BRANDYWINE REALTY TRUST
Form 10-K/A
June 22, 2004
Proceed to Contents

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

# FORM 10-K/A

## Amendment No. 1

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
**For the fiscal year ended December 31, 2003 or**
Transition report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the transition period from to

**Commission File Number 1-9106**

# BRANDYWINE REALTY TRUST
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland** | **23-2413352** |
| (State or other jurisdiction of Incorporation or organization) | (I.R.S. Employer Identification No.) |
| **401 Plymouth Road, Plymouth Meeting, Pennsylvania** | **19462** |
| (Address of principal executive offices) | (Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Shares of Beneficial Interest, (par value $0.01 per share) | New York Stock Exchange |
| 7.50% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest (par value $0.01 per share) | New York Stock Exchange |
| 7.375% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest (par value $0.01 per share) | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: none

**(Title of class)**

**(Title of class)**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Shares of Beneficial Interest held by non-affiliates of the registrant as of the last day of the registrant's most recently completed second fiscal quarter was $903.3 million. The aggregate market value has been computed by reference to the closing price of the Common Shares of Beneficial Interest on the New York Stock Exchange on such date. An aggregate of 45,663,743 Common Shares of Beneficial Interest were outstanding as of March 11, 2004.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the proxy statement for the Annual Meeting of Shareholders of Brandywine Realty Trust to be held May 3, 2004 are incorporated by reference into Part III of this Form 10-K.

---

Proceed to Contents

**EXPLANATORY NOTE**

Brandywine Realty Trust (the Company) is filing this Form 10K/A to address the following:

- The Company engaged PricewaterhouseCoopers LLP (the firm that audited the Company's financial statements for the fiscal year ended December 31, 2003) to audit the Company's financial statements for the fiscal years ended December 31, 2002 and December 31, 2001. The Company is amending Item 15 to include the report, and related consent, of PricewaterhouseCoopers LLP with respect to the Company's consolidated balance sheet as of December 31, 2002 and the related consolidated statements of operations, beneficiaries' equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2002 in replacement of the report, and related consent, of KPMG LLP with respect to such financial statements.

- In December 2003, the Company incurred a $20.6 million charge in connection with the redemption/conversion of its Series B Preferred Shares. In accordance with EITF Topic D-42, this charge was recorded in retained earnings and presented as a reduction to net income in arriving at net income available for common shareholders. The Company has subsequently determined that a portion of this charge should have been allocated to the Operating Partnership's Class A Limited Partnership Unitholders as a corresponding charge was recorded at the Operating Partnership when the Operating Partnership redeemed its corresponding Series C Preferred Mirror Units held by the Company. The resulting adjustment of $.9 million has caused the Company's net income to increase from $85.8 million to $86.7 million and its earnings per common share, basic and diluted, to increase from $1.40 to $1.43 for the year ended December 31, 2003. The respective information contained in Item 6 – Selected Financial Data and Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations have been updated to reflect the aforementioned adjustment.

- The Company has eliminated all discussions related to the use of Same Store Net Operating Income as a non-GAAP financial measure in Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations.

With the exceptions of the foregoing, no other changes have been made to the Company's Consolidated Financial Statements or Financial Statement Schedules and the Company's Form 10-K for the fiscal year ended December 31, 2003 has not otherwise been updated.

