BRANDYWINE REALTY TRUST
Form 10-Q
August 06, 2013

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 June 30, 2013

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

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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, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 156,703,790 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of July 30, 2013.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2013 of Brandywine Realty Trust (the "Parent Company") and Brandywine Operating Partnership L.P. (the "Operating Partnership"). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the "Company". In addition, as used in this report, terms such as "we", "us", and "our" may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2013, owned a 98.8% interest in the Operating Partnership. The remaining 1.2% 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.

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 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 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 incurrence of indebtedness (directly and through subsidiaries) and 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.

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

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

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

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EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
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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.

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements
BRANDYWINE REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except share and per share information)

	June 30, 2013	December 31, 2012
	(unaudited)	
ASSETS		
Real estate investments:		
Rental properties	$4,620,460	$4,726,169
Accumulated depreciation	(967,726)	(954,665)
Operating real estate investments, net	3,652,734	3,771,504
Construction-in-progress	51,260	48,950
Land inventory	94,444	102,439
Total real estate investments, net	3,798,438	3,922,893
Cash and cash equivalents	215,948	1,549
Accounts receivable, net	11,834	13,232
Accrued rent receivable, net	124,341	122,066
Investment in real estate ventures, at equity	176,875	193,555
Deferred costs, net	119,917	122,243
Intangible assets, net	59,919	70,620
Notes receivable	7,026	7,226
Other assets	52,091	53,325
Total assets	$4,566,389	$4,506,709
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable	$437,618	$442,974
Unsecured credit facility	—	69,000
Unsecured term loans	450,000	450,000
Unsecured senior notes, net of discounts	1,492,127	1,503,356
Accounts payable and accrued expenses	70,434	71,579
Distributions payable	25,587	23,652
Deferred income, gains and rent	81,903	82,947
Acquired lease intangibles, net	30,455	33,859
Other liabilities	44,196	55,826
Total liabilities	2,632,320	2,733,193
Commitments and contingencies (Note 17)		
Brandywine Realty Trust's equity:		
Preferred Shares (shares authorized-20,000,000):		
6.90% Series E Preferred Shares, $0.01 par value; issued and outstanding-4,000,000 in 2013 and 2012	40	40
Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 200,000,000; 156,662,644 and 143,538,733 issued and outstanding in 2013 and 2012, respectively	1,565	1,434
Additional paid-in capital	2,967,790	2,780,194
Deferred compensation payable in common shares	5,516	5,352
Common shares in grantor trust, 315,753 in 2013 and 290,745 in 2012	(5,516)	(5,352)

Cumulative earnings	490,754	479,734
Accumulated other comprehensive loss	(4,601)	(15,918)
Cumulative distributions	(1,541,896)	(1,493,206)
Total Brandywine Realty Trust’s equity	1,913,652	1,752,278
Non-controlling interests	20,417	21,238
Total equity	1,934,069	1,773,516
Total liabilities and equity	$4,566,389	$4,506,709

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

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2013	2012	2013	2012
Revenue:				
Rents	$116,334	$109,713	$231,201	$218,704
Tenant reimbursements	19,565	18,229	39,916	36,885
Termination fees	410	101	906	1,591
Third party management fees, labor reimbursement and leasing	3,153	2,872	6,389	6,014
Other	1,457	888	2,330	2,399
Total revenue	140,919	131,803	280,742	265,593
Operating Expenses:				
Property operating expenses	39,490	36,363	78,908	74,223
Real estate taxes	14,215	13,508	28,552	26,977
Third party management expenses	1,363	1,264	2,788	2,514
Depreciation and amortization	49,300	47,476	98,846	95,350
General and administrative expenses	7,335	6,079	13,886	12,129
Total operating expenses	111,703	104,690	222,980	211,193
Operating income	29,216	27,113	57,762	54,400
Other Income (Expense):				
Interest income	122	1,838	180	2,320
Interest expense	(30,437)	(32,981)	(61,351)	(67,125)
Interest expense — amortization of deferred financing costs	(1,183)	(1,261)	(2,344)	(2,572)
Interest expense — financing obligation	(211)	(196)	(429)	(378)
Equity in income of real estate ventures	1,508	838	3,043	882
Gain from remeasurement of investment in a real estate venture	7,847	—	7,847	—
Net gain (loss) on real estate venture transactions	3,683	(11)	3,683	(11)
Loss on early extinguishment of debt	(1,113)	(1,250)	(1,116)	(1,498)
Income (loss) from continuing operations	9,432	(5,910)	7,275	(13,982)
Discontinued operations:				
Income from discontinued operations	8	2,535	780	5,275
Net gain (loss) on disposition of discontinued operations	(2,260)	10,177	3,044	24,845
Total discontinued operations	(2,252)	12,712	3,824	30,120
Net income	7,180	6,802	11,099	16,138
Net (income) loss from discontinued operations attributable to non-controlling interests — LP units	26	(232)	(51)	(551)
Net (income) loss attributable to non-controlling interests — LP units	(88)	201	(39)	386
Net (income) loss attributable to non-controlling interests	(62)	(31)	(90)	(165)

Net income attributable to Brandywine Realty Trust	7,118	6,771	11,009	15,973
Distribution to Preferred Shares	(1,725)	(3,049)	(3,450)	(5,047)
Preferred share redemption charge	—	(2,090)	—	(2,090)
Amount allocated to unvested restricted shareholders	(85)	(95)	(193)	(191)
Net income attributable to Common Shareholders of Brandywine Realty Trust	$5,308	$1,537	$7,366	$8,645
Basic income (loss) per Common Share:				
Continuing operations	$0.05	$(0.08)	$0.02	$(0.15)
Discontinued operations	(0.02)	0.09	0.03	0.21
	$0.03	$0.01	$0.05	$0.06
Diluted income (loss) per Common Share:				
Continuing operations	$0.05	$(0.08)	$0.02	$(0.15)
Discontinued operations	(0.02)	0.09	0.03	0.21
	$0.03	$0.01	$0.05	$0.06
Basic weighted average shares outstanding	155,347,384	143,300,637	149,508,957	143,060,796
Diluted weighted average shares outstanding	156,691,201	143,300,637	150,666,245	143,060,796
Net income (loss) attributable to Brandywine Realty Trust				
Loss from continuing operations	$9,344	$(5,709)	$7,236	$(13,596)
Income (loss) from discontinued operations	(2,226)	12,480	3,773	29,569
Net income	$7,118	$6,771	$11,009	$15,973

