closing market price of the Parent Company s common shares on the acquisition date ($11.54) less $0.60 to reflect that these units do not begin to accrue a dividend prior to the first anniversary of their issuance. The Class F (2010) Units are subject to redemption at the option of the holders after the first anniversary of the acquisition. The Operating Partnership may, at its option, satisfy the redemption either for an amount, per unit, of cash equal to the market price of one of the Parent Company s common share (based on the five-day trading average ending on the date of the exchange) or for one of the Parent Company s common shares. The redemption value of these Class F (2010) Units and the other redeemable limited partnership units are presented in the mezzanine section of the Operating Partnership s balance sheet because they can be redeemed in cash or with Parent Company common shares.

Common Unit Repurchases

The Parent Company did not purchase any shares during the nine months ended September 30, 2011 and accordingly, during the nine months ended September 30, 2011, the Operating Partnership did not repurchase any units in connection with the Parent Company s share repurchase program.

14. SHARE BASED AND DEFERRED COMPENSATION

Stock Options

At September 30, 2011, the Parent Company had 3,599,673 options outstanding under its shareholder approved equity incentive plan. There were 1,311,943 options unvested as of September 30, 2011 and $2.7 million of unrecognized compensation expense associated with these options to be recognized over a weighted average of 1.7 years. During the three and nine-months ended September 30, 2011, the Company recognized compensation expense related to unvested options of $0.4 million and $1.1 million, of which $0.1 million and $0.3 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. During the three and nine-months ended September 30, 2010, the Company recognized $0.3 million and $0.7 million of compensation expense, respectively, of which nominal amounts of compensation expense were capitalized. The recognized compensation expenses are included as part of general and administrative expense in the Company s consolidated statements of operations.

Option activity as of September 30, 2011 and changes during the nine months ended September 30, 2011 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	3,116,611	$ 14.56	7.81	$ (9,080,625)
Granted	603,241	11.89	9.43	(2,338,765)
Exercised	(120,179)	2.91		
Outstanding at September 30, 2011	3,599,673	$ 14.50	7.46	$ (23,367,772)

Vested/Exercisable at September 30, 2011	2,287,729	$ 17.01	6.85	$	(20,370,992)

On March 2, 2011, the Compensation Committee of the Company s Board of Trustees awarded 603,241 options to the Company s executives. The options vest ratably over three years and have a ten year term. The vesting of the options is also subject to acceleration upon a change in control or if the recipient of the award were to die, become disabled, be terminated without cause or retire in a qualifying retirement prior to the vesting date. Qualifying retirement for options granted on March 2, 2011 as provided under the 1997 Plan means the recipient s voluntary termination of employment after reaching age 57 and accumulating at least 15 years of service with the Company. On May 24, 2011, the Compensation Committee modified these options in respect of 101,437 shares awarded to one of the Company s executives. The modification, with the said executive s approval, provided additional vesting conditions linked to the Company s total shareholder return which the Company will determine every year during the vesting period. The implementation of these market conditions did not materially impact total compensation expense expected to be recognized. The modified portion of the options will vest in whole or in part only if the Company s total shareholder return achieves specified targets, subject to vesting upon death, disability, qualifying retirement or a change of control. As of September 30, 2011, none of the Company s executives had met conditions to elect a qualifying retirement.

Table of Contents

Restricted Share Awards

As of September 30, 2011, 808,098 restricted shares were outstanding under the 1997 Plan and vest over three to seven years from the initial grant date. The remaining compensation expense to be recognized at September 30, 2011 was approximately $4.4 million. That expense is expected to be recognized over a weighted average remaining vesting period of 1.4 years. The Company recognized compensation expense related to outstanding restricted shares of $0.8 million and $2.4 million during the three and nine-months ended September 30, 2011, of which $0.2 million and $0.5 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. The Company recognized compensation expense related to outstanding restricted shares of $0.9 million and $2.7 million during the three and nine-months ended September 30, 2010, of which $0.2 million and $0.7 million, respectively, were capitalized. The expensed amounts are included in general and administrative expense on the Company s consolidated statement of operations in the respective periods.

The following table summarizes the Company s restricted share activity for the nine-months ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair value
Non-vested at January 1, 2011	851,278	$ 10.75
Granted	197,035	11.92
Vested	(237,541)	19.76
Forfeited	(2,674)	11.30
Non-vested at September 30, 2011	808,098	$ 9.47

On March 2, 2011, the Compensation Committee of the Company s Board of Trustees awarded 174,012 restricted shares to the Company s executives. The restricted shares will cliff vest after three years from the grant date. The vesting of the restricted shares is also subject to acceleration upon a change in control or if the recipient of the award were to die, become disabled, be terminated without cause or retire in a qualifying retirement prior to the vesting date. Qualifying retirement for restricted shares granted on March 2, 2011 as provided in the award agreements Plan means the recipient s voluntary termination of employment after reaching age 57 and accumulating at least 15 years of service with the Company. As of September 30, 2011, none of the Company s executives had met conditions to elect a qualifying retirement.

