BRANDYWINE REALTY TRUST
Form 10-Q
May 04, 2011

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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

or

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

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

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

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

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

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

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

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

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

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

Brandywine Realty Trust:

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

Brandywine Operating Partnership, L.P.:

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

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

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

A total of 135,341,358 Common Shares of Beneficial Interest, par value $0.01 per share, were outstanding as of May 2, 2011.

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2011 of Brandywine Realty Trust (the Parent Company) and Brandywine Operating Partnership (the Operating Partnership). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the Company . In addition, terms such as we , us , or our used in this report may refer to the Company, the Parent Compa or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2011, owned a 93.1% interest in the Operating Partnership. The remaining 6.9% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership s day-to-day operations and management.

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

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

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

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

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

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

consolidated financial statements;

Parent Company s and Operating Partnership s Equity; and

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

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

Table of Contents

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

	Page
PART I FINANCIAL INFORMATION	
Item 1. **Brandywine Realty Trust**	
Financial Statements of Brandywine Realty Trust (unaudited)	
Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	5
Consolidated Statements of Operations for the three-month periods ended March 31, 2011 and 2010	6
Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2011 and 2010	7
Consolidated Statements of Equity for the three-month periods ended March 31, 2011 and 2010	8
Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2011 and 2010	9
Brandywine Operating Partnership, L.P.	
Financial Statements of Brandywine Operating Partnership, L.P. (unaudited)	
Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	10
Consolidated Statements of Operations for the three-month periods ended March 31, 2011 and 2010	11
Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2011 and 2010	12
Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2011 and 2010	13
Notes to Unaudited Consolidated Financial Statements	14
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3. Quantitative and Qualitative Disclosures about Market Risk	56
Item 4. Controls and Procedures (Brandywine Realty Trust)	56
Controls and Procedures (Brandywine Operating Partnership, L.P.)	56
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	57
Item 1A. Risk Factors	57

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3. Defaults Upon Senior Securities	57
Item 4. Removed and Reserved	57
Item 5. Other Information	57
Item 6. Exhibits	58
Signatures	59

Exhibit 31.1
Exhibit 31.2
Exhibit 31.3
Exhibit 31.4
Exhibit 32.1
Exhibit 32.2
Exhibit 32.3
Exhibit 32.4
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Filing Format

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. - Financial Statements

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

	March 31, 2011	December 31, 2010
ASSETS		
Real estate investments:		
Rental properties	$ 4,858,470	$ 4,834,111
Accumulated depreciation	(807,631)	(776,078)
Operating real estate investments, net	4,050,839	4,058,033
Construction-in-progress	37,220	33,322
Land inventory	119,901	110,055
Total real estate investments, net	4,207,960	4,201,410
Cash and cash equivalents	249	16,565
Accounts receivable, net	18,411	16,009
Accrued rent receivable, net	99,414	95,541
Investment in real estate ventures, at equity	83,706	84,372
Deferred costs, net	107,918	106,117
Intangible assets, net	92,124	97,462
Notes receivable	19,177	18,205
Other assets	57,760	54,697
Total assets	$ 4,686,719	$ 4,690,378
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	$ 707,634	$ 711,789
Borrowing under credit facilities	197,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,353,094	1,352,657
Accounts payable and accrued expenses	81,760	72,235
Distributions payable	22,699	22,623
Deferred income, gains and rent	115,605	121,552
Acquired below market leases, net	27,550	29,233
Other liabilities	40,657	36,515
Total liabilities	2,728,999	2,712,604
Commitments and contingencies (Note 17)		
Brandywine Realty Trust s equity:		
Preferred Shares (shares authorized-20,000,000):		
7.50% Series C Preferred Shares, $0.01 par value; issued and outstanding-2,000,000 in 2011 and 2010, respectively	20	20
7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding-2,300,000 in 2011 and 2010, respectively	23	23

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

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

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

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

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

Table of Contents

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

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

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

Table of Contents

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY
For the Three-Month Periods Ended March 31, 2011 and 2010
(unaudited, in thousands, except number of shares)

March 31, 2011

r of ed s	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
000	**$ 43**	**134,601,796**	**116,679**	**291,281**	**$ 1,343**	**$ 2,671,217**	**$ (3,074)**	**$ 5,774**	**$ (5,774)**	**$ 483,439**	**$ (1,945)**	**$ (1,301,521)**	
										(439)			
											(579)		
		188,400			2	2,303							
						(104)							
			(463)	463			12	5	(5)	(6)			
			(87,370)	9,043		(1,518)	2,462			(800)			
						806							
						330							
						344							
						54							
		(487)		(4,935)		(16)		(146)	146				

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

CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY
March 31, 2010

r of red es	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	N
000	**$ 43**	**128,849,176**	**251,764**	**255,700**	**$ 1,286**	**$ 2,610,421**	**$ (7,205)**	**$ 5,549**	**$ (5,549)**	**$ 501,384**	**$ (9,138)**	**$ (1,213,359**	
										(348)			
											1,763		
		1,325,200			13	16,421							
						(336)							
			(32,607)	32,607			871	369	(369)	(502)			
			(58,286)	8,989		(897)	1,816	103	(103)	(1,145)			
						745							

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

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

8

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

Table of Contents

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

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust (REIT) that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office and industrial properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2011, owned a 93.1% interest in the Operating Partnership. The Parent Company s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol BDN .

As of March 31, 2011, the Company owned 210 office properties, 20 industrial facilities and four mixed-use properties (collectively, the Properties) containing an aggregate of approximately 25.8 million net rentable square feet. The Company also has a garage property under redevelopment. Therefore, as of March 31, 2011, the Company owned 235 properties containing an aggregate of 25.8 million net rentable square feet. In addition, as of March 31, 2011, the Company owned economic interests in 17 unconsolidated real estate ventures that contain approximately 6.5 million net rentable square feet (collectively, the Real Estate Ventures). The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania, Metropolitan Washington, D.C., Southern and Central New Jersey, Richmond, Virginia, Wilmington, Delaware, Austin, Texas and Oakland, Concord, Carlsbad and Rancho Bernardo, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of March 31, 2011, the management company subsidiaries were managing properties containing an aggregate of approximately 33.6 million net rentable square feet, of which approximately 25.8 million net rentable square feet related to Properties owned by the Company and approximately 7.8 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for interim financial statements information. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of March 31, 2011, the results of its operations for the three-month periods ended March 31, 2011 and 2010 and its cash flows for the three-month periods ended March 31, 2011 and 2010 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company s and the Operating Partnership s consolidated financial statements and footnotes included in their respective 2010 Annual Reports on Form 10-K filed with the SEC on February 25, 2011.

Reclassifications and Out of Period Adjustment

Certain amounts have been reclassified in prior years to conform to the current year presentation. The reclassifications are primarily due to the treatment of sold properties as discontinued operations on the statement of operations for all periods presented. In addition, the Company changed $6.3 million from leasing costs to capital expenditures in the investing section of the statements of cash flows for the three months ended March 31, 2010. This change had no effect on the subtotals within the consolidated statement of cash flows.

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

Principles of Consolidation

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (VIE), and if the Company is deemed to be the primary beneficiary, in accordance with the accounting standard for the consolidation of variable interest entities. The accounting standard for the consolidation of VIEs requires the Company to qualitatively assess if the Company was the primary beneficiary of the VIEs based on whether the Company had (i) the power to direct those matters that most significantly impacted the activities of the VIE and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For entities that the Company has determined to be VIEs but for which it is not the primary beneficiary, its maximum exposure to loss is the carrying amount of its investments, as the Company has not provided any guarantees other than the guarantee described for PJP VII which was approximately $0.7 million at March 31, 2011 (see Note 4). Also, for all entities determined to be VIEs, the Company does not provide financial support to the real estate ventures through liquidity arrangements, guarantees or other similar commitments. When an entity is not deemed to be a VIE, the Company considers the provisions of the same accounting standard to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs and controlled by the Company and in which the limited partners neither have the ability to dissolve the entity or remove the Company without cause nor any substantive participating rights. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company s share of earnings or losses, plus contributions, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence and (iii) entities that are non-VIE s that the Company controls through its general partner status, but the limited partners in the entity have the substantive ability to dissolve the entity or remove the Company without cause or have substantive participating rights. The Company continuously assesses its determination of whether an entity is a VIE and who the primary beneficiary is, and whether or not the limited partners in an entity have substantive rights, more particularly if certain events occur that are likely to cause a change in the original determinations. The Company s assessment includes a review of applicable documents such as, but not limited to applicable partnership agreements, real estate venture agreements, LLC agreements, management and leasing agreements to determine whether the Company has control to direct the business activities of the entities. The portion of the entities that are consolidated but not owned by the Company is presented as non-controlling interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Operating Properties

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

Purchase Price Allocation

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

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

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

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

Impairment or Disposal of Long-Lived Assets

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

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

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

During the Company s impairment review for the three month periods ended March 31, 2011 and 2010, the Company determined that no impairment charges were necessary.