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

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2013	2012	2013	2012
Net income	$7,180	$6,802	$11,099	$16,138
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments	9,491	(10,650)	11,283	(10,623)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	66	76	168	124
Unrealized loss on available-for-sale securities	—	(65)	—	(65)
Total comprehensive income (loss)	9,557	(10,639)	11,451	(10,564)
Comprehensive income (loss)	16,737	(3,837)	22,550	5,574
Comprehensive (income) loss attributable to non-controlling interest	(169)	163	(221)	29
Comprehensive income (loss) attributable to Brandywine Realty Trust	$16,568	$(3,674)	$22,329	$5,603

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

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

BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY
For the six-month periods ended June 30, 2013 and June 30, 2012
(unaudited, in thousands, except number of shares)
June 30, 2013

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulati Distribut
BALANCE, December 31, 2012	4,000,000	$40	143,538,733	290,745	$1,434	$2,780,194	$5,352	$(5,352)	$479,734	$(15,918)	$(1,493,2
Net income									11,011		
Comprehensive income										11,317	
Issuance of Common Shares of Beneficial Interest			12,650,000		127	181,907					
Equity issuance costs						(380)					
Conversion of LP Units to Common Shares			81,998		1	1,240			—		
Bonus Share Issuance			27,918			361					
Vesting of Restricted Shares			147,495	7,050	2	(904)					
Restricted Share Amortization						1,703					
Vesting of Restricted Performance Units			26,067			(160)					
Restricted Performance Units Amortization						2,411					
Restricted Share Forfeitures									9		
Exercise of Stock Options			166,620		1	1,760					
Stock Option Amortization						377					

Share Issuance from/to Deferred Compensation Plan			22,404	17,958			164	(164)			
Trustee Fees Paid in Shares			1,409			20					
Adjustment to Non-controlling Interest						(739)					
Preferred Share distributions											(3,450
Distributions declared ($0.15 per share)											(45,240
BALANCE, June 30, 2013	4,000,000	$40	156,662,644	315,753	$1,565	$2,967,790	$5,516	$(5,516)	$490,754	$(4,601)	$(1,541,8

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

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June 30, 2012

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	C D
BALANCE, December 31, 2011	4,300,000	$43	142,690,755	292,646	$1,424	$2,776,197	$5,631	$(5,631)	$477,338	$(6,079)	$(
Net income									15,973		
Comprehensive loss										(10,370)	
Issuance of Preferred Shares	4,000,000	40				96,810					
Preferred Share Issuance Costs						(610)					
Redemption of Preferred Shares	(2,000,000)	(20)				(47,890)					
Conversion of LP Units to Common Shares			20,464			149			(45)		
Bonus Share Issuance			35,703			387					
Vesting of Restricted Shares			280,851	9,036	3	(1,295)					
Restricted Share Amortization						1,426					
Vesting of Restricted Performance Units			249,797		3	(1,332)					
Restricted Performance Units Amortization						1,205					
Exercise of Stock Options			94,429		1	274					
Stock Option Amortization						747					
Share Issuance from/to Deferred			(5,389)	(8,560)			(195)	195			

Compensation Plan											
Trustee Fees Paid in Shares			1,336			15					
Adjustment to Non-controlling Interest						392					
Preferred Share distributions											(5
Preferred Share redemption charges											(2
Distributions declared ($0.15 per share)											(4
BALANCE, June 30, 2012	6,300,000	$63	143,367,946	293,122	$1,431	$2,826,475	$5,436	$(5,436)	$493,266	$(16,449)	$(

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

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

	Six-month periods ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$11,099	$16,138
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	100,459	101,624
Amortization of deferred financing costs	2,344	2,572
Amortization of debt discount/(premium), net	748	745
Amortization of stock compensation costs	4,048	2,433
Shares used for employee taxes upon vesting of share awards	(1,061)	(2,234)
Straight-line rent income	(11,250)	(12,861)
Amortization of acquired above (below) market leases to rental revenue, net	(3,556)	(2,922)
Straight-line ground rent expense	894	949
Provision for doubtful accounts	997	962
Net gain on sale of interests in real estate	(3,044)	(24,834)
Net gain on real estate venture transactions	(3,683)	—
Gain from remeasurement of investment in a real estate venture	(7,847)	—
Loss on early extinguishment of debt	1,116	1,498
Real estate venture income in excess of distributions	(2,031)	(590)
Deferred financing obligation	(896)	(825)
Changes in assets and liabilities:		
Accounts receivable	2,035	3,561
Other assets	6,589	5,260
Accounts payable and accrued expenses	(1,252)	(11,546)
Deferred income, gains and rent	608	(2,871)
Other liabilities	474	(1,438)
Net cash from operating activities	96,791	75,621
Cash flows from investing activities:		
Acquisition of properties	(20,758)	(9,226)
Investments in available-for-sale securities	—	(98,744)
Proceeds from the sale of available-for-sale securities	—	56,322
Sales of properties, net	145,931	120,957
Distribution of sales proceeds from real estate ventures	16,963	—
Proceeds from repayment of mortgage notes receivable	200	23,931
Capital expenditures for tenant improvements	(46,828)	(48,591)
Capital expenditures for redevelopments	(4,676)	(3,110)
Capital expenditures for developments	(72)	—
Reimbursement from real estate venture for pre-formation development costs	1,976	—
Advances for purchase of tenant assets, net of repayments	(693)	283
Investment in unconsolidated Real Estate Ventures	(12,568)	(18,617)
Cash distributions from unconsolidated real estate ventures	3,445	1,723
Leasing costs	(14,313)	(14,940)
Net cash from investing activities	68,607	9,988
Cash flows from financing activities:		
Proceeds from Unsecured Term Loans	—	600,000