---

TABLE OF CONTENTS

FORM 10-K/A

Back to Contents

**Item 6. Selected Financial Data**
(in thousands, except per Common Share data and number of properties)

| Year Ended December 31, | 2003 (as restated) | 2002 | 2001 | 2000(A) | 1999(A) |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Total revenue | $ 305,659 | $ 291,040 | $ 270,488 | $ 254,100 | $ 247,480 |
| Net income | 86,678 | 62,984 | 33,722 | 52,158 | 34,606 |
| Income allocated to Common Shares | 54,174 | 51,078 | 21,816 | 40,252 | 29,816 |
| Earnings per Common Share | | | | | |
| Basic | $ 1.43 | $ 1.40 | $ 0.57 | $ 1.12 | $ 0.80 |
| Diluted | $ 1.43 | $ 1.39 | $ 0.57 | $ 1.12 | $ 0.80 |
| Cash distributions declared per Common Share | $ 1.76 | $ 1.76 | $ 1.70 | $ 1.62 | $ 1.57 |
| **Balance Sheet Data** | | | | | |
| Real estate investments, net of accumulated depreciation | $ 1,695,355 | $ 1,745,981 | $ 1,812,909 | $ 1,674,341 | $ 1,702,353 |
| Total assets | 1,855,776 | 1,919,288 | 1,960,203 | 1,821,103 | 1,825,276 |
| Total indebtedness | 867,659 | 1,004,729 | 1,009,165 | 866,202 | 839,634 |
| Total liabilities | 950,431 | 1,097,793 | 1,108,213 | 923,961 | 895,083 |
| Minority interest | 133,488 | 135,052 | 143,834 | 144,974 | 145,941 |
| Beneficiaries equity | 771,857 | 686,443 | 708,156 | 752,168 | 784,252 |
| **Other Data** | | | | | |
| Cash flows from: | | | | | |
| Operating activities | 118,793 | 128,836 | 152,040 | 103,123 | 81,495 |
| Investing activities | (34,068) | 5,038 | (123,682) | (32,372) | 69,195 |
| Financing activities | (102,974) | (120,532) | (30,939) | (60,403) | (158,073) |
| **Property Data** | | | | | |
| Number of properties owned at year end | 234 | 238 | 270 | 250 | 251 |
| Net rentable square feet owned at year end | 15,733 | 16,052 | 17,312 | 16,471 | 16,607 |

(A) In 2000, the Operating Partnership held a 95% economic interest in Brandywine Realty Services Corporation (the Management Company) through its ownership of 100% of the Management Company s non-voting preferred stock and 5% of its voting common stock. Effective January 1, 2001, the Company converted its non-voting equity interest in the Management Company to a voting interest. Accordingly, the Company owns 95% of the equity of and has voting control over the Management Company. Therefore, the 2003, 2002 and 2001 financial results of the Management Company have been consolidated. For purposes of the Selected Financial Data, the 2000 and 1999 results of operations presented above have been restated to reflect this presentation.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**
The following discussion should be read in conjunction with the financial statements appearing elsewhere herein. The results of operations and cash flows of the Company include the historical results of operations of the Properties held by the Company during the years ended December 31, 2003, 2002 and 2001. This Annual Report on Form 10-K contains forward-looking statements for purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, there can be no assurance that these expectations will be realized. See Item 1. Business Risk Factors.

OVERVIEW
The Company currently manages its portfolio within three geographic segments: (1) Pennsylvania, (2) New Jersey and (3) Virginia. The Company believes it has established an effective platform in these office and industrial

markets that provides a foundation for achieving its goals of maximizing market penetration and optimizing operating economies of scale.

During 2003, the Company sold eight office properties containing an aggregate of approximately 343,000 net rentable square feet, two industrial properties containing an aggregate of approximately 131,000 net rentable square feet and four parcels of land containing an aggregate of approximately 24.1 acres for an

Back to Contents

aggregate of $45.6 million. In December 2003, the Company sold two office properties containing an aggregate of approximately 633,000 net rentable square feet for an aggregate of $112.8 million, of which $52.9 million of proceeds were used to pay off existing mortgage notes payable secured by the two properties. The Company retained a 20% interest in a venture that purchased the properties. The Company recognized a gain on the partial sale of approximately $18.5 million for the piece sold and deferred the gain on the piece retained. The Company also purchased five office properties containing approximately 360,000 net rentable square feet and one parcel of land containing approximately 10.0 acres for an aggregate of $67.8 million.

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

The Company's financial performance is dependent upon the demand for office and other commercial space in its markets. Current economic conditions, including recessionary pressures and capital market volatility, have enhanced the challenges facing the Company.

In the current economic climate, the Company continues to seek revenue growth through an increase in occupancy of its portfolio (90.7% at December 31, 2003). However, with a downturn in general leasing activity, owners of commercial real estate, including the Company, are experiencing longer periods in which to lease unoccupied space, and may face higher capital costs and leasing commissions to achieve targeted tenancies.

As the Company seeks to increase revenue, management also focuses on strategies to minimize operating risks, including (i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

Tenant Rollover Risk:

The Company is subject to the risk that, upon expiration, leases may not be renewed, the space may not be relet, or the terms of renewal or reletting (including the cost of renovations) may be less favorable than the current lease terms. Leases accounting for approximately 10.8% of the aggregate annualized base rents from the Properties as of December 31, 2003 (representing approximately 11.6% of the net rentable square feet of the Properties) expire without penalty in 2004. The Company maintains an active dialogue with its tenants in an effort to achieve a high level of lease renewals. The Company's retention rate for leases that were scheduled to expire in the year ended December 31, 2003 was 80.2%. If the Company is unable to renew leases for a substantial portion of the space under expiring leases, or to promptly relet this space, at anticipated rental rates, the Company's cash flow could be adversely impacted.