Restricted Performance Share Units Plan

On March 2, 2011, March 4, 2010 and April 1, 2009, the Compensation Committee of the Parent Company s Board of Trustees awarded an aggregate of 124,293, 120,955 and 488,292 share-based awards, respectively, to its executives. These awards are referred to as Restricted Performance Share Units, or RPSUs. The RPSUs represent the right to earn common shares. The number of common shares, if any, deliverable to award recipients depends on the Company s performance based on its total return to shareholders during the three year measurement period that commenced on January 1, 2011 (in the case of the March 2, 2011 awards), January 1, 2010 (in the case of the March 4, 2010 awards) and January 1, 2009 (in the case of the April 1, 2009 awards) and that ends on the earlier of December 31, 2013, December 31, 2012 or December 31, 2011 (as applicable) or the date of a change of control, compared to the total shareholder return of REITs within an index over such respective periods. The awards are also contingent upon the continued employment of the participants through the performance periods (with exceptions for death, disability and qualifying retirement). Dividends are deemed credited to the performance units accounts and are applied to acquire more performance units for the account of the unit holder at the price per common share ending on the dividend payment date. If earned, awards will be settled in common shares in an amount that reflects both the number of performance units in the holder s account at the end of the applicable measurement period and the Company s total return to shareholders during the applicable three year measurement period relative to the total shareholder return of the REIT within the index.

If the total shareholder return during the measurement period places the Company at or above a certain percentile as compared to its peers based on an industry-based index at the end of the measurement period then the number of shares that will be delivered shall equal a certain percentage (not to exceed 200%) of the participant s base units.

On the date of each grant, the awards were valued using a Monte Carlo simulation. The fair values of the 2011 and 2010 awards on the grant dates were $2.0 million, respectively, while the 2009 award was $1.1 million. The fair values of each award are being amortized over the three year cliff vesting period. In the case of the 2011 awards, the vesting of the RPSUs is also subject to acceleration upon a change in control or if the recipient of the award were to die, become disabled, terminated without cause or retire in a qualifying retirement prior to the vesting date. Qualifying retirement for restricted shares granted on March 2, 2011 as provided under the 1997 Plan means the recipient s voluntary termination of employment after reaching age 57 and accumulating at least 15 years of service with the Company. As of September 30, 2011, none of the Company s executives has met conditions to elect a qualifying retirement.

For the three and nine-month periods ended September 30, 2011, the Company recognized total compensation expense for the 2011, 2010 and 2009 awards of $0.5 million and $1.2 million, of which $0.1 million and $0.3 million were capitalized as part of the Company s review of employee salaries eligible for capitalization. For the three and nine months ended September 30, 2010, the Company recognized total compensation expense for 2010 and 2009 awards of $0.3 million and $0.7 million, respectively, related to this plan of which nominal amounts were capitalized.

Outperformance Program

On August 28, 2006, the Compensation Committee of the Parent Company s Board of Trustees adopted a long-term incentive compensation program (the outperformance program) under the 1997 Plan. The outperformance program provided for share-based awards, with share issuances (if any), to take the form of both vested and restricted common shares and with any share issuances contingent upon the Company s total shareholder return during a three year measurement period exceeding specified performance hurdles. These hurdles were not met and, accordingly, no shares were delivered under the outperformance program and the outperformance program has terminated in accordance with its terms. The awards under the outperformance program were accounted for in accordance with the accounting standard for stock-based compensation. The aggregate grant date fair value of the awards under the outperformance program, as adjusted for estimated forfeitures, was approximately $5.9 million (with the values determined through a Monte Carlo simulation) and are being amortized into expense over the five-year vesting period beginning on the grant dates using a graded vesting attribution model. For the three and nine-month periods ended September 30, 2011, the Company recognized a nominal amount and $0.1 million of compensation expenses related to the outperformance program. For the three and nine-month periods ended September 30, 2010, the Company recognized $0.1 million and $0.3 million, respectively, of compensation expenses related to the outperformance program.

Employee Share Purchase Plan

On May 9, 2007, the Parent Company s shareholders approved the 2007 Non-Qualified Employee Share Purchase Plan (the ESPP). The ESPP is intended to provide eligible employees with a convenient means to purchase common shares of the Parent Company through payroll deductions and voluntary cash purchases at an amount equal to 85% of the average closing price per share for a specified period. Under the plan document, the maximum participant contribution for the 2011 plan year is limited to the lesser of 20% of compensation or $50,000. The number of shares initially reserved for issuance under the ESPP is 1.25 million. During the three and nine-month periods ended September 30, 2011, employees made purchases under the ESPP of $0.1 million and $0.3 million, respectively. The Company recognized a nominal amount and $0.1 million of compensation expense related to the ESPP during the three and nine-month periods ended September 30, 2011, respectively. During the three and nine-month periods ended September 30, 2010, employees made purchases under the ESPP of $0.1 million and $0.4 million, respectively. The Company recognized a nominal amount and $0.1 million of compensation expense related to the ESPP during the three and nine-month periods ended September 30, 2010, respectively. The Board of Trustees of the Parent Company may terminate the ESPP at its sole discretion at any time.