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

Investments in Unconsolidated Real Estate Ventures

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

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

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

Revenue Recognition

Rental revenue is recognized on the straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The straight-line rent adjustment increased revenue by approximately $4.2 million and $2.0 million for the three-month periods ended March 31, 2011 and 2010, respectively. Deferred rents on the balance sheet represent rental revenue received prior to their due dates and amounts paid by the tenant for certain improvements considered to be landlord assets that will remain as the Company s property at the end of the tenant s lease term. The amortization of the amounts paid by the tenant for such improvements is calculated on a straight-line basis over the term of the tenant s lease and is a component of straight-line rental income and increased revenue by $0.6 million and $0.9 million for the three-month periods ended March 31, 2011 and 2010, respectively. Lease incentives, which are included as reductions of rental revenue in the accompanying consolidated statements of operations, are recognized on a straight-line basis over the term of the lease. Lease incentives decreased revenue by $0.2 million and $0.8 million for the three-month periods ended March 31, 2011 and 2010, respectively.

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

Stock-Based Compensation Plans

The Parent Company maintains a shareholder-approved equity-incentive plan known as the Amended and Restated 1997 Long-Term Incentive Plan (the 1997 Plan). The 1997 Plan is administered by the Compensation Committee of the Parent Company s Board of Trustees. Under the 1997 Plan, the Compensation Committee is authorized to award equity and equity-based awards, including incentive stock options, non-qualified stock options, restricted shares and performance-based shares. On June 2, 2010, the Parent Company s shareholders approved amendments to the 1997 Plan that, among other things, increased the number of common shares available for future awards under the 1997 Plan by 6,000,000 (of which 3,600,000 shares are available solely for options and share appreciation rights). As of March 31, 2011, 5,809,631 common shares remained available for future awards under the 1997 Plan (including 4,671,392 shares available solely for options and share appreciation rights). Through March 31, 2011, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $1.4 million and $1.1 million during the three-month periods ended March 31, 2011 and 2010, of which, $0.3 million and $0.2 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. The expensed amounts are included in general and administrative expense on the Company s consolidated income statement in the respective periods.

Table of Contents

Accounting for Derivative Instruments and Hedging Activities

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

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

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

Fair Value Measurements

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

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

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

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

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

The following table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011:

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

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

18

Table of Contents

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.

There were no items that were accounted for at fair value on a non-recurring basis as of March 31, 2011.

<u>*Income Taxes*</u>

Parent Company

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

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

Operating Partnership

In general, the Operating Partnership is not subject to federal and state income taxes, and accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The partners of the Operating

Partnership are required to include their respective share of the Operating Partnership s profits or losses in their respective tax returns. The Operating Partnership s tax returns and the amount of allocable Partnership profits and losses are subject to examination by federal and state taxing authorities. If such examination results in changes to the Operating Partnership profits or losses, then the tax liability of the partners would be changed accordingly.

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

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

Recent Accounting Pronouncement

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

3. REAL ESTATE INVESTMENTS

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

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

Acquisitions and Dispositions

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

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

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

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

Table of Contents

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

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

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

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

The Company also recognized tenant and other receivables of $1.1 million and prepaid real estate taxes of $1.5 million from the acquisition and both are included as part of the accounts receivable and the other asset sections, respectively, of the Company s consolidated balance sheets.
The Company recognized $0.4 million of acquisition related costs which are included as part of general and administrative expenses of the Company s prior year consolidated statements of operations.

Table of Contents

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

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

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

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

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of March 31, 2011, the Company had an aggregate investment of approximately $83.7 million in 17 unconsolidated Real Estate Ventures. The Company formed these ventures with unaffiliated third parties, or acquired interests in them, to develop or manage office properties or to acquire land in anticipation of possible development of office properties. As of March 31, 2011, 15 of the Real Estate Ventures owned 50 office buildings that contain an aggregate of approximately 6.5 million net rentable square feet; one Real Estate Venture owned three acres of undeveloped parcel of land; and one Real Estate Venture developed a hotel property that contains 137 rooms in Conshohocken, PA.

The Company accounts for its unconsolidated interests in its Real Estate Ventures using the equity method. The Company s unconsolidated interests range from 3% to 65%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

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

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

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

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

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

As of March 31, 2011, the Company had guaranteed repayment of approximately $0.7 million of loans on behalf of a Real Estate Venture. The Company also provides customary environmental indemnities in connection with construction and permanent financing both for its own account and on behalf of its Real Estate Ventures.

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

5. DEFERRED COSTS

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

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

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

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

Table of Contents

6. INTANGIBLE ASSETS

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

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

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

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

	Assets	Liabilities
2011	$ 22,169	$ 5,396
2012	22,143	6,473
2013	13,441	5,930
2014	10,118	4,348
2015	7,161	2,141
Thereafter	17,092	3,262
Total	$ 92,124	$ 27,550

Table of Contents

7. DEBT OBLIGATIONS

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

MORTGAGE DEBT:

Property / Location	March 31, 2011	December 31, 2010	Effective Interest Rate	Maturity Date
Arboretum I, II, III & V	$ 20,213	$ 20,386	7.59%(a)	Jul-11
Midlantic Drive/Lenox Drive/DCC I	56,067	56,514	8.05%	Oct-11
Research Office Center	38,921	39,145	5.30%(b)	Oct-11
Concord Airport Plaza	34,207	34,494	5.55%(b)	Jan-12
Newtown Square/Berwyn Park/Libertyview	57,722	58,102	7.25%	May-13
Southpoint III	2,425	2,597	7.75%	Apr-14
Tysons Corner	96,092	96,507	5.36%(b)	Aug-15
Two Logan Square	89,800	89,800	7.57%	Apr-16
One Logan Square	60,000	60,000	LIBOR + 3.50%(c)	Jul-16
IRS Philadelphia Campus	207,031	208,366	6.95%	Sep-30
Cira South Garage	45,857	46,335	7.11%	Sep-30
Principal balance outstanding	708,335	712,246		
Plus: unamortized fixed-rate debt premiums (discounts), net	(701)	(457)		
Total mortgage indebtedness	$ 707,634	$ 711,789		

UNSECURED DEBT:

$345.0M 3.875% Guaranteed Exchangeable Notes due 2026	59,835	59,835	5.50%(d)	Oct-11
Bank Term Loan	183,000	183,000	LIBOR + 0.800%(e)	Jun-12
Credit Facility	197,000	183,000	LIBOR + 0.725%(e)	Jun-12
$300.0M 5.750% Guaranteed Notes due 2012	175,200	175,200	5.73%	Apr-12
$250.0M 5.400% Guaranteed Notes due 2014	242,681	242,681	5.53%	Nov-14
$250.0M 7.500% Guaranteed Notes due 2015	250,000	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
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	1,736,326	1,722,326		
Less: unamortized exchangeable debt discount	(634)	(906)		
unamortized fixed-rate debt discounts, net	(2,598)	(2,763)		

Total unsecured indebtedness	$ 1,733,094	$ 1,718,657
Total Debt Obligations	$ 2,440,728	$ 2,430,446

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

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

(c) This mortgage is subject to an interest rate floor of 4.50% on a monthly basis.

(d) On October 20, 2011, the holders of the Guaranteed Exchangeable Notes have the right to request the redemption of all or a portion of the Guaranteed Exchangeable Notes they hold at a price equal to 100% of the principal amount plus accrued and unpaid interest. Accordingly, the Guaranteed Exchangeable Notes have been presented with an October 20, 2011 maturity date.

(e) On March 31, 2011, the maturity dates of the Bank Term Loan and the Credit Facility was extended to June 29, 2012 from June 29, 2011. The Company will pay an extension fee equal to 15 basis points of the outstanding principal balance of the Bank Term Loan and of the committed amount under the Credit Facility, respectively, on or before the stipulated date of June 29, 2011. The extension of the maturity dates is 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 three-month periods ended March 31, 2011 and 2010, the Company s weighted-average effective interest rate on its mortgage notes payable was 6.593% and 6.43%, respectively.

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 March 31, 2011, the Company had $197.0 million of borrowings and $10.3 million in letters of credit outstanding, leaving $392.7 million of unused availability under the Credit Facility. During the three-month periods ended March 31, 2011 and 2010, the weighted-average interest rate on Credit Facility borrowings was 0.99% and 0.96%, respectively. As of March 31, 2011, the weighted average interest rate on the Credit Facility was 1.015%.

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 March 31, 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 March 31, 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. 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 $0.6 million at March 31, 2011 and $0.9 million at December 31, 2010, respectively, and will be amortized through October 15, 2011. The effective interest rate at March 31, 2011 and December 31, 2010 was 5.5%. The Company recognized contractual coupon interest of $0.6 million and $1.1 million for the three-month periods ended March 31, 2011 and 2010, respectively. In addition, the Company recognized interest expense on amortization of debt discount of $0.3 million and $0.5 million during the three-month periods ended March 31, 2011 and 2010, respectively. Debt discount write-offs resulting from debt repurchases amounted to $1.1 million for the three-month period ended March 31, 2010. There were no repurchases of the notes during the three-month ended March 31, 2011.