Tenant Credit Risk:

In the event of a tenant default, the Company may experience delays in enforcing its rights as a landlord and may incur substantial costs in protecting its investment. Management regularly evaluates its accounts receivable reserve policy in light of its tenant base and general and local economic conditions. The accounts receivable allowance was $4.0 million or 11.2% of total receivables (including accrued rent receivable) as of December 31, 2003 compared to $4.6 million or 12.5% of total receivables (including accrued rent receivable) as of December 31, 2002.

Development Risk:

The Company currently has in development or redevelopment seven sites aggregating approximately 1.1 million square feet. The total cost of these projects is estimated to be $225.5 million, of which $17.9 million was incurred as of December 31, 2003. While the Company is actively marketing space at these projects to prospective tenants, management cannot provide assurance as to the timing or terms of any leases of such space. As of December 31, 2003, the Company owned approximately 445 acres of undeveloped land and held options to purchase approximately 61 additional acres. Risks associated with development of this land include construction cost overruns and construction delays, insufficient occupancy rates and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals.

Back to Contents

***CRITICAL ACCOUNTING POLICIES***

Management’s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements 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 revenues and expenses during the reporting period.

The Company’s significant accounting policies are described in Note 2 to the consolidated financial statements included this Annual Report on Form 10-K. While the estimates and judgments associated with the application of these accounting policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate in the circumstances. The following identifies critical accounting policies that are used in preparing the Company’s consolidated financial statements, including those policies which require significant judgment and estimates:

Revenue Recognition

Rental revenue is recognized on a straight-line basis over the lease term regardless of when payments are due. Certain lease agreements contain provisions that require tenants to reimburse a pro rata share of real estate taxes and common area maintenance costs.

Real Estate Investments

Real estate investments are carried at cost. The Company records acquisition of real estate investments under the purchase method of accounting and allocates the purchase price to land, buildings and intangible assets on a relative fair value basis. Depreciation is computed using the straight-line method over the useful lives of buildings and capital improvements (25 to 40 years) and over the shorter of the lease term or the life of the asset for tenant improvements. Direct construction costs related to the development of Properties and land holdings are capitalized as incurred. The Company expenses routine repair and maintenance expenditures.

Impairment of Long-Lived Assets

Management reviews investments in real estate and real estate ventures for impairment if facts and circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of any impairment loss will be based on the fair value of the asset, determined using customary valuation techniques, such as the present value of expected future cash flows.

In accordance with SFAS No. 144 (“SFAS 144”), *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities relating to assets classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Back to Contents

Income Taxes

The Company may elect to treat one or more of its corporate subsidiaries as a taxable REIT subsidiary (TRS). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as a TRS. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts that represents an estimate of losses that may be incurred from the inability of tenants to make required payments. The allowance is an estimate based on two calculations that are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has been determined that a tenant may have an inability to meet its financial obligations. In these situations, the Company uses its judgment, based on the facts and circumstances, and records a specific reserve for that tenant against amounts due to reduce the receivable to the amount that the Company expects to collect. These reserves are reevaluated and adjusted as additional information becomes available. Second, a reserve is established for all tenants based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If the financial condition of the Companys tenants were to deteriorate, additional allowances may be required.

Deferred Costs

The Company incurs direct costs related to the financing, development and leasing of the Properties. Management exercises judgment in determining whether such costs meet the criteria for capitalization or must be expensed. Capitalized financing fees are amortized over the related loan term and capitalized leasing costs are amortized over the related lease term. Management re-evaluates the remaining useful lives of leasing costs as the creditworthiness of the Companys tenants and economic and market conditions change.

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 Companys estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancellable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancellable terms of the respective leases. Capitalized below-market lease values amortized as an increase of rental income over the remaining non-cancellable terms of the respective leases, including any fixed-rate renewal periods.