Deferred Compensation

In January 2005, the Parent Company adopted a Deferred Compensation Plan (the Plan) that allows trustees and certain key employees to voluntarily defer compensation. Compensation expense is recorded for the deferred compensation and a related liability is recognized. Participants may elect designated benchmark investment options for the notional investment of their deferred compensation. The deferred compensation obligation is adjusted for deemed income or loss related to the investments selected. At the time the participants defer compensation, the

Company records a liability, which is included in the Company s consolidated balance sheet. The liability is adjusted for changes in the market value of the participant-selected investments at the end of each accounting period, and the impact of adjusting the liability is recorded as an increase or decrease to compensation cost. For the nine-month periods ended September 30, 2011 and 2010, the Company recorded a net decrease in compensation costs of $0.8 million and a net increase in compensation costs of $0.4 million, respectively, in connection with the Plan due to the change in the market value of the participant investments in the Plan.

The deferred compensation obligations are unfunded, but the Company has purchased company-owned life insurance policies and mutual funds, which can be utilized as a funding source for the Company s obligations under the Plan. Participants in the Plan have no interest in any assets set aside by the Company to meet its obligations under the Plan. For the nine-month periods ended September 30, 2011 and 2010, the Company recorded a net increase in compensation costs of $0.8 million and a net decrease in compensation costs of $0.4 million, respectively, in connection with the investments in the company-owned policies and mutual funds.

Participants in the Plan may elect to have all or a portion of their deferred compensation invested in the Company s common shares. The Company holds these shares in a rabbi trust, which is subject to the claims of the Company s creditors in the event of the Company s bankruptcy or insolvency. The Plan does not permit diversification of a participant s deferral allocated to the Company common share and deferrals allocated to Company common shares can only be settled with a fixed number of shares. In accordance with the accounting standard for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the deferred compensation obligation associated with the Company s common shares is classified as a component of shareholder s equity and the related shares are treated as shares to be issued and are included in total shares outstanding. At September 30, 2011 and 2010, 0.3 million of such shares, respectively, were included in total shares outstanding. Subsequent changes in the fair value of the common shares are not reflected in operations or shareholders equity of the Company.

15. TAX CREDIT TRANSACTIONS

Historic Tax Credit Transaction

On November 17, 2008, the Company closed a transaction with US Bancorp (USB) related to the historic rehabilitation of the IRS Philadelphia Campus, a 862,692 square foot office building that is 100% leased to the IRS. On August 27, 2010, the Company completed the development of the IRS Philadelphia Campus and the IRS lease commenced. USB agreed to contribute approximately $64.1 million of project costs and advanced $10.2 million of that amount contemporaneously with the closing of the transaction. USB subsequently advanced an additional $27.4 million and $23.8 million in June 2010 and December 2009, respectively. On October 19, 2011, the Company received the remaining $2.7 million of the total contributions upon its completion of certain items and compliance with the federal rehabilitation regulations.

In exchange for its contributions into the development of the IRS Philadelphia Campus, USB is entitled to substantially all of the benefits derived from the tax rehabilitation credits available under section 47 of the Internal Revenue Code. USB does not have a material interest in the underlying economics of the property. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase USB s interest in the IRS Philadelphia Campus. The Company believes the put will be exercised and the amount attributed to that puttable non-controlling interest obligation is included in other liabilities and is being accreted to the expected fixed put price. Based on the contractual arrangements that obligate the Company to deliver tax benefits and provide other guarantees to USB and that entitle the Company through fee arrangements to receive substantially all available cash flow from the IRS Philadelphia Campus, the Company concluded that the IRS Philadelphia Campus should be consolidated. The Company also concluded that capital contributions received from USB, in substance, are consideration that the Company receives in exchange for its obligation to deliver tax credits and other tax benefits to USB. These receipts other than the amounts allocated to the put obligation will be recognized as revenue in the consolidated financial statements beginning when the obligation to USB is relieved which occurs upon delivery of the expected tax benefits net of any associated costs. The tax credit is subject to 20% recapture per year beginning one year after the completion of the IRS Philadelphia Campus. The total USB contributions presented within deferred income in the Company s balance sheet amounted to $48.9 million and $61.4 million as of September 30, 2011 and December 31, 2010, respectively. The contributions were recorded net of the amount allocated to non-controlling interest as described above of $2.2 million and $2.1 million at September 30, 2011 and December 31, 2010, respectively. Beginning in September 2011 through September 2015, the Company recognized and will recognize the cash received as revenue net of allocated expenses over the five year tax credit recapture period as defined in the Internal Revenue Code within other income (expense) in its consolidated statements of operations. During the three months ended September 30, 2011, the Company recognized $12.0 million of the cash received as revenue net of $0.5 million of allocated expenses within other income (expense) in its consolidated statements of operations.

Direct and incremental costs incurred in structuring the transaction are deferred and will be recognized as expense in the consolidated financial statements upon the recognition of the related revenue as discussed above. The deferred cost at September 30, 2011 and December 31, 2010 is $2.1 million and $4.3 million, respectively, and is included in other assets in the Company s consolidated balance sheet. Amounts included in interest expense related to the accretion of the non-controlling interest liability and the 2% return expected to be paid to USB on its non-controlling interest aggregate to $0.3 million and $1.0 million for the three- and nine-months ended September 30, 2011, respectively, and

$0.3 million and $0.7 million for the three- and nine-months ended September 30, 2010, respectively.