Proceeds from Credit Facility borrowings	186,000	21,500
Repayments of Credit Facility borrowings	(255,000)	(297,000)
Repayments of mortgage notes payable	(5,537)	(6,028)
Deferred financing obligation non-cash interest expense	466	468
Net proceeds from issuance of common shares	181,527	—
Net proceeds from issuance of preferred shares	—	96,240
Redemption of preferred shares	—	(50,188)
Repayments of unsecured notes	(12,912)	(167,371)
Repayments of unsecured term loan	—	(37,500)

Net settlement of hedge transactions	—	(74)
Debt financing costs	(6)	(8,431)
Exercise of stock options	1,762	276
Distributions paid to shareholders	(46,745)	(47,059)
Distributions to noncontrolling interest	(554)	(797)
Net cash from financing activities	49,001	104,036
Increase in cash and cash equivalents	214,399	189,645
Cash and cash equivalents at beginning of period	1,549	410
Cash and cash equivalents at end of period	$215,948	$190,055
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2013 and 2012 of $1,305 and $1,207, respectively	$67,844	$69,480
Supplemental disclosure of non-cash activity:		
Change in operating real estate related to a non-cash acquisition of an operating property	(21,649)	—
Change in intangible assets, net related to non-cash acquisition of an operating property	(3,517)	—
Change in acquired lease intangibles, net related to non-cash acquisition of an operating property	462	—
Change in investments in joint venture related to non-cash acquisition of property	13,040	—
Change in operating real estate related to non-cash adjustment to land	(4,386)	—
Change in investments in real estate ventures related to a contribution of land	(6,058)	—
Change in capital expenditures financed through accounts payable at period end	(1,227)	(1,735)
Change in capital expenditures financed through retention payable at period end	(348)	56
Change in unfunded tenant allowance	(244)	(1,144)

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

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

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate investments:		
Operating properties	$4,620,460	$4,726,169
Accumulated depreciation	(967,726)	(954,665)
Operating real estate investments, net	3,652,734	3,771,504
Construction-in-progress	51,260	48,950
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Accrued rent receivable, net	124,341	122,066
Investment in real estate ventures, at equity	176,875	193,555
Deferred costs, net	119,917	122,243
Intangible assets, net	59,919	70,620
Notes receivable	7,026	7,226
Other assets	52,091	53,325
Total assets	$4,566,389	$4,506,709
LIABILITIES AND EQUITY		
Mortgage notes payable	$437,618	$442,974
Unsecured credit facility	—	69,000
Unsecured term loans	450,000	450,000
Unsecured senior notes, net of discounts	1,492,127	1,503,356
Accounts payable and accrued expenses	70,434	71,579
Distributions payable	25,587	23,652
Deferred income, gains and rent	81,903	82,947
Acquired lease intangibles, net	30,455	33,859
Other liabilities	44,196	55,826
Total liabilities	2,632,320	2,733,193
Commitments and contingencies (Note 17)		
Redeemable limited partnership units at redemption value; 1,763,739 and 1,845,737 issued and outstanding in 2013 and 2012, respectively	26,241	26,777
Brandywine Operating Partnership, L.P.'s equity:		
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 4,000,000 in 2013 and 2012	96,850	96,850
General Partnership Capital, 156,662,644 and 143,538,733 units issued and outstanding in 2013 and 2012, respectively	1,815,979	1,666,341
Accumulated other comprehensive loss	(5,001)	(16,452)
Total Brandywine Operating Partnership, L.P.'s equity	1,907,828	1,746,739
Total liabilities and partners' equity	$4,566,389	$4,506,709

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 June 30,		For the six-month periods ended June 30,	
	2013	2012	2013	2012
Revenue:				
Rents	$116,334	$109,713	$231,201	$218,704
Tenant reimbursements	19,565	18,229	39,916	36,885
Termination fees	410	101	906	1,591
Third party management fees, labor reimbursement and leasing	3,153	2,872	6,389	6,014
Other	1,457	888	2,330	2,399
Total revenue	140,919	131,803	280,742	265,593
Operating Expenses:				
Property operating expenses	39,490	36,363	78,908	74,223
Real estate taxes	14,215	13,508	28,552	26,977
Third party management expenses	1,363	1,264	2,788	2,514
Depreciation and amortization	49,300	47,476	98,846	95,350
General & administrative expenses	7,335	6,079	13,886	12,129
Total operating expenses	111,703	104,690	222,980	211,193
Operating income	29,216	27,113	57,762	54,400
Other Income (Expense):				
Interest income	122	1,838	180	2,320
Interest expense	(30,437)	(32,981)	(61,351)	(67,125)
Interest expense — amortization of deferred financing costs	(1,183)	(1,261)	(2,344)	(2,572)
Interest expense — financing obligation	(211)	(196)	(429)	(378)
Equity in income of real estate ventures	1,508	838	3,043	882
Gain from remeasurement of investment in a real estate venture	7,847	—	7,847	—
Net gain (loss) on real estate venture transactions	3,683	(11)	3,683	(11)
Loss on early extinguishment of debt	(1,113)	(1,250)	(1,116)	(1,498)
Gain (Loss) from continuing operations	9,432	(5,910)	7,275	(13,982)
Discontinued operations:				
Income from discontinued operations	8	2,535	780	5,275
Net gain (loss) on disposition of discontinued operations	(2,260)	10,177	3,044	24,845
Total discontinued operations	(2,252)	12,712	3,824	30,120
Net income	7,180	6,802	11,099	16,138
Distribution to Preferred Units	(1,725)	(3,049)	(3,450)	(5,047)
Preferred unit redemption charge	—	(2,090)	—	(2,090)
Amount allocated to unvested restricted unitholders	(85)	(95)	(193)	(191)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$5,370	$1,568	$7,456	$8,810