The aggregate value of other intangibles acquired is measured based on the difference between (i) the property valued with in-place leases adjusted to market rental rates and (ii) the property valued as if it was vacant. The Company estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, include leasing commissions, legal and other related expenses. This intangible asset is amortized to expense over the remaining term of the respective leases. Company estimates of value are made using methods similar to those used by independent appraisers. Factors considered by the Company in their analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. 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. 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.

Back to Contents

The total amount of these other intangible assets is further allocated to 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. Characteristics considered by the Company in allocating value to its tenant relationships include the nature and extent of the Company's business relationship with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors. The value of tenant relationship intangibles is amortized over the remaining initial lease term and renewals, but in no event longer than the remaining depreciable life of the building. The value of in-place leases is amortized over the remaining non-cancellable 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 market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

***RESULTS OF OPERATIONS***

***Comparison of the Year Ended December 31, 2003 to the Year Ended December 31, 2002***

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Dollar Change | Percent Change |
| | (as restated) | | | |
| | (amounts in thousands) | | | |
| **Revenue:** | | | | |
| Rents | $ 256,945 | $ 248,075 | $ 8,870 | 3.6% |
| Tenant reimbursements | 37,755 | 33,263 | 4,492 | 13.5% |
| Other | 10,959 | 9,702 | 1,257 | 13.0% |
| Total revenue | 305,659 | 291,040 | 14,619 | 5.0% |
| **Operating Expenses:** | | | | |
| Property operating expenses | 80,817 | 74,967 | 5,850 | 7.8% |
| Real estate taxes | 27,919 | 25,196 | 2,723 | 10.8% |
| Interest | 57,835 | 63,522 | (5,687) | -9.0% |
| Depreciation and amortization | 60,592 | 56,431 | 4,161 | 7.4% |
| Administrative expenses | 14,464 | 14,804 | (340) | -2.3% |
| Total operating expenses | 241,627 | 234,920 | 6,707 | 2.9% |
| Income from continuing operations before equity in income of real estate ventures, net gain on sales and minority interest | 64,032 | 56,120 | 7,912 | 14.1% |
| Equity in income of real estate ventures | 52 | 987 | (935) | -94.7% |
| Income from continuing operations before net gain on sales and minority interest | 64,084 | 57,107 | 6,977 | 12.2% |

| | | | | |
|---|---|---|---|---|
| Net gain on sales of interest in real estate | 20,537 | — | 20,537 | — |
| Minority interest | (9,272) | (9,265) | (7) | — |
| Income from continuing operations | 75,349 | 47,842 | 27,507 | 57.5% |
| Income from discontinued operations, net of minority interest | 11,329 | 15,142 | (3,813) | -25.2% |
| Net income | $ 86,678 | $ 62,984 | $ 23,694 | 37.6% |

8

Back to Contents

The results of operations for the years ended December 31, 2003 and 2002 include the respective operations of the Properties. Of the 234 Properties owned by the Company as of December 31, 2003, a total of 211 Properties containing an aggregate of approximately 13.6 million net rentable square feet (“Same Store Properties”) were owned for the entire twelve-month periods ended December 31, 2003 and 2002.

Revenue increased to $305.7 million for 2003 as compared to $291.0 million for 2002, primarily due to increased rental rates and additional properties in 2003, offset by decreased occupancy. The straight-line rent adjustment increased revenues by $5.9 million in 2003 and $5.8 million in 2002. Revenue for Same Store Properties increased to $247.0 million in 2003 from $242.3 million in 2002. This increase was the result of increased occupancy as well as increased tenant reimbursements from higher operating expenses in 2003 as compared to 2002. Average occupancy for the Same Store Properties increased to 91.0% in 2003 from 90.9% in 2002. Other revenue represents lease termination fees, bankruptcy settlement proceeds, leasing commissions, third-party management fees and interest income. Other revenue increased to $11.0 million in 2003 from $9.7 million in 2002 primarily due to bankruptcy settlement proceeds received in 2003.

Property operating expenses increased to $80.8 million in 2003 as compared to $75.0 million in 2002, primarily due to increased snow removal costs and additional properties in 2003. Property operating expenses included a provision for doubtful accounts of $.2 million in 2003 and $.9 million in 2002 to provide for increased tenant credit risk. Property operating expenses for the Same Store Properties increased to $75.3 million in 2003 as compared to $69.7 million in 2002 as a result of increased snow removal costs in 2003 as compared to 2002.