New Markets Tax Credit Transaction

On December 30, 2008, the Company entered into a transaction with USB related to the Cira South Garage in Philadelphia, Pennsylvania and expects to receive a net benefit of $7.8 million under a qualified New Markets Tax Credit Program (NMTC). The NMTC was provided for in the Community Renewal Tax Relief Act of 2000 (the Act) and is intended to induce investment capital in underserved and impoverished areas of the United States. The Act permits taxpayers (whether companies or individuals) to claim credits against their Federal income taxes for up to 39% of qualified investments in qualified, active low-income businesses or ventures.

USB contributed $13.3 million into the development of the Cira South Garage and as such it is entitled to substantially all of the benefits derived from the tax credit, but it does not have a material interest in the underlying economics of the Cira South Garage. This transaction also includes a put/call provision whereby the Company may be obligated or entitled to repurchase USB s interest. The Company believes the put will be exercised and an amount attributed to that obligation is included in other liabilities and is being accreted to the expected fixed put price. The said put price is insignificant.

Based on the contractual arrangements that obligate the Company to deliver tax benefits and provide various other guarantees to USB, the Company concluded that the investment entities established to facilitate the NMTC transaction should be consolidated. The USB contribution of $13.3 million is included in deferred income on the Company s consolidated balance sheets at September 30, 2011 and December 31, 2010. The USB contribution other than the amount allocated to the put obligation will be recognized as income in the consolidated financial statements when the tax benefits are delivered without risk of recapture to the tax credit investors and the Company s obligation is relieved. The Company anticipates that it will recognize the net cash received as revenue within other income/expense in the year ended December 31, 2015. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company expects that the put/call provision will be exercised in December 2015 when the recapture period ends.

Direct and incremental costs incurred in structuring the transaction are deferred and will be recognized as expense in the consolidated financial statements upon the recognition of the related revenue as discussed above. The deferred cost at September 30, 2011 and December 31, 2010 is $5.3 million and is included in other assets in the Company s consolidated balance sheet.

16. SEGMENT INFORMATION

As of September 30, 2011, the Company was managing its portfolio within seven segments: (1) Pennsylvania, (2) Philadelphia Central Business District (CBD), (3) Metropolitan Washington D.C, (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia and suburban Maryland. The New Jersey/Delaware segment includes properties in Burlington, Camden and Mercer counties in New Jersey and in New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Chesterfield, Goochland and Henrico counties and Durham, North Carolina. The Austin, Texas segment includes properties in Austin. The California segment includes properties in Oakland, Concord, Carlsbad and Rancho Bernardo. The corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions. Land held for development and construction in progress are transferred to operating properties by region upon completion of the associated construction or project.

Table of Contents

Segment information is as follows (in thousands):

	Pennsylvania Suburbs	Philadelphia CBD	Metropolitan, D.C.	New Jersey /Delaware	Richmond, Virginia	Austin, Texas	California	Corporate	Total
As of September 30, 2011:									
Real estate investments, at cost:									
Operating properties	$ 1,214,060	$ 951,790	$ 1,369,899	$ 570,804	$ 306,039	$ 257,208	$ 250,928	$	$ 4,920,728
Construction-in-progress								36,246	36,246
Land inventory								120,470	120,470
As of December 31, 2010:									
Real estate investments, at cost:									
Operating properties	$ 1,199,957	$ 911,354	$ 1,359,776	$ 568,413	$ 294,406	$ 254,019	$ 246,186	$	$ 4,834,111
Construction-in-progress								33,322	33,322
Land inventory								110,055	110,055
For the three-months ended September 30, 2011:									
Total revenue	$ 38,864	$ 31,098	$ 31,554	$ 22,096	$ 9,334	$ 7,453	$ 5,567	$ (302)	$ 145,664
Property operating expenses, real estate taxes and third party management expenses	14,224	11,541	11,526	10,576	3,664	3,233	3,262	(421)	57,605
Net operating income	$ 24,640	$ 19,557	$ 20,028	$ 11,520	$ 5,670	$ 4,220	$ 2,305	$ 119	$ 88,059
For the three-months ended September 30, 2010:									
Total revenue	$ 36,809	$ 24,617	$ 33,881	$ 23,944	$ 8,919	$ 8,014	$ 5,503	$ (195)	$ 141,492
Property operating expenses, real estate taxes and third party management expenses	14,591	9,859	11,665	11,930	3,287	3,204	3,171	(232)	57,475
Net operating income	$ 22,218	$ 14,758	$ 22,216	$ 12,014	$ 5,632	$ 4,810	$ 2,332	$ 37	$ 84,017
For the nine-months ended September 30, 2011:									

Total revenue	$ 118,295	$ 93,520	$ 96,813	$ 64,526	$ 27,409	$ 23,202	$ 16,359	$ (849)	$ 439,275
Property operating expenses, real estate taxes and third party management expenses	44,554	34,954	36,012	32,302	10,667	9,740	8,772	(895)	176,106
Net operating income	$ 73,741	$ 58,566	$ 60,801	$ 32,224	$ 16,742	$ 13,462	$ 7,587	$ 46	$ 263,169
For the nine-months ended September 30, 2010:									
Total revenue	$ 113,622	$ 61,579	$ 103,285	$ 71,884	$ 27,087	$ 23,979	$ 17,374	$ (821)	$ 417,989
Property operating expenses, real estate taxes and third party management expenses	44,218	25,643	36,041	34,716	10,111	9,968	8,853	(713)	168,837
Net operating income	$ 69,404	$ 35,936	$ 67,244	$ 37,168	$ 16,976	$ 14,011	$ 8,521	$ (108)	$ 249,152