As of March 31, 2011, the Company s aggregate scheduled principal payments of debt obligations, excluding amortization of discounts and premiums, were as follows (in thousands):

2011	$ 184,425
2012	601,136
2013	67,037
2014	255,016
2015	350,157
Thereafter	986,890
Total principal payments	2,444,661
Net unamortized premiums/(discounts)	(3,933)

Outstanding indebtedness	$ 2,440,728

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 March 31, 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 March 31, 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):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage payable, net of premiums	$ 708,374	$ 721,383	$ 712,246	$ 726,348
Unsecured notes payable, net of discounts	$ 1,277,716	$ 1,356,470	$ 1,277,716	$ 1,338,743
Variable rate debt instruments	$ 458,610	$ 446,227	$ 444,610	$ 432,556
Notes receivable	$ 32,188(a)	$ 29,802	$ 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.

Risks and Uncertainties

Significantly challenging current economic conditions have generally resulted in a reduction of the availability of financing and higher borrowing costs. These factors, coupled with a sluggish economy, have reduced the volume of real estate transactions and created credit stresses on most businesses. The Company believes that vacancy rates may increase through 2011 and possibly beyond as the current economic climate negatively impacts tenants in the Properties. 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 and illiquidity 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 March 31, 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 the 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 (See Note 18), 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 were $230.0 million for an expiration of 7 years at treasury rates of 2.891%, 2.873%, and 2.858% and had a fair value of $0.6 million at March 31, 2011. The agreements were also settled in the same day upon completion of 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 in 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 months ended March 31, 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 month periods ended March 31, 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.

Table of Contents

10. DISCONTINUED OPERATIONS

The Company had no property dispositions during the three months ended March 31, 2011. The loss from discontinued operations for the three-month period ended March 31, 2011 of $0.1 million pertains to certain sale related expenses that the Company incurred subsequent to the sale of certain properties through December 31, 2010. For the three-month period ended March 31, 2010, income from discontinued operations relates to properties that the Company sold through December 31, 2010. The following table summarizes the revenue and expense information for properties classified as discontinued operations for the three-month period ended March 31, 2010 (in thousands):

		Three-month period ended March 31, 2010
Revenue:		
Rents	$	1,131
Tenant reimbursements		617
Total revenue		1,748
Expenses:		
Property operating expenses		686
Real estate taxes		266
Depreciation and amortization		531
Total operating expenses		1,483
Income from discontinued operations before gain on sale of interests in real estate		265
Net gain on disposition of discontinued operations		6,349
Income from discontinued operations	$	6,614

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 March 31, 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 $128.0 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 $120.2 million and $115.4 million, respectively.

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 March 31,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				
Loss from continuing operations	$ (383)	$ (383)	$ (7,013)	$ (7,013)
Net loss from continuing operations attributable to non-controlling interests	49	49	192	192
Amount allocable to unvested restricted shareholders	(142)	(142)	(128)	(128)
Preferred share dividends	(1,998)	(1,998)	(1,998)	(1,998)
Loss from continuing operations available to common shareholders	(2,474)	(2,474)	(8,947)	(8,947)
Income (loss) from discontinued operations	(107)	(107)	6,614	6,614
Discontinued operations attributable to non-controlling interests	2	2	(141)	(141)
Discontinued operations attributable to common shareholders	(105)	(105)	6,473	6,473
Net loss attributable to common shareholders	$ (2,579)	$ (2,579)	$ (2,474)	$ (2,474)
Denominator				
Weighted-average shares outstanding	134,577,421	134,577,421	128,767,718	128,767,718
Earnings per Common Share:				
Loss from continuing operations attributable to common shareholders	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.07)
Discontinued operations attributable to common shareholders			0.05	0.05
Net loss attributable to common shareholders	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)

Redeemable limited partnership units totaling 9,902,752 as of March 31, 2011 and 2010, respectively, were excluded from the diluted earnings per share computations because their effect would have been anti-dilutive.

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 three months ended March 31, 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 March 11, 2011, the Parent Company declared a distribution of $0.15 per common share, totaling $20.4 million, which was paid on April 19, 2011 to shareholders of record as of April 5, 2011. On March 11, 2011, the Parent Company declared distributions on its Series C Preferred Shares and Series D Preferred Shares to holders of record as of March 30, 2011. These shares are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on April 15, 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 three months ended March 31, 2011, the Parent Company sold 188,400 shares under this program at an average sales price of $12.23 per share resulting in net proceeds of $2.2 million. The Parent Company contributed the net proceeds from the sale of its shares to the Operating Partnership in exchange for the issuance of 188,400 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 March 31, 2011, the Parent Company had sold 5,930,668 shares under this program.

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 three-month period ended March 31, 2011. As of March 31, 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.

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 March 31,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Numerator				
Loss from continuing operations	$ (383)	$ (383)	$ (7,013)	$ (7,013)
Amount allocable to unvested restricted unitholders	(142)	(142)	(128)	(128)
Preferred share dividends	(1,998)	(1,998)	(1,998)	(1,998)
Loss from continuing operations available to common unitholders	(2,523)	(2,523)	(9,139)	(9,139)
Discontinued operations attributable to common unitholders	(107)	(107)	6,614	6,614
Net loss attributable to common unitholders	$ (2,630)	$ (2,630)	$ (2,525)	$ (2,525)
Denominator				
Weighted-average units outstanding	144,480,173	144,480,173	131,576,826	131,576,826
Earnings per Common Share:				
Loss from continuing operations attributable to common unitholders	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.07)
Discontinued operations attributable to common unitholders			0.05	0.05
Net loss attributable to common unitholders	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)

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 three-months ended March 31, 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 March 11, 2011, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $20.4 million, which was paid on April 19, 2011 to unitholders of record as of April 5, 2011.

On March 15, 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 March 30, 2011. These units are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on April 15, 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 three-month period ended March 31, 2011, the Parent Company contributed net proceeds amounting to $2.2 million from the sale of 188,400 common shares under its Offering Program to the Operating Partnership in exchange for the issuance of 188,400 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 Share Repurchases

The Parent Company did not purchase any shares during the three months ended March 31, 2011 and accordingly, during the three months ended March 31, 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 March 31, 2011, the Parent Company had 3,719,852 options outstanding under its shareholder approved equity incentive plan. There were 2,044,482 options unvested as of March 31, 2011 and $3.5 million of unrecognized compensation expense associated with these options to be recognized over a weighted average of 2.2 years. During the three months ended March 31, 2011 and 2010, the Company recognized $0.3 million and $0.2 million of compensation expense, respectively, related to unvested options. The recognized compensation expenses are included as part of general and administrative expense in the Company s consolidated statements of operations. The Company has also capitalized nominal amounts of compensation expense for the said periods as part of the Company s review of employee salaries eligible for capitalization.

Option activity as of March 31, 2011 and changes during the three months ended March 31, 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	9.93	150,810
Outstanding at March 31, 2011	3,719,852	$ 14.13	7.95	$ (7,402,676)
Vested/Exercisable at March 31, 2011	1,675,369	$ 16.81	7.19	$ (7,689,351)

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. As of March 31, 2011, none of the Company s executives had met conditions to elect a qualifying retirement.

Restricted Share Awards

As of March 31, 2011, 948,956 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 March 31, 2011 was approximately $5.5 million. That expense is expected to be recognized over a weighted average remaining vesting period of 2.0 years. The Company recognized compensation expense related to outstanding restricted shares of $0.8 million during the three months ended March 31, 2011 and 2010, of which $0.1 million and $0.2 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. The expensed amounts are included in general and administrative expense on the Company s consolidated statement of operations in the respective periods.

The following table summarizes the Company s restricted share activity for the three-months ended March 31, 2011:

	Shares	Weighted Average Grant Date Fair value
Non-vested at January 1, 2011	851,278	$ 10.75
Granted	174,012	11.89
Vested	(75,448)	26.55
Forfeited	(886)	16.79
Non-vested at March 31, 2011	948,956	$ 10.92

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 vest ratably over 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 March 31, 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 award, 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 March 31, 2011, none of the Company s executives has met conditions to elect a qualifying retirement.

For the three-month periods ended March 31, 2011 and 2010, the Company recognized total compensation expense for the 2011, 2010 and 2009 awards of $0.3 million and $0.2 million, respectively, related to this plan of which nominal amounts were capitalized for each period as part of the Company s review of employee salaries eligible for capitalization.