Real estate taxes increased to $27.9 million in 2003 as compared to $25.2 million in 2002, primarily due to increased real estate tax assessments in 2003 and additional properties in 2003. Real estate taxes for the Same Store Properties increased to $22.9 million in 2003 as compared to $21.6 million in 2002 as a result of higher tax rates and property assessments.

Interest expense decreased to $57.8 million in 2003 as compared to $63.5 million in 2002, primarily due to decreased interest rates and decreased average borrowings during 2003. Average outstanding debt balances for 2003 were $948.7 million as compared to $1.0 billion for 2002. The Company’s weighted-average interest rate from its unsecured credit facilities after giving effect to hedging activities on the unsecured credit facilities decreased to 4.60% in 2003 from 5.41% in 2002 and on mortgage notes payable decreased to 7.09% in 2003 from 7.27% in 2002.

Depreciation increased to $53.5 million in 2003 as compared to $50.8 million in 2002 primarily due to additional properties in 2003 and additional depreciation from increased tenant improvements during 2003. Amortization, related to deferred leasing costs, increased to $7.1 million in 2003 as compared to $5.6 million in 2002, primarily due to increased leasing activity and additional properties in 2003.

Administrative expenses decreased to $14.5 million in 2003 as compared to $14.8 million in 2002, primarily due to decreased amortization of restricted stock.

Equity in income of Real Estate Ventures decreased to $52,000 in 2003 as compared to $1.0 million in 2002. During 2003, the Company recorded an impairment charge of $861,000 associated with the write-down its investment in a non-operating joint venture.

During 2003, the Company sold four parcels of land containing an aggregate of 24.1 acres for an aggregate of $4.2 million, realizing an aggregate gain of $2.0 million. In addition, the Company sold two office properties containing an aggregate of approximately 633,000 net rentable square feet for an aggregate of $112.8 million, of which $52.9 million of proceeds were used to pay off existing mortgage notes payable secured by the two properties. The Company recognized a gain on the sale of approximately $18.5 million, which is recorded in net gain on sale of real estate interests due to a continuing 20% interest that the Company has maintained in the properties. During 2002, the Company sold two land parcels containing an aggregate of 12.8 acres for $.7 million with no net gain realized.

Minority interest from continuing operations represents the equity in income attributable to the portion of the Operating Partnership not owned by the Company. Minority interest from continuing operations was $9.3 million in 2003 and 2002.

Discontinued operations decreased to $11.3 million in 2003 as compared to $15.1 million in 2002 primarily due to net gain on sales of real estate investments of $8.6 million in 2002. During 2003, the Company sold eight office properties containing an aggregate of 343,000 net rentable square feet and two industrial properties containing an aggregate of 131,000 net rentable square feet for an aggregate of $41.4 million, realizing an aggregate gain of $9.7 million. During 2002, the Company sold 23 office properties containing an aggregate of 1.4 million net rentable square feet and 20 industrial properties containing an aggregate of .9 million net rentable square feet for an aggregate of $190.1 million, realizing a net gain of $8.6 million. The Company also recorded an impairment loss in 2002 of $665,000 related to one property held-for-sale for which the anticipated net sales price is less than the book value of the asset.

Back to Contents

***Comparison of the Year Ended December 31, 2002 to the Year Ended December 31, 2001***

| | **Year Ended December 31,** | | | |
|---|---|---|---|---|
| | **2002** | **2001** | **Dollar Change** | **Percent Change** |
| | **(amounts in thousands)** | | | |
| **Revenue:** | | | | |
| Rents | $ 248,075 | $ 228,149 | $ 19,926 | 8.7% |
| Tenant reimbursements | 33,263 | 31,993 | 1,270 | 4.0% |
| Other | 9,702 | 10,346 | (644) | -6.2% |
| Total revenue | 291,040 | 270,488 | 20,552 | 7.6% |
| **Operating Expenses:** | | | | |
| Property operating expenses | 74,967 | 70,604 | 4,363 | 6.2% |
| Real estate taxes | 25,196 | 22,435 | 2,761 | 12.3% |
| Interest | 63,522 | 67,496 | (3,974) | -5.9% |
| Depreciation and amortization | 56,431 | 67,224 | (10,793) | -16.1% |
| Administrative expenses | 14,804 | 15,177 | (373) | -2.5% |
| Non-recurring charges | — | 6,600 | (6,600) | — |
| Total operating expenses | 234,920 | 249,536 | (14,616) | -5.9% |