Net operating income (NOI) is defined as total revenue less property operating expenses, real estate taxes and third party management expenses. Segment NOI includes revenue, real estate taxes and property operating expenses directly related to operation and management of the properties owned and managed within the respective geographical region. Segment NOI excludes property level depreciation and amortization, revenue and expenses directly associated with third party real estate management services, expenses associated with corporate administrative support services, and inter-company eliminations. NOI is the measure that is used by the Company to evaluate the operating performance of its real estate assets by segment. The Company also believes that NOI provides useful information to investors regarding its financial condition and results of operations because it reflects only those income and expenses recorded at the property level. NOI does not also reflect general and administrative expenses, interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs, or trends in development and construction activities that could materially impact the Company s results from operations. All companies may not also calculate NOI in the same manner. The Company believes that net income, as defined by GAAP, is the most appropriate earnings measure. Below is a reconciliation of consolidated net operating income to consolidated income from continuing operations:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
	(amounts in thousands)		(amounts in thousands)	
Consolidated net operating income	$ 88,059	$ 84,017	$ 263,169	$ 249,152
Less:				
Interest expense	(32,346)	(34,488)	(99,477)	(97,222)
Deferred financing costs	(1,846)	(827)	(3,844)	(2,700)
Depreciation and amortization	(54,252)	(51,644)	(163,940)	(154,962)
Administrative expenses	(6,177)	(5,753)	(18,311)	(18,498)
Plus:				
Interest income	523	726	1,385	2,554
Historic tax credit transaction income	12,026		12,026	
Equity in income of real estate ventures	418	1,035	2,739	3,356
Net gain on sales of interests in real estate			2,791	
Gain (loss) on early extinguishment of debt	176	(64)	(580)	(1,701)
Loss from continuing operations	6,581	(6,998)	(4,042)	(20,021)
Income from discontinued operations	30	382	3,929	7,406
Net income (loss)	$ 6,611	$ (6,616)	$ (113)	$ (12,615)

17. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Environmental

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

Ground Rent

Future minimum rental payments under the terms of all non-cancellable ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The Company s ground leases have remaining lease terms ranging from 18 to 92 years. Minimum future rental payments on non-cancelable leases at September 30, 2011 are as follows (in thousands):

2011 (three months remaining)	$	455
2012		1,818
2013		1,818
2014		1,909
2015		1,909
Thereafter		289,668

One of the land leases for a property provides for contingent rent participation by the lessor in certain capital transactions and net operating cash flows of the property after certain returns are achieved by the Company. Such amounts, if any, will be reflected as contingent rent when incurred. The leases also provide for payment by the Company of certain operating costs relating to the land, primarily real estate taxes. The above schedule of future minimum rental payments does not include any contingent rent amounts nor any reimbursed expenses.

The Company acquired ground tenancy rights under a long term ground lease agreement related to its acquisition of an office building in Philadelphia, Pennsylvania on August 12, 2011. The annual rental payments under this ground lease is equal to a percentage of the NOI generated by the property. The Company has not included the amounts in the table above since such amounts are not fixed or determinable.

The Company also acquired ground tenancy rights under a long term ground lease agreement through its acquisition of Three Logan Square on August 5, 2010. The annual rental payment under this ground lease is ten dollars through August 2022 which is when the initial term of the ground lease is scheduled to end. After the initial term, the Company has the option to renew the lease until 2091. The Company also has the option to purchase the land at fair market value after providing a written notice to the owner. The annual rental payment after 2022 will be adjusted at the lower of $3.0 million or the prevailing market rent at that time until 2030. Subsequent to 2030, the annual rental payment will be adjusted at the lower of $4.0 million or the prevailing market rent at the time until 2042 and at fair market value until 2091. The Company believes that based on conditions as of the date the Company acquired its rights under the lease (August 5, 2010), the lease will reset to market after the initial term. Using the estimated fair market rent as of the date of the acquisition over the extended term of the ground lease (assuming the purchase option is not exercised), the future payments will aggregate to $27.4 million. The Company has not included the amounts in the table above since such amounts are not fixed or determinable.

Other Commitments or Contingencies

As part of the Company s September 2004 acquisition of a portfolio of properties from The Rubenstein Company (which the Company refers to as the TRC acquisition), the Company acquired its interest in Two Logan Square, a 708,856 square foot office building in Philadelphia, primarily through its ownership of a second and third mortgage secured by this property. This property is consolidated, as the borrower is a variable interest entity and the Company, through its ownership of the second and third mortgages, is the primary beneficiary. The Company currently does not expect to take title to Two Logan Square until, at the earliest, September 2019. If the Company takes fee title to Two Logan Square upon a foreclosure of its mortgage, the Company has agreed to pay an unaffiliated third party that holds a residual interest in the fee owner of this property an amount equal to $2.9 million. On the TRC acquisition date, the Company recorded a liability of $0.7 million and this amount will accrete up to $2.9 million through September 2019. As of September 30, 2011, the Company had a balance of $1.3 million for this liability in its consolidated balance sheet.