Basic income (loss) per Common Partnership Unit:				
Continuing operations	$0.05	$(0.08)	$0.02	$(0.15)
Discontinued operations	(0.02)	0.09	0.03	0.21
	$0.03	$0.01	$0.05	$0.06
Diluted income (loss) per Common Partnership Unit:				
Continuing operations	$0.05	$(0.08)	$0.02	$(0.15)
Discontinued operations	(0.02)	0.09	0.03	0.21
	$0.03	$0.01	$0.05	$0.06
Basic weighted average common partnership units outstanding	157,131,697	145,958,358	151,323,813	145,721,890
Diluted weighted average common partnership units outstanding	158,475,514	145,958,358	152,481,101	145,721,890
Net income (loss) attributable to Brandywine Operating Partnership, L.P.				
Income (Loss) from continuing operations	$9,432	$(5,910)	$7,275	$(13,982)
Income (Loss) from discontinued operations	(2,252)	12,712	3,824	30,120
Net income	$7,180	$6,802	$11,099	$16,138

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

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

	For the three-month periods ended June 30, 2013	2012	For the six-month periods ended June 30, 2013	2012
Net income	$7,180	$6,802	$11,099	$16,138
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments	9,491	(10,650)	11,283	(10,623)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	66	76	168	124
Unrealized loss on available-for-sale securities	—	(65)	—	(65)
Total comprehensive income (loss)	9,557	(10,639)	11,451	(10,564)
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$16,737	$(3,837)	$22,550	$5,574

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

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

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

	Six-month periods ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$11,099	$16,138
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	100,459	101,624
Amortization of deferred financing costs	2,344	2,572
Amortization of debt discount/(premium), net	748	745
Amortization of stock compensation costs	4,048	2,433
Shares used for employee taxes upon vesting of share awards	(1,061)	(2,234)
Straight-line rent income	(11,250)	(12,861)
Amortization of acquired above (below) market leases, net	(3,556)	(2,922)
Straight-line ground rent expense	894	949
Provision for doubtful accounts	997	962
Net gain on sale of interests in real estate	(3,044)	(24,834)
Net gain on real estate venture transaction	(3,683)	—
Gain on remeasurement of investment in a real estate venture	(7,847)	—
Loss on early extinguishment of debt	1,116	1,498
Real estate venture income in excess of distributions	(2,031)	(590)
Deferred financing obligation	(896)	(825)
Changes in assets and liabilities:		
Accounts receivable	2,035	3,561
Other assets	6,589	5,260
Accounts payable and accrued expenses	(1,252)	(11,546)
Deferred income, gains and rent	608	(2,871)
Other liabilities	474	(1,438)
Net cash from operating activities	96,791	75,621
Cash flows from investing activities:		
Acquisition of properties	(20,758)	(9,226)
Investments in available-for-sale securities	—	(98,744)
Proceeds from sale of available-for-sale securities	—	56,322
Sales of properties, net	145,931	120,957
Distribution of sales proceeds from real estate ventures	16,963	—
Proceeds from repayment of mortgage notes receivable	200	23,931
Capital expenditures for tenant improvements	(46,828)	(48,591)
Capital expenditures for redevelopments	(4,676)	(3,110)
Capital expenditures for developments	(72)	—
Reimbursement from real estate venture for pre-formation development costs	1,976	—
Advances for purchase of tenant assets, net of repayments	(693)	283
Investment in unconsolidated Real Estate Ventures	(12,568)	(18,617)
Cash distributions from unconsolidated Real Estate Ventures	3,445	1,723
Leasing costs	(14,313)	(14,940)
Net cash from investing activities	68,607	9,988
Cash flows from financing activities:		
Proceeds from Unsecured Term Loans	—	600,000

Proceeds from Credit Facility borrowings	186,000	21,500
Repayments of Credit Facility borrowings	(255,000)	(297,000)
Repayments of mortgage notes payable	(5,537)	(6,028)
Deferred financing obligation non-cash interest expense	466	468
Net proceeds from issuance of common units	181,527	—
Net proceeds from issuance of preferred units	—	96,240
Redemption of preferred units	—	(50,188)
Repayments of unsecured notes	(12,912)	(167,371)
Repayments of unsecured term loan	—	(37,500)

Net settlement of hedge transactions	—	(74)
Debt financing costs	(6)	(8,431)
Exercise of stock options	1,762	276
Distributions paid to preferred and common partnership unitholders	(47,299)	(47,856)
Net cash from financing activities	49,001	104,036
Increase in cash and cash equivalents	214,399	189,645
Cash and cash equivalents at beginning of period	1,549	410
Cash and cash equivalents at end of period	$215,948	$190,055
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2013 and 2012 of $1,305 and $1,207, respectively	$67,844	$69,480
Supplemental disclosure of non-cash activity:		
Change in operating real estate related to a non-cash acquisition of an operating property	(21,649)	—
Change in intangible assets, net related to a non-cash acquisition of an operating property	(3,517)	—
Change in acquired lease intangibles, net related to a non-cash acquisition of an operating property	462	—
Change in investments in joint venture related to non-cash acquisition of property	13,040	—
Change in operating real estate related to non-cash adjustment to land	(4,386)	—
Change in investments in real estate ventures related to a contribution of land	(6,058)	—
Change in capital expenditures financed through accounts payable at period end	(1,227)	(1,735)
Change in capital expenditures financed through retention payable at period end	(348)	56
Change in unfunded tenant allowance	(244)	(1,144)

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

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BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

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 June 30, 2013, owned a 98.8% 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 June 30, 2013, the Company owned 210 properties, consisting of 182 office properties, 19 industrial facilities, five mixed-use properties, one development property, two redevelopment properties and one re-entitlement property (collectively, the "Properties") containing an aggregate of approximately 24.2 million net rentable square feet. In addition, as of June 30, 2013, the Company owned economic interests in 17 unconsolidated real estate ventures that contain approximately 6.2 million net rentable square feet (collectively, the "Real Estate Ventures"). As of June 30, 2013, the Company also owned 435 acres of undeveloped land, and held options to purchase approximately 51 additional acres of undeveloped land. As of June 30, 2013, the total potential development that these land parcels could support, under current zoning, entitlements or combination thereof, amounted to 6.2 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas and Oakland, Concord, and Carlsbad, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 2013, the management company subsidiaries were managing properties containing an aggregate of approximately 30.8 million net rentable square feet, of which approximately 24.2 million net rentable square feet related to Properties owned by the Company and approximately 6.6 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial statements. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of June 30, 2013, the results of its operations for the three and six-month periods ended June 30, 2013 and 2012 and its cash flows for the six-month periods ended June 30, 2013 and 2012 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 combined 2012 Annual Report on Form 10-K filed with the SEC on February 26, 2013.