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 each of the three-month periods ended March 31, 2011 and 2010, the Company recognized $0.1 million 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 each of the three-month periods ended March 31, 2011 and 2010, employees made purchases under the ESPP of $0.1 million. The Company recognized a nominal amount of compensation expense related to the ESPP during each of the three-month periods ended March 31, 2011 and 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 three-month periods ended March 31, 2011 and 2010, the Company recorded a net increase in compensation costs of $0.5 million and $0.3 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 three-month periods ended March 31, 2011 and 2010, the Company recorded a net decrease in compensation cost of $0.4 million and $0.3 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 March 31, 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 $64.8 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. The remaining amount of approximately $3.0 million will be advanced upon the Company s completion of certain items and compliance with the federal rehabilitation regulations.

In exchange for its contributions into the development of 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 made amounting to $61.4 million as of March 31, 2011 and December 31, 2010, respectively, are presented within deferred income in the Company s consolidated balance sheet. 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 March 31, 2011 and December 31, 2010, respectively. The Company anticipates that once a year beginning in September 2011 through September 2015 it 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. The Company also 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 March 31, 2011 and December 31, 2010 is $4.3 million, 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 $0.4 million and $0.1 million for the three-months ended March 31, 2011 and 2010.

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 March 31, 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 March 31, 2011 and December 31, 2010 is $5.3 million and is included in other assets in the Company s consolidated balance sheet.

Table of Contents

16. SEGMENT INFORMATION

As of March 31, 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 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.

As a result of the acquisition of Three Logan Square and the placement in service of the IRS Philadelphia Campus and the Cira South Garage, the Company added the Philadelphia CBD segment in the third quarter of 2010. The Philadelphia CBD includes Three Logan Square, the IRS Philadelphia Campus, the Cira South Garage and certain other properties in Philadelphia, PA that were previously included in the Pennsylvania segment. The prior period results have been restated to conform to the current period presentation.

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 March 31, 2011:									
Real estate investments, at cost:									
Operating properties	$ 1,205,331	$ 913,192	$ 1,363,501	$ 571,399	$ 305,699	$ 252,639	$ 246,709	$	$ 4,858,470
Construction-in-progress								37,220	37,220
Land inventory								119,901	119,901
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 March 31, 2011:									
Total revenue	$ 40,294	$ 31,850	$ 32,643	$ 21,679	$ 8,798	$ 8,113	$ 5,409	$ (235)	$ 148,551
Property operating expenses, real estate taxes and third party management expenses	16,793	12,219	12,325	11,933	3,388	3,094	2,695	(334)	62,113
Net operating income	$ 23,501	$ 19,631	$ 20,318	$ 9,746	$ 5,410	$ 5,019	$ 2,714	$ 99	$ 86,438
For the three-months ended March 31, 2010:									
Total revenue	$ 39,481	$ 18,550	$ 34,743	$ 25,727	$ 9,400	$ 7,999	$ 5,904	$ (370)	$ 141,434
Property operating expenses, real estate taxes and third party management expenses	16,746	7,844	12,379	12,459	3,658	3,324	2,731	(454)	58,687
Net operating income	$ 22,735	$ 10,706	$ 22,364	$ 13,268	$ 5,742	$ 4,675	$ 3,173	$ 84	$ 82,747

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 a non-GAAP financial 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. 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 the Company s 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 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 March 31,	
	2011	2010
	(amounts in thousands)	
Consolidated net operating income	$ 86,438	$ 82,747
Less:		
Interest expense	(32,393)	(31,524)
Deferred financing costs	(928)	(1,011)
Depreciation and amortization	(51,721)	(52,102)
Administrative expenses	(6,244)	(6,092)
Plus:		
Interest income	441	865
Equity in income of real estate ventures	1,233	1,296
Net gain on sales of interests in depreciated real estate	2,791	
Loss on early extinguishment of debt		(1,192)
Loss from continuing operations	(383)	(7,013)
Income (loss) from discontinued operations	(107)	6,614
Net loss	$ (490)	$ (399)

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.

Table of Contents

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. Minimum future rental payments on non-cancelable leases at March 31, 2011 are as follows (in thousands):

2011	$ 1,364
2012	1,818
2013	1,818
2014	1,909
2015	1,909
Thereafter	290,125

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 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 and 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 708,602 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 March 31, 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 March 31, 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 April 5, 2011, the Company closed a registered underwritten offering of $325.0 million in aggregate principal amount of its 4.95% senior unsecured notes due 2018. The notes were priced at 98.907% of their face amount with an effective interest rate of 5.137%. The net proceeds which amounted to $318.9 million after deducting underwriting discounts and offering expenses were used to repay the Company s indebtedness under its Credit Facility and for general corporate purposes.

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 recent credit crisis and 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;

Table of Contents

- unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;
- 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 March 31, 2011 and December 31, 2010 and for the three months ended March 31, 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 March 31, 2011, our portfolio consisted of 210 office properties, 20 industrial facilities and four mixed-use properties that contain an aggregate of approximately 25.8 million net rentable square feet. These 234 properties make up our core portfolio. We also had, as of March 31, 2011, a garage property under redevelopment. Therefore, as of March 31, 2011, we owned 235 properties with an aggregate of 25.8 million net rentable square feet. As of March 31, 2011, we also held economic interests in 17 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 6.5 million net rentable square feet.

As of March 31, 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 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. We believe that vacancy rates may increase through 2011 and possibly beyond as the current economic climate negatively impacts tenants in our Properties.

Table of Contents

We expect that the impact of the current state of the economy, including high unemployment and the unprecedented volatility and illiquidity 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, from sources such as traditional term or secured loans from banks, pension funds and life insurance companies, however these sources are lending fewer dollars, under stricter terms and at higher borrowing rates, and 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 at our portfolio through an increase in occupancy and rental rates. Occupancy at our core portfolio at March 31, 2011 was 85.3%.

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 5.9% of our aggregate final annualized base rents as of March 31, 2011 (representing approximately 5.7% 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 three months ended March 31, 2011, we achieved a 68.2 % 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 \$15.3 million or 11.5% of total receivables (including accrued rent receivable) as of March 31, 2011 compared to \$15.2 million or 12.0% of total receivables (including accrued rent receivable) 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 March 31, 2011, we were redeveloping one garage project in Philadelphia, Pennsylvania with total projected costs of \$14.8 million of which \$0.5 million remained to be funded. In addition, we are completing the lease-up of five recently completed developments, aggregating 0.9 million square feet, for which we expect to spend an additional \$12.7 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 March 31, 2011, we owned approximately 510 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 March 31, 2011.

Table of Contents

RECENT PROPERTY TRANSACTIONS

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 currently 100% leased. 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 cash 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 did not have any property dispositions during the three months ended March 31, 2011, however, 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 the 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-months ended March 31, 2011 set forth herein. Management discusses our critical accounting policies and management s judgments and estimates with our Audit Committee.

RESULTS OF OPERATIONS

Comparison of the Three-Month Periods Ended March 31, 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 228 properties containing an aggregate of approximately 23.0 million net rentable square feet that we owned for the entire three-month periods ended March 31, 2011 and 2010. 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 March 31, 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 March 31, 2011 and 2010 (in thousands).

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

Table of Contents

Comparison of three-months ended March 31, 2011 to the three-months ended March 31, 2010

	Same Store Property Portfolio			Recently Completed Properties		Development/Redevelopment Properties		Other (Eliminations) (a)		Total Portfolio		
dollars in thousands)	2011	2010	Increase/ (Decrease)	2011	2010	2011	2010	2011	2010	2011	2010	Increase/ (Decreas
evenue:												
ash rents	$ 105,509	$ 110,124	$ (4,615)	$ 10,155	$ 446	$	$	$ (650)	$ (643)	$ 115,014	$ 109,927	$ 5,087
traight-line rents	3,347	2,915	432	1,388	(13)			1		4,736	2,902	1,834
bove/below market ent amortization	1,304	1,549	(245)	(43)						1,261	1,549	(288
otal rents	110,160	114,588	(4,428)	11,500	433			(649)	(643)	121,011	114,378	6,633
enant eimbursements	20,673	20,933	(260)	2,484	2			(36)	(21)	23,121	20,914	2,207
ermination fees	568	1,754	(1,186)							568	1,754	(1,186
hird party anagement fees, bor reimbursement nd leasing								2,753	3,467	2,753	3,467	(714
ther	753	631	122	40				305	290	1,098	921	177
otal revenue	132,154	137,906	(5,752)	14,024	435			2,373	3,093	148,551	141,434	7,117
roperty operating xpenses	44,873	46,394	1,521	4,397	417			(3,115)	(2,324)	46,155	44,487	(1,668
eal estate taxes	13,129	12,469	(660)	1,161	136			158	183	14,448	12,788	(1,660
hird party anagement expenses								1,510	1,412	1,510	1,412	(98
ubtotal	74,152	79,043	(4,891)	8,466	(118)			3,820	3,822	86,438	82,747	3,691
eneral & dministrative xpenses								6,244	6,092	6,244	6,092	(152
epreciation and mortization	45,283	50,791	5,508	5,974	689			464	622	51,721	52,102	381
perating Income oss)	$ 28,869	$ 28,252	$ 617	$ 2,492	$ (807)	$	$	$ (2,888)	$ (2,892)	$ 28,473	$ 24,553	$ 3,920
umber of properties	228	228		6	6	1	1			235	235	
quare feet	22,990	22,990		2,774	2,774					25,764	25,764	
ther Income xpense):												

nterest income	441	865	(424
nterest expense	(32,393)	(31,524)	(869
nterest expense eferred financing osts	(928)	(1,011)	83
quity in income of eal estate ventures	1,233	1,296	(63
et gain on sale of nterests in epreciated real estate	2,791		2,791
oss on early xtinguishment of ebt		(1,192)	1,192
oss from continuing perations	(383)	(7,013)	6,630
ncome (loss) from iscontinued perations	(107)	6,614	(6,721
et loss	$ (490)	$ (399)	$ (91
oss per common hare	$ (0.02)	$ (0.02)	$

EXPLANATORY NOTES

(a) Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated in consolidation and third-party management fees.