The Company is currently being audited by the Internal Revenue Service (the IRS) for its 2004 tax year. The audit concerns the tax treatment of the TRC acquisition in September 2004 in which the Company acquired a portfolio of properties through the acquisition of a limited partnership. On December 17, 2010, the Company received notice that the IRS proposed an adjustment to the allocation of recourse liabilities allocated to the contributor of the properties.

The Company has appealed the proposed adjustment. The proposed adjustment, if upheld, would not result in a material tax liability for the Company. However, an adjustment could raise a question as to whether a contributor of partnership interests in the 2004 transaction could assert a claim against the Company under the tax protection agreement entered into as part of the transaction.

Table of Contents

As part of the Company s 2006 merger with Prentiss Properties Trust, the 2004 TRC acquisition and several of our other transactions, the Company agreed not to sell certain of the properties it acquired in transactions that would trigger taxable income to the former owners. In the case of the TRC acquisition, the Company agreed not to sell acquired properties for periods up to 15 years from the date of the TRC acquisition as follows at September 30, 2011: One Rodney Square and 130/150/170 Radnor Financial Center (January, 2015); and One Logan Square, Two Logan Square and Radnor Corporate Center (January, 2020). In the Prentiss acquisition, the Company assumed the obligation of Prentiss not to sell Concord Airport Plaza before March, 2018. The Company s agreements generally provide that it may dispose of the subject properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transactions. If the Company were to sell a restricted property before expiration of the restricted period in a non-exempt transaction, the Company may be required to make significant payments to the parties who sold the applicable property on account of tax liabilities attributed to them.

As part of the Company s acquisition of properties from time to time in tax-deferred transactions, the Company has agreed to provide certain of the prior owners of the acquired properties with the right to guarantee the Company s indebtedness. If the Company were to seek to repay the indebtedness guaranteed by the prior owner before the expiration of the applicable agreement, the Company will be required to provide the prior owner an opportunity to guaranty a qualifying replacement debt. These debt maintenance agreements may limit the Company s ability to refinance indebtedness on terms that will be favorable to the Company.

The Company invests in its properties and regularly incurs capital expenditures in the ordinary course to maintain the properties. The Company believes that such expenditures enhance its competitiveness. The Company also enters into construction, utility and service contracts in the ordinary course of business which may extend beyond one year. These contracts typically provide for cancellation with insignificant or no cancellation penalties.

During 2008, in connection with the development of the IRS Philadelphia Campus and the Cira South Garage, the Company entered into a historic tax credit and a new market tax credit arrangement, respectively. The Company is required to be in compliance with various laws, regulations and contractual provisions that apply to its historic and new market tax credit arrangements. Non-compliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in the Company s consolidated balance sheet, until such time as its obligation to deliver tax benefits is relieved. The remaining compliance periods for its tax credit arrangements runs through 2015. The Company does not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

18. SUBSEQUENT EVENTS

On October 28, 2011, the Company sold two office properties (Five Greentree Centre and Lake Center II), containing a total of 206,243 net rentable square feet in Marlton, New Jersey for an aggregate sales price of $22.8 million. Five Greentree Centre and Lake Center II were 96.1% and 47.8% occupied, respectively, at the date of sale.

The Company has evaluated subsequent events through the date the financial statements were issued.

Table of Contents

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 Report on Form 10-Q and other materials filed by us with the SEC (as well as information included in oral or other written statements made by us) contain statements that are forward-looking, including statements relating to business and real estate development activities, acquisitions, dispositions, future capital expenditures, financing sources, governmental regulation (including environmental regulation) and competition. We intend such forward-looking statements to be covered by the safe-harbor provisions of the 1995 Act. The words anticipate, believe, estimate, expect, intend, will, should and similar expressions, as they relate to us, are intended t forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. As forward-looking statements, these statements involve important risks, uncertainties and other factors that could cause actual results to differ materially from the expected results and, accordingly, such results may differ from those expressed in any forward-looking statements made by us or on our behalf. Factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- the continuing impact of the global economic slowdown, which is having and may continue to have a negative effect on the following, among other things:
  - the fundamentals of our business, including overall market occupancy, demand for office space and rental rates;
  - the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties;
  - availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue acquisition and development opportunities and refinance existing debt; and
  - a decline in real estate asset valuations, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.
- changes in local real estate conditions (including changes in rental rates and the number of properties that compete with our properties);
- changes in the economic conditions affecting industries in which our principal tenants compete;
- the unavailability of equity and debt financing;
- our failure to lease unoccupied space in accordance with our projections;
- our failure to re-lease occupied space upon expiration of leases;
- tenant defaults and the bankruptcy of major tenants;
- increases in interest rates;
- failure of interest rate hedging contracts to perform as expected and the effectiveness of such arrangements;
- failure of acquisitions to perform as expected;
- unanticipated costs associated with the acquisition, integration and operation of, our acquisitions;
- unanticipated costs to complete, lease-up and operate our developments and redevelopments;
- unanticipated costs associated with land development, including building moratoriums and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays;
- impairment charges;
- increased costs for, or lack of availability of, adequate insurance, including for terrorist acts;
- actual or threatened terrorist attacks;
- demand for tenant services beyond those traditionally provided by landlords;

liability under environmental or other laws;
failure or bankruptcy of real estate venture partners;
inability of real estate venture partners to fund venture obligations;
failure of dispositions to close in a timely manner;
failure of buyers of properties from us to comply with terms of their financing agreements to us;
earthquakes and other natural disasters;
unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;

Table of Contents

risks associated with federal, state and local tax audits;

complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT; and

the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results.