Reclassifications

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.

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 determined to be VIEs, but for which the Company is not the primary beneficiary, the Company's maximum exposure to loss is the carrying amount of its investments, as the Company has not provided any guarantees other than the guarantee of debt of the Real Estate Venture known as PJP VII which was approximately $0.6 million at June 30, 2013 (see Note 4), as well as a guarantee of the Company's share of the debt and potential cost overruns associated with the Real Estate Venture known as "HSRE-Campus Crest IX, LLC" (referred to hereafter as the "Grove Venture").

When an entity is not deemed to be a VIE, the Company considers the provisions of the same accounting standard to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs and controlled by the Company and in which the limited partners neither have the ability to dissolve the entity or remove the Company without cause nor any substantive participating rights. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company’s share of earnings or losses, plus contributions, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary, (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence, and (iii) entities that are non-VIEs that the Company controls through its general partner status, but the limited partners in the entity have the substantive ability to dissolve the entity or remove the Company without cause or have substantive participating rights. The Company continuously assesses its determination of whether an entity is a VIE and who the primary beneficiary is, and whether or not the limited partners in an entity have substantive rights, more particularly if certain events occur that are likely to cause a change in the original determinations. The Company’s assessment includes a review of applicable documents such as, but not limited to, applicable partnership agreements, real estate venture agreements, LLC agreements, and management and leasing agreements to determine whether the Company has control to direct the business activities of the entities. The portion of the consolidated entities that is 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.

On January 25, 2013, the Company formed the Grove Venture together with two unaffiliated members. Based upon the facts and circumstances at formation of the Grove Venture, the Company determined that the Grove Venture is a VIE in accordance with the accounting standard for the consolidation of VIEs. As a result, the Company used the variable interest model under the accounting standard for consolidation in order to determine whether to consolidate the Grove Venture. Based upon each member's shared power over the Grove Venture activities under the operating agreement of the Grove Venture, and the Company's lack of exclusive control over the development and construction phases of the project, the Grove Venture is not consolidated by the Company and is accounted for under the equity method of accounting. For further information regarding the Grove Venture and its formation, please refer to Note 4.

Use of Estimates

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

Operating Properties

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

Purchase Price Allocation

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

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

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

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

Impairment or Disposal of Long-Lived Assets

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

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review of recoverability is based on an estimate of the future undiscounted cash flows (excluding interest charges) expected to result from the long-lived asset's use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a long-lived asset, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair-value of the property. The Company is required to make subjective assessments as to whether there are impairments in the values of the investments in long-lived assets. These assessments have a direct impact on its net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Although the Company's strategy is generally to hold its properties over the long-term, the Company will selectively dispose of properties for 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.
The Company determined during its impairment review for the three and six-month periods ended June 30, 2013 and 2012, that no impairment charges were necessary.
The Company is a party to a development agreement and related ground leases covering two adjacent parcels of land. On January 25, 2013, the Company contributed its rights under one of the ground leases and associated development rights to the Grove Venture (please refer to Note 4 for further information), and the Grove Venture commenced construction during the three months ended March 31, 2013. The Company has the right, on terms and conditions in the development agreement and ground lease, to commence

development of the other parcel by December 31, 2015. If the Company determines that it will not be able to commence development of the other parcel by December 31, 2015, or if the Company determines that development is not in its best interest and is unable to extend the development period, then the Company will be required to write off all costs that it has incurred in preparing this remaining land parcel for development, amounting to $6.0 million as of June 30, 2013.

Investments in Unconsolidated Real Estate Ventures

The Company accounts for its investments in unconsolidated Real Estate Ventures under the equity method of accounting as it is not the primary beneficiary (for VIEs) and the Company exercises significant influence, but does not control these entities under the provisions of the entities' governing agreements pursuant to the accounting standard for the consolidation of VIEs. When the Company determines that its investment in an unconsolidated Real Estate Venture does not constitute a VIE, the Company utilizes the voting interest model under the accounting standard for consolidation to determine whether to consolidate the venture.

Under the equity method, investments in unconsolidated Real Estate 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 that an impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair 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.

When the Company acquires an interest in or contributes assets to a Real Estate Venture project, the difference between the Company's cost basis in the investment and the value of the Real Estate Venture or asset contributed is amortized over the life of the related assets, intangibles and liabilities and such adjustment is included in the Company's share of equity in income of unconsolidated Real Estate Ventures. For purposes of cash flow presentation, distributions from unconsolidated Real Estate Ventures are presented as part of operating activities when they are considered as return on investments. Distributions in excess of the Company's share in the cumulative unconsolidated Real Estate Ventures' earnings are considered as return of investments and are presented as part of investing activities in accordance with the accounting standard for cash flow presentation.

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases. The straight-line rent adjustment increased revenue by approximately $5.1 million and $10.0 million for the three and six-month periods ended June 30, 2013, and approximately $5.3 million and $11.6 million for the three and six-month periods ended June 30, 2012, respectively. Deferred rents on the balance sheet represent rental revenue received prior to their due dates and amounts paid by the tenant for certain improvements considered to be landlord assets that will remain as the Company's property at the end of the tenant's lease term. The amortization of the amounts paid by the tenant for such improvements is calculated on a straight-line basis over the term of the tenant's lease and is a component of straight-line rental income and increased revenue by $0.6 million and $1.2 million for the three and six-month periods ended June 30, 2013, and by $0.6 million and $1.2 million for the three and six-month periods ended June 30, 2012, 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 increased revenue by $0.1 million and decreased revenue by $0.3 million for the three and six-month periods ended June 30, 2013, and decreased revenue by $0.1 million and $0.5 million for the three and six-month periods ended June 30, 2012, 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. As of June 30, 2013, 5,195,177 common shares remained available for future awards under the 1997 Plan (including 3,053,267 shares available solely for options and share appreciation rights). Through June 30, 2013, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $2.4 million and $4.7 million during the three and six-month periods ended June 30, 2013, of which $0.3 million and $0.8 million, respectively, were capitalized as part of the Company's review of employee compensation costs eligible for capitalization. The Company incurred stock-based compensation expense of $1.9 million and $3.6 million during the three and six-month periods ended June 30, 2012, of which $0.5 million and $0.9 million, respectively, were capitalized as part of the Company's review of employee compensation costs eligible for capitalization. The expensed amounts are included in general and administrative expense on the Company's consolidated income statement in the respective periods.