Table of Contents

Total Revenue

Cash rents from the Total Portfolio increased by $5.1 million from the first quarter of 2010 to the first quarter of 2011 primarily reflecting:

- increase of $9.7 million in rental income due to our acquisition of Three Logan Square and the completion and placement in service of the IRS Philadelphia Campus and Cira South Garage during the third quarter of 2010; and
- an offsetting decrease of $4.6 million of rental income at the same store portfolio as a result of the decrease in same store occupancy of 250 basis points;

Straight-line rents increased by $1.8 million partially due to $0.7 million of straight-line rents from the aforementioned properties that were acquired and placed in service during the third quarter of 2010. The remainder of the increase is due to leases that commenced during the first quarter of 2011 with free rent periods at our same store properties.

Tenant reimbursements increased by $2.2 million mainly due to additional reimbursements from the aforementioned properties that were acquired and placed in service during the third quarter of 2010. This increase is consistent with the increase in property operating expenses and real estate taxes.

Termination fees at the Total Portfolio decreased by $1.2 million due to timing and volume of tenant move-outs during the first quarter of 2010 when compared to the first quarter of 2011.

Third party management fees, labor reimbursement and leasing decreased by $0.7 million mainly due to a $0.5 million construction fee for services that we provided to a third party during the three months ended March 31, 2010.

Property Operating Expenses

Property operating expenses increased by $1.7 million mainly due to $4.0 million of additional expenses from the aforementioned properties that we acquired and placed in service during the third quarter of 2010. This increase was offset by the decreases in bad debt expense $1.0 million and repairs and maintenance of $0.9 million during the first quarter of 2011 compared to the first quarter of 2010. In addition, during the first quarter of 2011, we received a tax refund from the State of Texas amounting $0.3 million for overpayment of taxes in prior years.

Real Estate Taxes

Real estate taxes increased by $1.7 million mainly due to additional real estate taxes from Three Logan Square which we acquired during the third quarter of 2010 and increases in real estate tax reassessments in our other properties.

Interest Expense

The increase in interest expense of $0.9 million is primarily due to the following:

- increase of $3.1 million resulting from a higher mortgage notes payable balance at March 31, 2011 compared to March 31, 2010 due to the closing of the mortgages on the IRS Philadelphia Campus and Cira South Garage during the third quarter of 2010;
- increase of $0.3 million resulting from a higher level of borrowings and weighted average interest rate on our Credit Facility borrowings for the three-months ended March 31, 2011 compared to the three-months ended March 31, 2010;
- increase of $0.3 million in our estimated equity interest payments resulting from a $27.4 million contribution received in connection with our historic tax credit transaction; and
- decrease of $2.9 million of capitalized interest as a result of lower development activity during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

The above explained increase of $6.6 million in interest expense is off-set by a decrease of $2.1 million in hedged interest payments as a result of the maturity of our remaining hedges in October 2010 and a decrease of $3.6 million resulting from our buybacks of various unsecured notes subsequent to the first quarter of 2010. The details of the various purchases completed during the three-months ended March 31, 2010 are noted in the *Loss on early extinguishment of debt* section below and details for all purchases during 2010 are included in our 2010 Annual Report on Form 10-K.

Loss on early extinguishment of debt

There were no debt repurchases during the three months ended March 31, 2011. The $1.2 million loss on early extinguishment of debt during the three months ended March 31, 2010 relates to following repurchases: (i) $36.2 million of our 3.875% Exchangeable Notes, (ii) $0.7 million of our 5.625% Guaranteed Notes due 2010 and (iii) $11.0 million of our 5.750% Guaranteed Notes due 2012.

Net gain on sale of interests in real estate

During the three months ended March 31, 2011, we recognized a $2.8 million net gain upon the sale of our 11% remaining ownership interest in three properties that we partially sold to one of our unconsolidated Real Estate Ventures in December 2007. We 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, we exercised the put/call which then transferred full ownership in the three properties to the Real Estate Venture. Accordingly, our direct continuing involvement through our 11% interest in the properties ceased as a result of the transfer of the ownership interest.

Discontinued Operations

We have no property dispositions during the three months ended March 31, 2011. The loss from discontinued operations of $0.1 million pertains to certain sale-related expenses that the Company incurred subsequent to the sale of certain properties through December 31, 2010.

The March 31, 2010 amounts are reclassified to include the operations of the properties sold through the last quarter of 2010, as well as all properties that were sold through the year ended December 31, 2010. Therefore, the discontinued operations amount for the first quarter of 2010 includes total revenue of $1.7 million, operating expenses of $1.0 million and depreciation and amortization expense of $0.5 million.

Net loss

Net loss increased by $0.1 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 as a result of the factors described above. Net loss is significantly impacted by depreciation of operating properties and amortization of acquired intangibles. These non-cash charges do not directly affect our ability to pay dividends. Amortization of acquired intangibles will continue over the related lease terms or estimated duration of the tenant relationship.

Loss per Common Share

Loss per share was $0.02 during the three months ended March 31, 2011 and 2010 as a result of the factors described above and an increase in the average number of common shares outstanding. The increase in the average number of common shares outstanding is primarily due to the issuances pursuant to the Offering Program in 2010.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES OF THE PARENT COMPANY

The Parent Company conducts its business through the Operating Partnership and its only material asset is its ownership of the partnership interests of the Operating Partnership. The Parent Company, other than acting as the sole general partner of the Operating Partnership, issues public equity from time to time and guarantees the debt obligations of the Operating Partnership. The Parent Company s principal funding requirement is the payment of dividends on its common stock and preferred stock. The Parent Company s principal source of funding for its dividend payments is the distributions it receives from the Operating Partnership.

As of March 31, 2011, the Parent Company owned a 93.1% interest in the Operating Partnership. The remaining interest of approximately 6.9% pertains to common limited partnership interests owned by non-affiliated investors who contributed property to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete responsibility for the Operating Partnership s day-to-day operations and management.

The Parent Company s only source of capital (other than proceeds of equity issuances which the Parent Company contributes to the Operating Partnership) is from the distributions it receives from the Operating Partnership. The Parent Company believes that the Operating Partnership s sources of working capital, particularly its cash flows from operations and borrowings available under its Credit Facility, are adequate for it to make its distribution payments to the Parent Company, which in turn will enable the Parent Company to make dividend payments to its shareholders.

The Parent Company receives proceeds from equity issuances from time to time, but is required by the Operating Partnership s partnership agreement to contribute the proceeds from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Parent Company s ability to sell common shares and preferred shares is dependent on, among other things, general market conditions for REITs, market perceptions about the Company as a whole and the current trading price of its shares. The Parent Company regularly analyzes which source of capital is most advantageous to it at any particular point in time. In March 2010, the Parent Company commenced a continuous equity offering program (the Offering Program), under which it may sell up to an aggregate amount of 15,000,000 common shares until March 10, 2013. The Parent 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 to be determined by the Parent 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. During the three months ended March 31, 2011, the Parent Company sold 188,400 shares under this program at an average sales price of $12.23 per share resulting in net proceeds of $2.2 million. The Parent Company contributed the net proceeds from the sales to the Operating Partnership. From its inception through March 31, 2011, the Parent Company has sold 5,930,668 shares under this program

On March 11, 2011, the Parent Company declared a distribution of $0.15 per common share, totaling $20.4 million, which it paid on April 19, 2011 to its shareholders of record as of April 5, 2011. In addition, the Parent Company declared distributions on its Series C Preferred Shares and Series D Preferred Shares to holders of record as of March 30, 2011. These shares are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on April 15, 2011 to holders of Series C Preferred Shares and Series D Preferred Shares totaled $0.9 million and $1.1 million, respectively.

The Parent Company also maintains a share repurchase program under which its Board of Trustees has authorized the Parent Company to repurchase its common shares from time to time. As of March 31, 2011, there were approximately 0.5 million shares remaining to be repurchased under this program. The Parent Company s Board of Trustees has not limited the duration of the program; however, it may be terminated at any time.