Given these uncertainties, and the other risks identified in the Risk Factors section of our 2010 Annual Report on Form 10-K, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

The discussion that follows is based primarily on our consolidated financial statements as of September 30, 2011 and December 31, 2010 and for the three and nine-months ended September 30, 2011 and 2010 and should be read along with the consolidated financial statements and related notes appearing elsewhere in this report. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

OVERVIEW

As of September 30, 2011, our portfolio consisted of 211 office properties, 20 industrial facilities and five mixed-use properties that contain an aggregate of approximately 25.9 million net rentable square feet. These 236 properties make up our core portfolio. As of September 30, 2011, we also held economic interests in 16 unconsolidated real estate ventures (the Real Estate Ventures) that we formed with third parties to develop or own commercial properties. The properties owned by these Real Estate Ventures contain approximately 6.1 million net rentable square feet.

As of September 30, 2011, we managed our portfolio within seven geographic segments: (1) Pennsylvania, (2) Philadelphia CBD, (3) Metropolitan Washington D.C, (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia and suburban Maryland. The New Jersey/Delaware segment includes properties in Burlington, Camden and Mercer counties in New Jersey and in New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Chesterfield, Goochland and Henrico counties and Durham, North Carolina. The Austin, Texas segment includes properties in Austin. The California segment includes properties in Oakland, Concord, Carlsbad and Rancho Bernardo.

We generate cash and revenue from leases of space at our properties and, to a lesser extent, from the management of properties owned by third parties and from investments in the Real Estate Ventures. Factors that we evaluate when leasing space include rental rates, costs of tenant improvements, tenant creditworthiness, current and expected operating costs, the length of the lease, vacancy levels and demand for office and industrial space. We also generate cash through sales of assets, including assets that we do not view as core to our portfolio, either because of location or expected growth potential, and assets that are commanding premium prices from third party investors.

Our financial and operating performance is dependent upon the demand for office, industrial and other commercial space in our markets, our leasing results, our acquisition, disposition and development activity, our financing activity, our cash requirements and economic and market conditions, including prevailing interest rates.

Volatile economic conditions could result in a reduction of the availability of financing and potentially in higher borrowing costs. These factors, coupled with a sluggish economic recovery, have reduced the volume of real estate transactions and created credit stresses on most businesses. Vacancy rates may increase through 2012 and possibly beyond as the current economic climate negatively impacts tenants.

We expect that the impact of the current state of the economy, including high unemployment and the unprecedented volatility in the financial and credit markets, will continue to have a dampening effect on the fundamentals of our business, including increases in past due accounts, tenant defaults, lower occupancy and reduced effective rents. These conditions would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition. We believe that the quality of our assets and our strong balance sheet will enable us to raise debt capital, if necessary, in various forms and from different sources, including traditional term or secured loans from banks, pension funds and life insurance companies. However, there can be no assurance that we will be able to borrow funds on terms that are economically attractive or at all.

We seek revenue growth throughout our portfolio by increasing occupancy and rental rates. Occupancy at our wholly owned properties at September 30, 2011 was 85.6%.

The table below summarizes the key operating and leasing statistics of our wholly owned operating properties for the three and nine-months ended September 30, 2011:

	Three-month period ended September 30, 2011	Nine-month period ended September 30, 2011
Leasing Activity:		
Total net rentable square feet owned (1)	25,884,113	25,884,113
Occupancy percentage (end of period)	85.6%	85.6%
Average occupancy percentage	85.7%	85.2%
New leases and expansions commenced (square feet)	359,242	1,415,882
Leases renewed (square feet)	590,052	1,746,894
Net absorption (square feet) (2)	(14,529)	22,607
Percentage change in rental rates per square feet (3):		
New and expansion rental rates	-0.5%	-0.3%
Renewal rental rates	-0.8%	-2.2%
Capital Costs Committed (4):		
Leasing commissions (per square feet)	$ 4.37	$ 4.63
Tenant Improvements (per square feet)	$ 12.85	$ 14.68

(1) For each period, includes all properties in the core portfolio (i.e. not under development or redevelopment), including properties that were sold during these periods.

(2) Includes leasing related to current developments and redevelopments, held for sale and sold properties.

(3) Rental rates include base rent plus reimbursement for operating expenses and real estate taxes.

(4) Calculated on a weighted average basis.

In seeking to increase revenue through our operating, financing and investment activities, we also seek to minimize operating risks, including (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, will not be renewed, that space may not be relet, or that the terms of renewal or reletting (including the cost of renovations) may be less favorable to us than the current lease terms. Leases accounting for approximately 3.3% of our aggregate final annualized base rents as of September 30, 2011 (representing approximately 1.5% of the net rentable square feet of the Properties) expire without penalty in 2011. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. During the nine months ended September 30, 2011, we achieved a 67.0% retention rate in our core portfolio. If we are unable to renew leases or relet space under expiring leases, at anticipated rental rates, or if tenants terminate their leases early, our 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 in protecting our investment. Our management regularly evaluates our accounts receivable reserve policy in light of our tenant base and general and local economic conditions. Our accounts receivable allowance was $15.5 million or 11.2% of total receivables (including accrued rent receivables) as of September 30, 2011 compared to $15.2 million or 12.0% of total receivables (including accrued rent receivables) as of December 31, 2010.