Accounting for Derivative Instruments and Hedging Activities

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

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 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 June 30, 2013 (in thousands):

	Fair Value Measurements at Reporting Date Using:			
Description	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring				
Assets:				
Interest Rate Swaps	$175	$—	$175	$—
Liabilities:				
Interest Rate Swaps	$3,089	$—	$3,089	$—

The following table sets forth the Company’s financial liabilities that were accounted for at fair value on a recurring basis as of December 31, 2012 (in thousands):

	Fair Value Measurements at Reporting Date Using:			
Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring				
Assets:				
Interest Rate Swaps	—	—	—	—
Liabilities:				
Interest Rate Swaps	$14,210	$—	$14,210	$—

We classify our interest rate swaps, shown above, within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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 for the six months ended June 30, 2013.

Notes Receivable

As of June 30, 2013 and December 31, 2012, notes receivable included a purchase money mortgage with a 20-year amortization period bearing interest at 8.5%, which was valued at $7.0 million and $7.2 million, respectively.

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The Company periodically assesses the collectability of the notes receivable in accordance with the accounting standard for loan receivables. The Company's $7.0 million outstanding purchase money mortgage note mentioned above was extended to a buyer (the "Borrower") of a parcel of land in Newtown, Pennsylvania who has since defaulted on the note. As a result, a forbearance agreement was entered into between the Company and the Borrower, outlining the repayment terms of the outstanding debt (including accrued interest), as well as the metrics for selling and settling on homes over an agreed period of time. The Company has determined that the loan modification represents a troubled debt restructuring due to the fact that the Borrower was considered to be in a financial difficulty when it defaulted on the two mortgage debts, and that a concession was granted in the form of the forbearance agreements. Recurring loan repayments to the Company are expected to begin during 2013, however, during the six months ended June 30, 2013, the Company received a payment from the Borrower of $0.2 million, which the Company applied against the principal of the remaining loan balance. Based on actual current sales to date, as well as cash flow projections provided by the Borrower, the Company believes that the total note will be fully paid during 2015. Given the current circumstances, the Company performs, on an ongoing basis, a collectability assessment of the note using the expected cash flow information provided by the Borrower. The Company has obtained documentation to support the assumptions used by the Borrower. Based on the results of its probability weighted cash flow analysis, the Company has determined that, as of June 30, 2013, the present value of the expected cash flows of the note receivable exceeded the outstanding balance of the note and therefore the note is recoverable as of June 30, 2013. It is still possible, however, that if the housing market deteriorates, the Borrower will not meet its sales targets, and would fail to repay the note, thereby causing a loan loss for the Company which could be material to the Company's consolidated results of operations.

Income Taxes

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 may elect to treat one or more 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.

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Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting standard for the presentation of comprehensive income. This amendment requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component, and represents the culmination of the FASB's redeliberation on the reporting of such reclassification adjustments. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This update is effective for fiscal years and interim periods beginning after December 15, 2012. The Company’s adoption of the accounting standard did not have a material impact on its consolidated financial position or results of operations as the update relates only to changes in financial statement presentation.

3. REAL ESTATE INVESTMENTS

As of June 30, 2013 and December 31, 2012, the gross carrying value of the Company’s Properties was as follows (in thousands):

	June 30, 2013	December 31, 2012
Land	$665,416	$662,107
Building and improvements	3,466,460	3,576,065
Tenant improvements	488,584	487,997
	$4,620,460	$4,726,169

Acquisitions

On June 19, 2013, the Company acquired the remaining ownership interest in the Real Estate Venture known as "Six Tower Bridge" that it did not already own. See Note 4 "Investments in Unconsolidated Real Estate Ventures" for further discussion.

On April 25, 2013, the Company exercised its purchase option under the long term ground lease agreement it held through its acquisition of Three Logan Square on August 5, 2010 and acquired the 1.8 acre land parcel underlying Three Logan Square in Philadelphia, Pennsylvania for $20.8 million. The Company has accounted for the transaction as an asset acquisition. A portion of the original purchase price of Three Logan Square was allocated to the below market ground lease intangible asset, and as the sum of the purchase price of the land and the $4.3 million remaining balance for the intangible asset approximates the fair value of the land as unencumbered by the ground lease. The remaining intangible asset balance was reclassified to land upon exercise of the purchase option. The Company funded the cost of the acquisition with available corporate funds and capitalized $0.1 million of acquisition related costs as part of the basis in the operating land.

Dispositions

On June 28, 2013, the Company sold 16870 West Bernardo Drive, a 67,909 net rentable square feet office property located in San Diego, California, for a sales price of $18.0 million. The property was 98.8% occupied as of the date of sale.

On June 28, 2013, the Company sold 100 Arrandale Boulevard, a 34,931 net rentable square feet office property located in Exton, Pennsylvania, for a sales price of $3.5 million. The property was vacant at the date of sale.

On June 19, 2013, the Company sold 1700 Paoli Pike, a 28,000 net rentable square feet office property located in Malvern, Pennsylvania, for a sales price of $2.7 million. The property was vacant at the date of sale.

On June 14, 2013, the Company sold Pacific View Plaza, a 51,695 net rentable square feet office property located in Carlsbad, California, for a sales price of $10.3 million. The property was 90.5% occupied as of the date of sale.

On February 25, 2013, the Company sold a portfolio of eight office properties containing 800,546 square feet in Lawrenceville, New Jersey for an aggregate sales price of $121.0 million. These properties, collectively known as "Princeton Pike Corporate Center," were 86.9% occupied as of the date of sale.

The sales of these properties are included in discontinued operations (see Note 10).