Together with the Operating Partnership, the Parent Company maintains a shelf registration statement that registered common shares, preferred shares, depositary shares and warrants and unsecured debt securities. Subject to the Company s ongoing compliance with securities laws, and if warranted by market conditions, the Company may offer and sell equity and debt securities from time to time under the shelf registration statement.

The Parent Company unconditionally guarantees the Operating Partnership s secured and unsecured obligations which as of March 31, 2011 amounted to $708.3 million and $1,736.3 million, respectively. If the Operating Partnership fails to comply with its debt requirements, the Parent Company will be required to fulfill the Operating Partnership s commitments under such guarantees. As of March 31, 2011, the Operating Partnership is in compliance with all of its debt covenant and requirement obligations.

In order to maintain its qualification as a REIT, the Parent Company is required to, among other things, pay dividends to its shareholders of at least 90% of its REIT taxable income. The Parent Company has historically satisfied this requirement.

Overall, the liquidity of the Parent Company is dependent on the Operating Partnership s ability to make distributions to the Parent Company. However, there can be no assurance that the Operating Partnership s sources of capital will continue to be available to meet its working capital needs including its ability to make distribution payments to the Parent Company. In cases where the Operating Partnership is faced with working capital problems or would need to raise capital to fund acquisitions and developments, the Parent Company will have to consider alternative sources to increase liquidity, including, among other things, equity issuances through its existing Offering Program, use of its available line of credit and potential sale of properties.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES OF THE OPERATING PARTNERSHIP

General

The Operating Partnership s principal liquidity needs for the next twelve months are as follows:

- fund normal recurring expenses,
- fund capital expenditures, including capital and tenant improvements and leasing costs,
- fund repayment of certain debt instruments when they mature,
- fund current development and redevelopment costs, and
- fund distributions to the Parent Company

The Operating Partnership believes that with the uncertain economic conditions, it is likely that vacancy rates may continue to increase, effective rental rates on new and renewed leases may continue to decrease and tenant installation costs, including concessions, may continue to increase in most or all of its markets in 2011 and possibly beyond. As a result, the Operating Partnership s revenue from the overall reduced demand for office space, and its cash flow could be insufficient to cover increased tenant installation costs over the short-term. If this situation were to occur, the Operating Partnership expects that it would finance cash deficits through borrowings under our Credit Facility and other debt and equity financings.

The Operating Partnership believes that its liquidity needs will be satisfied through cash flows generated by operations, financing activities and selective property sales. Rental revenue, expense recoveries from tenants, and other income from operations are its principal sources of cash that it uses to pay operating expenses, debt service, recurring capital expenditures and the minimum distributions required to maintain its REIT qualification. The Operating Partnership seeks to increase cash flows from its properties by maintaining quality standards for its properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. The Operating Partnership s revenue also includes third-party fees generated by its property management, leasing, development and construction businesses. The Operating Partnership believes that its revenue, together with proceeds from property sales and debt financings, will continue to provide funds for its short-term liquidity needs. However, material changes in its operating or financing activities may adversely affect its net cash flows. Such changes, in turn, would adversely affect its ability to fund distributions to the Parent Company, debt service payments and tenant improvements. In addition, a material adverse change in its cash provided by operations would affect the financial performance covenants under its Credit Facility, unsecured term loan and unsecured notes.

Financial markets have experienced unusual volatility and uncertainty. The Operating Partnership s ability to fund development projects, as well as its ability to repay or refinance debt maturities could be adversely affected by its inability to secure financing at reasonable terms beyond those already completed. It is possible, in these unusual and uncertain times that one or more lenders in its Credit Facility could fail to fund a borrowing request. Such an event could adversely affect its ability to access funds from its Credit Facility when needed.

The Operating Partnership s liquidity management remains a priority. The Operating Partnership regularly pursues new financing opportunities to ensure an appropriate balance sheet position. As a result of these dedicated efforts, the Operating Partnership is comfortable with its ability to meet future debt maturities and development or property acquisition funding needs. The Operating Partnership believes that its current balance sheet is in an adequate position at the date of this filing, despite the volatility in the credit markets. During the three months ended March 31, 2011, the Parent Company had contributed $2.2 million in net proceeds from the sale of 188,400 of its common shares under the Offering Program to the Operating Partnership in exchange for the issuance of 188,400 common partnership units to the Parent Company. The Operating Partnership used the net proceeds contributed by the Parent Company to reduce borrowings under the Credit Facility and for general corporate purposes. On April 5, 2011, we closed a registered offering of $325.0 million in aggregate principal amount of our 4.95% senior unsecured notes due 2018. The notes were priced at 98.907% of their face amount with an effective interest rate of 5.137%. The net proceeds which amounted to $318.9 million after deducting underwriting discounts and offering expenses were used to repay our indebtedness under our Credit Facility and for general corporate purposes.

The Operating Partnership uses multiple financing sources to fund its long-term capital needs. It uses its Credit Facility for general business purposes, including the acquisition, development and redevelopment of properties and the repayment of other debt. It will also consider other properties within its portfolio as necessary, where it may be in its best interest to obtain a secured mortgage.

The Operating Partnership s ability to incur additional debt is dependent upon a number of factors, including its credit ratings, the value of its unencumbered assets, its degree of leverage and borrowing restrictions imposed by its current lenders. If more than one rating agency were to downgrade its credit rating, its access to capital in the unsecured debt market would be more limited and the interest rate under its existing Credit Facility and the Bank Term Loan would increase.

The Operating Partnership s ability to sell its limited partnership and preferred units is dependent on, among other things, general market conditions for REITs, market perceptions about the Company and the current trading price of the Parent Company s shares. The Parent Company contributes the proceeds it receives from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership in accordance with the Operating Partnership s partnership agreement. The Operating Partnership uses the net proceeds from the sales contributed by the Parent Company to repay balances on its Credit Facility and for general corporate purposes. The Operating Partnership, from time to time, also issues its own partnership units as consideration for property acquisitions and developments.

The Operating Partnership will also consider sales of selected Properties as another source of managing its liquidity. Asset sales have been a source of cash for the Operating Partnership. Since mid-2007, the Operating Partnership has used proceeds from asset sales to repay existing indebtedness, provide capital for its development activities and strengthen its financial condition. There is no guarantee that it will be able to raise similar or even lesser amounts of capital from future asset sales.

Cash Flows

The following discussion of the Operating Partnership s cash flows is based on the consolidated statement of cash flows and is not meant to be a comprehensive discussion of the changes in our cash flows for the periods presented.

As of March 31, 2011 and December 31, 2010, the Operating Partnership maintained cash and cash equivalents of $0.2 million and $16.6 million, respectively. The following are the changes in cash flow from its activities for the three-month periods ended March 31 (in thousands):

Activity	**2011**	**2010**
Operating	$ 57,747	$ 39,938
Investing	(62,470)	(47,361)
Financing	(11,593)	13,446
Net cash flows	$ (16,316)	$ 6,023

The Operating Partnership s principal source of cash flows is from the operation of its properties. The Operating Partnership does not restate its cash flow for discontinued operations.

The net increase of $17.8 million in cash flows from operating activities of the Operating Partnership during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 is primarily attributable to the following:

- our acquisition of Three Logan Square and the completion and placement in service of the IRS Philadelphia Campus and Cira South Garage during the third quarter of 2010; and
- timing of cash receipts and cash expenditures in the normal course of operations.

The net increase in cash from operating activities was partially offset by the following:

- decrease in average occupancy from 87.9% during the three months ended March 31, 2010 to 85.1% during the three months ended March 31, 2011;
- decrease in the number of operating properties due to dispositions. The Operating Partnership sold a total of seven properties subsequent to March 31, 2010.

The net increase of $15.1 million in cash flows used in investing activities of the Operating Partnership during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 is primarily attributable to the following:

- $22.0 million of net cash paid related to the acquisition of two office buildings in Glen Allen, Virginia and a parcel of land in Philadelphia, Pennsylvania.;
- net proceeds from sales of properties for the three months ended March 31, 2010 of $10.4 million. There were no dispositions made during the three months ended March 31, 2011.
- advances made for purchase of tenant assets, net of repayments amounting $2.3 million during the three months ended March 31, 2011; and

$1.0 million loan provided to an unconsolidated Real Estate Venture partner during the three months ended March 31, 2011.

Table of Contents

The net increase in cash used in investing activities was partially offset by the following transactions:

- decreased capital expenditures for tenant and building improvements and leasing commissions by $18.3 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The decrease in capital expenditures mainly related to the completion of and placement in service of the IRS Philadelphia Campus and Cira South Garage during the third quarter of 2010
- increase in cash distributions from unconsolidated Real Estate Ventures of $1.1 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010; and
- decrease in cash of $1.4 million during the three months ended March 31, 2010 due to the deconsolidation of variable interest entities last year.