If economic conditions persist or deteriorate further, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents. This condition would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition.

Development Risk:

At September 30, 2011, we are completing the lease-up of four recently completed developments, aggregating 0.7 million square feet, for which we expect to spend an additional $8.4 million for tenant improvements and other leasing costs in 2011. We are actively marketing space at these projects to prospective tenants but can provide no assurance as to the timing or terms of any leases of space at these projects.

As of September 30, 2011, we owned approximately 503 acres of undeveloped land. As market conditions warrant, we will seek to opportunistically dispose of those parcels that we do not anticipate developing. For parcels of land that we ultimately develop, we will be subject to risks and costs associated with land development, including building moratoriums and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays, and insufficient occupancy rates and rental rates. We also entered into development agreements related to two of our land parcels under option for ground lease that require us to commence development by December 31, 2012. If we determine that we will not be able to start the construction by the date specified, or if we determine that development is not in our best economic interest and an extension of the development period cannot be negotiated, we will write off all costs that we have incurred in preparing these parcels of land for development amounting to $7.7 million as of September 30, 2011.

RECENT PROPERTY TRANSACTIONS

On August 12, 2011, we acquired an office property located in Philadelphia, Pennsylvania, together with related ground tenancy rights under a long-term ground lease, through the foreclosure of a note receivable amounting to $18.8 million under which the said property was encumbered. We obtained the notes receivable from a third party on August 2, 2011 and was funded through an advance under our Credit Facility and with available corporate funds. The office property contains 192,707 of net rentable square feet and is 57.2% leased as of September 30, 2011.

On June 27, 2011, we sold Three Greentree Center, a 69,300 net rentable square feet office property located in Marlton, New Jersey, for a sales price of $5.9 million.

On March 28, 2011, we acquired two office properties totaling 126,496 of net rentable square feet in Glen Allen, Virginia known as Overlook I and II for $12.6 million. These office properties are 100% leased as of September 30, 2011. We funded the acquisition price through an advance under our Credit Facility and with available corporate funds.

On January 20, 2011, we acquired a one acre parcel of land in Philadelphia, Pennsylvania for $9.3 million. We funded the cost of this acquisition with available corporate funds and a draw on our Credit Facility. We are planning to contribute the acquired property into a real estate venture in return for a 50% limited interest in the partnership. The real estate venture will be formed to construct a mixed-use development property in the city of Philadelphia. We received $4.9 million from the prospective partner in anticipation of the real estate venture formation.

We continually reassess our portfolio to determine properties that may be in our best interest to sell depending on strategic or economic factors. From time to time, the decision to sell properties in the short term could result in an impairment or other loss being taken by us and such losses could be material to our statement of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our Annual Report on Form 10-K for the year ended December 31, 2010 contains a discussion of our critical accounting policies. There have been no significant changes in our critical accounting policies since December 31, 2010. See also Note 2 in our unaudited consolidated financial statements for the three and nine-months ended September 30, 2011 set forth herein. Management discusses our critical accounting policies and management s judgments and estimates with our Audit Committee.

Table of Contents

RESULTS OF OPERATIONS

The following discussion is based on our Consolidated Financial Statements for the three and nine-months ended September 30, 2011 and 2010. We believe that presentation of our consolidated financial information, without a breakdown by segment, will effectively present important information useful to our investors.

Net operating income (NOI) as presented in the comparative analysis below is defined as total revenue less operating expenses, real estate taxes and third party management expenses. NOI is a non-GAAP financial measure that we use internally to evaluate the operating performance of our real estate assets by segment, as presented in Note 16 to the consolidated financial statements, and of our business as a whole. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. While NOI is a relevant and widely used measure of operating performance of real estate investment trusts, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an alternative to those measures in evaluating our liquidity or operating performance. NOI does not also reflect general and administrative expenses, interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs, or trends in development and construction activities that could materially impact our results from operations. We believe that net income, as defined by GAAP, is the most appropriate earnings measure. See Note 16 to the Consolidated Financial Statements for a reconciliation of NOI to our consolidated net loss.

Comparison of the Three-Month Periods Ended September 30, 2011 and 2010

The table below shows selected operating information for the Same Store Property Portfolio and the Total Portfolio. The Same Store Property Portfolio consists of 229 properties containing an aggregate of approximately 23.1 million net rentable square feet, and represents properties that we owned for the entire three-month periods ended September 30, 2011 and 2010. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to July 1, 2010 and owned through September 30, 2011. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after July 1, 2010 or disposed prior to September 30, 2011. This table also includes a reconciliation from the Same Store Property Portfolio to the Total Portfolio net income (i.e., all properties owned by us during the three-month periods ended September 30, 2011 and 2010) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the three-month periods ended September 30, 2011 and 2010 (in thousands).

The Total Portfolio net income (loss) presented in the table is equal to the net income (loss) of the Parent Company and the Operating Partnership.

Table of Contents

Comparison of three-months ended September 30, 2011 to the three-months ended September 30, 2010

Same Store Property Portfolio	Increase/	Recently Completed Properties	Other (Eliminations) (a)	Total Portfolio