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4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of June 30, 2013, the Company had an aggregate investment of approximately $176.9 million in 17 unconsolidated Real Estate Ventures. The Company formed or acquired interests in these ventures with unaffiliated third parties to develop or manage office properties or to acquire land in anticipation of possible development of office or residential properties. As of June 30, 2013, 12 of the Real Estate Ventures owned 50 office buildings that contain an aggregate of approximately 6.2 million net rentable square feet; three Real Estate Ventures owned 24 acres of undeveloped parcels of land; one Real Estate Venture owned a one-acre parcel of land under active development and one Real Estate Venture developed a hotel property that contains 137 rooms in Conshohocken, PA.

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

The amounts reflected in the following tables (except for the Company's share of equity and income) are based on the historical financial information of the individual Real Estate Ventures. 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 June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013	December 31, 2012
Net property	$813,056	$923,536
Other assets	165,854	174,677
Other liabilities	27,054	53,645
Debt	709,975	724,780
Equity	241,881	319,788
Company's share of equity (Company's basis) (a)	176,875	193,555

(a) Amounts reflect the effects of basis differences resulting from assets contributed to Real Estate Ventures, as well as certain costs at the Real Estate Venture level. Basis differences occur from the impairment of investments and upon the transfer of assets that were previously owned by the Company into a Real Estate Venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the Real Estate Venture level.

The following is a summary of results of operations of the Real Estate Ventures for the three and six-month periods ended June 30, 2013 and 2012 (in thousands):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2013	2012	2013	2012
Revenue	$36,927	$39,064	$77,816	$77,872
Operating expenses	17,205	16,349	35,472	33,066
Interest expense, net	9,173	9,975	18,944	20,867
Depreciation and amortization	10,979	11,649	23,885	23,120
Net income (loss)	(430)	1,091	(485)	819
Company's share of income (Company's basis)	1,508	838	3,043	882

Two and Six Tower Bridge Exchange Transaction

On June 19, 2013, the Company acquired the outside ownership interest in Six Tower Bridge real estate venture, through a nonmonetary exchange with an unaffiliated party for its ownership interest in the Two Tower Bridge real estate venture. The Company previously accounted for its noncontrolling interest in Six Tower Bridge using the equity method. As a result of this transaction the Company obtained control of the Six Tower Bridge property and the Company's existing equity interest was remeasured at fair value based on the fair value of the underlying property and the distribution provisions of the real estate venture agreement. Accordingly, during 2013, the Company recorded a gain of approximately $7.8 million which is reflected in "Gain on remeasurement of investment in real estate venture" on the accompanying statements of operations. Following the acquisition, the Class A office property in Conshohocken, PA is wholly owned by the Company with an unencumbered fair value of $24.5 million. The Company accounted for this acquisition as a business combination and allocated the fair value as follows: $14.8 million to building, $6.9 million to land, $3.3 million to intangible assets and $0.5 million to below market lease liabilities assumed.

As mentioned above, the Company exchanged its investment in Two Tower Bridge real estate venture in an nonmonetary transaction with an unaffiliated party to acquire the outside investor interest in the Six Tower Bridge real estate venture. The investment in Two Tower Bridge had a fair value of $3.6 million on the date of the exchange transaction based on the fair value of the venture's equity and the distribution provisions of the real estate venture agreement. Based on this fair value and the carrying value for the Company's investment of $(0.1) million, during 2013 the Company recognized a gain on exchange of interests in real estate ventures of $3.7 million.

Grove Venture

On January 25, 2013, the Company formed the Grove Venture, a joint venture among the Company and two unaffiliated parties: Campus Crest Properties, LLC ("Campus Crest") and HSRE-Campus Crest IXA, LLC ("HSRE"). The Grove Venture has commenced construction of a 33-story, 850-bed student housing tower located in the University City submarket of Philadelphia, Pennsylvania to be called The Grove at Cira Centre South (the "Grove"). Each of the Company and Campus Crest owns a 30% interest in the Grove Venture and HSRE owns a 40% interest. The Grove Venture is developing the project on a one-acre land parcel held under a long-term ground lease with a third party lessor. The Company contributed to the Grove Venture its tenancy rights under a long-term ground lease, together with associated development rights, at an agreed-upon value of $8.5 million. The total estimated project costs are $158.5 million, which will be financed through partner capital contributions totaling $60.7 million, with the remaining $97.8 million being financed through a construction facility by PNC Bank, Capital One, and First Niagara Bank. Construction has already commenced, with a targeted project completion in 2014.

The Company's historical cost basis in the development rights that it contributed to the Grove Venture at formation was $6.0 million, thus creating an initial $2.5 million basis difference between the Company's initial outside investment basis compared to its $8.5 million initial equity basis in the Grove Venture. As this basis difference is not related to a physical land parcel, but rather to development rights to construct the Grove, the Company will accrete the basis difference as a reduction of depreciation expense over the life of the Grove Venture's assets.

Based upon the facts and circumstances at Grove Venture formation, the Company determined that the Grove Venture is a VIE in accordance with the accounting standard for the consolidation of VIEs. As a result, the Company used the variable interest model under the accounting standard for consolidation in order to determine whether to consolidate the Grove Venture. Based upon each member's shared power over the activities of the Grove Venture under the operating agreement of the Grove Venture, and the Company's lack of exclusive control over the development and construction phases of the project, the Grove Venture is not consolidated by the Company, and is accounted for under the equity method of accounting. Accordingly, the land parcel and associated development rights contributed by the Company to the Grove Venture were deconsolidated by the Company upon formation of the Grove Venture.

The Company, from time to time, also provides guarantees and indemnities, including environmental indemnities, in connection with construction and permanent financing both for its own account and on behalf of its Real Estate Ventures. As of June 30, 2013, the Company had guaranteed repayment of approximately $0.6 million of loans on behalf of a Real Estate Venture. In addition, in connection with the Company's development of the Grove project through the Grove Venture, each of the Company and Campus Crest has provided, in addition to customary non-recourse carve-out guarantees, a completion and cost overrun guaranty, as well as a payment guaranty, on the construction financing (with the Company's share of the payment guaranty being approximately $23.0 million).