The net decrease of $25.0 million in cash from financing activities of the Operating Partnership during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 is mainly due to the following:

- decrease in proceeds from Credit Facility of $18.5 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.
- increase in repayments of the Credit Facility and mortgage notes payable of $37.1 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.
- net settlement of hedge transactions amounting to $0.6 million during the three months ended March 31, 2011.
- increase in debt financing costs of $0.6 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.
- decrease in net proceeds received from the issuance of common shares of the Parent Company amounting to $13.9 million during the three months ended March 31, 2011, compared to the issuance made during the three months ended March 31, 2010; and
- increase in distributions paid by the Parent Company to its shareholders and on non-controlling interests from $21.9 million during the three months ended March 31, 2010 to $22.7 million during the nine months ended March 31, 2011.

The net decrease in cash from financing activities described above was offset by the repayments of unsecured notes of $46.5 million during the three months ended March 31, 2010.

Table of Contents

Capitalization

Indebtedness

The table below summarizes the Operating Partnership s mortgage notes payable, its unsecured notes and its Credit Facility at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Balance:		
Fixed rate (includes variable swapped to fixed)	$ 1,926,051	$ 1,929,962
Variable rate unhedged	518,610	504,610
Total	$ 2,444,661	$ 2,434,572
Percent of Total Debt:		
Fixed rate (includes variable swapped to fixed)	78.8%	79.3%
Variable rate unhedged	21.2%	20.7%
Total	100%	100%
Weighted-average interest rate at period end:		
Fixed rate (includes variable swapped to fixed)	6.4%	6.4%
Variable rate unhedged	1.5%	1.6%
Total	5.3%	5.4%

The variable rate debt shown above generally bear interest based on various spreads over a LIBOR term selected by the Operating Partnership.

The Operating Partnership uses Credit Facility borrowings for general business purposes, including the acquisition, development and redevelopment of properties and the repayment of other debt. It has the option to increase the maximum borrowings under its Credit Facility to $800.0 million subject to the absence of any defaults and its ability to obtain additional commitments from its existing or new lenders. The Credit Facility requires the maintenance of financial covenants, including ratios related to minimum net worth, debt to total capitalization and fixed charge coverage and customary non-financial covenants. The Operating Partnership is in compliance with all covenants as of March 31, 2011.

The indenture under which the Operating Partnership issued its unsecured notes contains financial covenants, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 40%, (3) a debt service coverage ratio of greater than 1.5 to 1.0 and (4) an unencumbered asset value of not less than 150% of unsecured debt. The Operating Partnership is in compliance with all covenants as of March 31, 2011.

The Operating Partnership has mortgage loans that are collateralized by certain of its Properties. Payments on mortgage loans are generally due in monthly installments of principal and interest, or interest only. The Operating Partnership intends to refinance or repay its mortgage loans as they mature through the use of proceeds from selective Property sales and secured or unsecured borrowings. However, in the current and expected future economic environment one or more of these sources may not be available on attractive terms or at all.

The Parent Company s charter documents do not limit the amount or form of indebtedness that the Operating Partnership may incur, and its policies on debt incurrence are solely within the discretion of the Parent Company s Board of Trustees, subject to financial covenants in the Credit Facility, indenture and other credit agreements.

As of March 31, 2011, the Operating Partnership had guaranteed repayment of approximately $0.7 million of loans on behalf of one Real Estate Venture. The Operating Partnership also provides customary environmental indemnities and completion guarantees in connection with construction and permanent financing both for its own account and on behalf of certain of the Real Estate Ventures.

Equity

On March 11, 2011, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $20.4 million, which was paid on April 19, 2011 to unitholders of record as of April 5, 2011.

On March 11, 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 March 30, 2011. These units are entitled to a preferential return of 7.50% and 7.375%, respectively. Distributions paid on April 15, 2011 to holders of Series D Preferred Mirror Units and Series E Preferred Mirror Units totaled $0.9 million and $1.1 million, respectively.

Table of Contents

During the three-months ended March 31, 2011, the Parent Company contributed net proceeds amounting to $2.2 million from the sale of 188,400 shares under its Offering Program to the Operating Partnership in exchange for the issuance of 188,400 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. From the inception of the Offering Program through March 31, 2011, the Operating Partnership has issued an aggregate of 5,930,668 common partnership units to the Parent Company.

The Parent Company did not purchase any shares during the three months ended March 31, 2011 and, accordingly, during the three months ended March 31, 2011, the Operating Partnership did not repurchase any units in connection with the Parent Company s share repurchase program.

Together with the Operating Partnership, the Parent Company maintains a shelf registration statement that registered common shares, preferred shares, depositary shares and warrants and unsecured debt securities. Subject to the Company s ongoing compliance with securities laws, if warranted by market conditions, the Company may offer and sell equity and debt securities from time to time under the shelf registration statement.

Short- and Long-Term Liquidity

The Operating Partnership believes that its cash flow from operations is adequate to fund its short-term liquidity requirements, excluding principal payments under its debt obligations. Cash flow from operations is generated primarily from rental revenues and operating expense reimbursements from tenants and management services income from providing services to third parties. The Operating Partnership intends to use these funds to meet short-term liquidity needs, which are to fund operating expenses, recurring capital expenditures, tenant allowances, leasing commissions, interest expense and the minimum distributions required to maintain the Parent Company s REIT qualification under the Internal Revenue Code. The Operating Partnership expects to meet short-term scheduled debt maturities through borrowings under the Credit Facility and proceeds from asset dispositions. As of March 31, 2011, the Operating Partnership had $615.0 million of unsecured debt and $170.5 million of mortgage debt that is scheduled to mature through December 2012. On April 5, 2011, the Operating Partnership closed a registered underwritten offering of $325.0 million in aggregate principal amount of its 4.95% senior unsecured notes due 2018. The net proceeds which amounted to $318.9 million after deducting underwriting discounts and offering expenses were used to repay indebtedness under the Credit Facility and for general corporate purposes. The Operating Partnership extended its Credit Facility and the Bank Term Loan from June 29, 2011 to June 29, 2012. For the remaining debt maturities the Operating Partnership expects to have sufficient capacity under the Credit Facility but it will also continue to evaluate the other listed sources to fund these maturities.

The Operating Partnership expects to meet its long-term liquidity requirements, such as for property acquisitions, development, investments in real estate ventures, scheduled debt maturities, major renovations, expansions and other significant capital improvements, through cash from operations, borrowings under the Credit Facility, additional secured and unsecured indebtedness, the issuance of equity securities, contributions from joint venture investors and proceeds from asset dispositions.

Many commercial real estate lenders have substantially tightened underwriting standards or have withdrawn from the lending marketplace. Also, spreads in the investment grade bond market remain wider than historic spreads. These circumstances have impacted liquidity in the debt markets, making financing terms less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. As a result, the Operating Partnership expects debt financings will be more difficult to obtain and that borrowing costs on new and refinanced debt will be more expensive. Moreover, the volatility in the financial markets, in general, will make it more difficult or costly, for it to raise capital through the issuance of common stock, preferred stock or other equity instruments or through public issuances of debt securities from its shelf registration statement as it has been able to do in the past. Such conditions would also limit its ability to raise capital through asset dispositions at attractive prices or at all.

Inflation

A majority of the Operating Partnership s leases provide for tenant reimbursement of real estate taxes and operating expenses either on a triple net basis or over a base amount. In addition, many of its office leases provide for fixed base rent increases. The Operating Partnership believes that inflationary increases in expenses will be partially offset by expense reimbursement and contractual rent increases.

Commitments and Contingencies

The following table outlines the timing of payment requirements related to the Operating Partnership s contractual commitments as of March 31, 2011:

	Payments by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Mortgage notes payable (a)	$ 708,335	$ 160,894	$ 79,920	$ 199,906	$ 267,615
Revolving credit facility	197,000		197,000		
Unsecured term loan	183,000		183,000		
Unsecured debt (a)	1,356,326	175,200		1,042,681	138,445
Ground leases (b)	298,943	1,364	5,545	5,727	286,307
Development contracts (c)	733	733			
Interest expense (d)	634,052	118,198	198,330	175,248	142,276
Other liabilities	10,614				10,614
	$ 3,389,003	$ 456,389	$ 663,795	$ 1,423,562	$ 845,257

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

(b) Future minimum rental payments under the terms of all non-cancelable ground leases under which we are the lessee are expensed on a straight-line basis regardless of when payments are due. The table above does not include the future minimum annual rental payments related to the ground lease that we assumed in connection with our acquisition of Three Logan Square as the amounts cannot be determined at this time, as discussed below.

(c) Represents contractual obligations for development projects and does not contemplate all costs expected to be incurred for such developments.

(d) Variable rate debt future interest expense commitments are calculated using March 31, 2011 interest rates.

The Operating Partnership has ground tenancy rights under a long term ground lease agreement when it acquired 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 will end. After the initial term, the Operating Partnership has the option to renew the lease until 2091. The Operating Partnership also obtained 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 that time until 2042 and at fair market value until 2091. The Operating Partnership believes that based on conditions as of the date the lease was assigned (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 $27.4 million. The Operating Partnership has not included the amounts in the table above since such amounts are not fixed and determinable.

As part of the Operating Partnership s September 2004 acquisition of a portfolio of properties from The Rubenstein Company (which the Operating Partnership refers to as the TRC acquisition), the Operating Partnership acquired its interest in Two Logan Square, a 708,602 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 Operating Partnership, through its ownership of the second and third mortgages, is the primary beneficiary. It currently does not expect to take title to Two Logan Square until, at the earliest, September 2019. If the

Operating Partnership takes fee title to Two Logan Square upon a foreclosure of its mortgage, the Operating Partnership 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, the Operating Partnership recorded a liability of $0.7 million and this amount will accrete up to $2.9 million through September 2019. As of March 31, 2011, the Operating Partnership has a balance of $1.3 million for this liability in its consolidated balance sheet.

The Operating Partnership 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 Operating Partnership acquired a portfolio of properties through the acquisition of a limited partnership. On December 17, 2010, the Operating Partnership received notice that the IRS proposed an adjustment to the allocation of recourse liabilities allocated to the contributor of the properties. The Operating Partnership has appealed the proposed adjustment. The proposed adjustment, if upheld, would not result in a material tax liability for the Operating Partnership. 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 Operating Partnership under the tax protection agreement entered into as part of the transaction.

As part of the Operating Partnership s 2006 Prentiss merger, the 2004 TRC acquisition and several of its other transactions, it 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 Operating Partnership agreed not to sell acquired properties for periods up to 15 years from the date of the TRC acquisition as follows at September 30, 2010: 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 Operating Partnership assumed the obligation of Prentiss not to sell Concord Airport Plaza before March 2018. The Operating Partnership s agreements generally provide that we 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 Operating Partnership was to sell a restricted property before expiration of the restricted period in a non-exempt transaction, it would be required to make significant payments to the parties who sold the applicable property to the Operating Partnership for tax liabilities triggered to them.

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

In connection with the development of the IRS Philadelphia Campus and the Cira South Garage, during 2008, the Operating Partnership entered into a historic tax credit and new markets tax credit arrangement, respectively. The Operating Partnership 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 therefore, require a refund to USB or a reduction of investor capital contributions, which are reported as deferred income in the Operating Partnership 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 Operating Partnership does not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

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

Interest Rate Risk and Sensitivity Analysis

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

The Operating Partnership s financial instruments consist of both fixed and variable rate debt. As of March 31, 2011, its consolidated debt consisted of $648.3 million in fixed rate mortgages, $60.0 million of variable rate mortgages, $183.0 million in an unsecured term loan, $197.0 million of borrowings under our Credit Facility, and $1,356.3 million in unsecured notes of which $1,277.6 million are fixed rate borrowings and $78.6 million are variable rate borrowings. All financial instruments were entered into for other than trading purposes and the net market value of these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

As of March 31, 2011, based on prevailing interest rates and credit spreads, the fair value of the Operating Partnership s unsecured notes was $1.4 billion. For sensitivity purposes, a 100 basis point change in the discount rate equates to a change in the total fair value of the Operating Partnership s debt, including the Notes, of approximately $12.7 million at March 31, 2011.

From time to time or as the need arises, the Operating Partnership uses derivative instruments to manage interest rate risk exposures and not for speculative purposes. The total carrying value of the Operating Partnership s variable rate debt was approximately $458.6 million and $444.6 million at March 31, 2011 and December 31, 2010, respectively. The total fair value of the Operating Partnership s debt, excluding the Notes, was approximately $446.2 million and $432.6 million at March 31, 2011 and December 31, 2010, respectively. For sensitivity purposes, a 100 basis point change in the discount rate equates to a change in the total fair value of its debt, excluding the Notes, of approximately $4.6 million at March 31, 2011, and a 100 basis point change in the discount rate equates to a change in the total fair value of its debt of approximately $4.4 million at December 31, 2010.

Table of Contents

If market rates of interest increase by 1%, the fair value of the Operating Partnership s outstanding fixed-rate mortgage debt would decrease by approximately $32.2 million. If market rates of interest decrease by 1%, the fair value of its outstanding fixed-rate mortgage debt would increase by approximately $35.2 million.

At March 31, 2011, the Operating Partnership s outstanding variable rate debt based on LIBOR totaled approximately $458.6 million. At March 31, 2011, the interest rate on its variable rate debt was approximately 1.1%. If market interest rates on its variable rate debt were to change by 100 basis points, total interest expense would have changed by approximately $1.1 million for the quarter ended March 31, 2011.

These amounts were determined solely by considering the impact of hypothetical interest rates on the Operating Partnership s financial instruments. Due to the uncertainty of specific actions it may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in its financial structure.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, commodity prices and equity prices. In pursuing the Company s business plan, the primary market risk to which it is exposed is interest rate risk. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Company s yield on invested assets and cost of funds and, in turn, the Company s ability to make distributions or payments to its shareholders. While the Company has not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in losses to the Company which adversely affects its operating results and liquidity.

See Interest Rate Risk and Sensitivity Analysis in Item 2 above.

Item 4.

Controls and Procedures (Parent Company)

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, the Parent Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, the Parent Company s principal executive officer and principal financial officer have concluded that the Parent Company s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

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

Controls and Procedures (Operating Partnership)

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, the Operating Partnership conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act as of the end of the period covered by this quarterly report. Based on this evaluation, the Operating Partnership s principal executive officer and principal financial officer have concluded that the Operating Partnership s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

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

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There has been no material change to the risk factors previously disclosed by us in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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

The following table summarizes the share repurchases during the three-month period ended March 31, 2011:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
2011:				
January	10,485(b)	$ 11.53		539,200
February				539,200
March	27,083(b)	$ 11.81		539,200
Total	37,568			

(a) Relates to the remaining share repurchase availability under the Parent Company s share repurchase program. There is no expiration date on the share repurchase program. The Parent Company s Board of Trustees initially authorized this program in 1998 and has periodically replenished capacity under the program.

(b) Represents common shares cancelled by the Parent Company in satisfaction of tax withholding obligations upon vesting of restricted common shares previously awarded to Company employees. Such shares do not impact the total number of shares that may yet be purchased under the share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

(a) Exhibits

10.1	Amendment No. 1 to the Second Amendment and Restated Revolving Credit Agreement dated as of February 28, 2011(incorporated by reference to Exhibit 10.1 to Brandywine Realty Trust s Form 8-K filed on March 1, 2011)
10.2	Form of Restricted Share Award (incorporated by reference to Exhibit 10.1 to Brandywine Realty Trust s Current Report on Form 8-K filed on March 8, 2011) **
10.3	Form of Performance Unit Award Agreement (incorporated by reference to Exhibit 10.2 to Brandywine Realty Trust s Current Report on Form 8-K filed on March 8, 2011) **
10.4	Form of Incentive Share Option Agreement (incorporated by reference to Exhibit 10.3 to Brandywine Realty Trust s Current Report on Form 8-K filed on March 8, 2011) **
10.5	Form of Non-Qualified Share Option Agreement (incorporated by reference to Exhibit 10.4 to Brandywine Realty Trust s Current Report on Form 8-K filed on March 8, 2011) **
10.6	2011 2013 Performance Share Unit Program (incorporated by reference to Exhibit 10.5 to Brandywine Realty Trust s Current Report on Form 8-K filed on March 8, 2011) **
31.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
31.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

** Management contract or compensatory plan or arrangement

Table of Contents

SIGNATURES OF REGISTRANT

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

	BRANDYWINE REALTY TRUST (Registrant)
Date: May 4, 2011	By: /s/ GERARD H. SWEENEY **Gerard H. Sweeney, President and** **Chief Executive Officer** **(Principal Executive Officer)**
Date: May 4, 2011	By: /s/ HOWARD M. SIPZNER **Howard M. Sipzner, Executive Vice** **President** **and Chief Financial Officer** **(Principal Financial Officer)**
Date: May 4, 2011	By: /s/ GABRIEL J. MAINARDI **Gabriel J. Mainardi, Vice President and** **Chief Accounting Officer** **(Principal Accounting Officer)**

SIGNATURES OF REGISTRANT

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.
(Registrant)

BRANDYWINE REALTY TRUST,
as general partner

Date: May 4, 2011	By: /s/ GERARD H. SWEENEY **Gerard H. Sweeney, President and Chief Executive Officer (Principal Executive Officer)**
Date: May 4, 2011	By: /s/ HOWARD M. SIPZNER **Howard M. Sipzner, Executive Vice President and Chief Financial Officer (Principal Financial Officer)**
Date: May 4, 2011	By: /s/ GABRIEL J. MAINARDI **Gabriel J. Mainardi, Vice President and Chief Accounting Officer (Principal Accounting Officer)**