BDN Beacon Venture

On March 26, 2013, the Company sold its entire 20% ownership interest in an unconsolidated real estate venture known as BDN Beacon Venture LLC (the "Beacon Venture"). The carrying amount of the Company's investment in the Beacon Venture amounted to $17.0 million at the sale date, with the Company's proceeds effectively matching the carrying amount.

5. DEFERRED COSTS

As of June 30, 2013 and December 31, 2012, the Company’s deferred costs were comprised of the following (in thousands):

	June 30, 2013		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$150,128	$(58,085)	$92,043
Financing Costs	40,117	(12,243)	27,874
Total	$190,245	$(70,328)	$119,917

	December 31, 2012		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$150,331	$(58,343)	$91,988
Financing Costs	40,246	(9,991)	30,255
Total	$190,577	$(68,334)	$122,243

During the three and six-month periods ended June 30, 2013, the Company capitalized internal direct leasing costs of $1.6 million and $3.2 million, respectively, and $1.4 million and $2.7 million during the three and six-month periods ended June 30, 2012, respectively, in accordance with the accounting standard for the capitalization of leasing costs.

6. INTANGIBLE ASSETS

As of June 30, 2013 and December 31, 2012, the Company’s intangible assets were comprised of the following (in thousands):

	June 30, 2013		
	Total Cost	Accumulated Amortization	Intangible assets, net
In-place lease value	$84,944	$(43,027)	$41,917
Tenant relationship value	48,939	(32,360)	16,579
Above market leases acquired	3,139	(1,716)	1,423
Total	$137,022	$(77,103)	$59,919
Below market leases acquired	$77,004	$(46,549)	$30,455

	December 31, 2012		
	Total Cost	Accumulated Amortization	Intangible assets, net
In-place lease value	$87,909	$(42,894)	$45,015
Tenant relationship value	56,137	(37,389)	18,748
Above market leases acquired	8,565	(1,708)	6,857
Total	$152,611	$(81,991)	$70,620
Below market leases acquired	$77,083	$(43,224)	$33,859

As of June 30, 2013, the Company’s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no early lease terminations):

	Assets	Liabilities
2013 (six months remaining)	$8,044	$3,840
2014	13,740	6,181
2015	11,063	4,016
2016	6,497	2,076
2017	5,206	1,547
Thereafter	15,369	12,795
Total	$59,919	$30,455

7. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at June 30, 2013 and December 31, 2012 (in thousands):

Property / Location	June 30, 2013	December 31, 2012	Effective Interest Rate			Maturity Date
MORTGAGE DEBT:						
Tysons Corner	$92,296	$93,188	5.36	%	(a)	Aug-15
Two Logan Square	88,960	89,340	7.57	%		Apr-16
Fairview Eleven Tower	21,847	22,000	4.25	%		Jan-17
IRS Philadelphia Campus	194,083	197,111	7.00	%		Sep-30
Cira South Garage	41,218	42,303	7.12	%		Sep-30
Principal balance outstanding	438,404	443,942				
Plus: fair market value premiums (discounts), net	(786)	(968)				
Total mortgage indebtedness	$437,618	$442,974				
UNSECURED DEBT:						
Credit Facility	—	69,000	LIBOR + 1.50%			Feb-16
Three-Year Term Loan - Swapped to fixed	150,000	150,000	2.60	%		Feb-15
Four-Year Term Loan - Variable	100,000	100,000	LIBOR + 1.75%			Feb-16
Seven-Year Term Loan - Swapped to fixed	200,000	200,000	3.62	%		Feb-19
$250.0M 5.400% Guaranteed Notes due 2014	232,199	238,379	5.53	%		Nov-14
$250.0M 7.500% Guaranteed Notes due 2015	161,430	166,535	7.76	%		May-15
$250.0M 6.000% Guaranteed Notes due 2016	149,919	150,429	5.95	%		Apr-16
$300.0M 5.700% Guaranteed Notes due 2017	300,000	300,000	5.68	%		May-17
$325.0M 4.950% Guaranteed Notes due 2018	325,000	325,000	5.13	%		Apr-18
$250.0M 3.950% Guaranteed Notes due 2023	250,000	250,000	4.02	%		Feb-23
Indenture IA (Preferred Trust I)	27,062	27,062	2.75	%		Mar-35
Indenture IB (Preferred Trust I)	25,774	25,774	3.30	%		Apr-35
Indenture II (Preferred Trust II)	25,774	25,774	3.09	%		Jul-35
Principal balance outstanding	1,947,158	2,027,953				
plus: original issue premium (discount), net	(5,031)	(5,597)				
Total unsecured indebtedness	$1,942,127	$2,022,356				
Total Debt Obligations	$2,379,745	$2,465,330				

(a) This loan was assumed upon acquisition of the property that secures the mortgage debt. The interest rate reflects the market rate at the time of acquisition.

During the six-month period ended June 30, 2013 and June 30, 2012, the Company's weighted-average effective interest rate on its mortgage notes payable was 6.64% and 6.72%, respectively.

During the six months ended June 30, 2013, the Company repurchased $11.8 million of its outstanding unsecured notes in a series of transactions that are summarized in the following table (in thousands):

Notes	Repurchase Amount	Principal	Loss	Deferred Financing Amortization
2014 5.400% Notes	$6,570	$6,180	$(401)	$7
2015 7.500% Notes	5,728	5,105	(652)	15
2016 6.000% Notes	573	510	(63)	1
	$12,871	$11,795	$(1,116)	$23

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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 unsecured indebtedness. The Parent Company has no material assets other than its investment in the Operating Partnership.

The Company utilizes its unsecured revolving credit facility (the "Credit Facility") for general business purposes, including to fund costs of acquisitions, developments and redevelopments and repayment of other debt. The scheduled maturity date of the Credit Facility in place at June 30, 2013 is February 1, 2016. The per annum variable interest rate on balances outstanding under the Credit Facility is LIBOR plus 1.50%. The interest rate and facility fee are subject to adjustment upon a change in the Company’s unsecured debt ratings. As of June 30, 2013, the Company did not have any outstanding borrowings on its Credit Facility, with $0.9 million in letters of credit outstanding, leaving $599.1 million of unused availability under the Credit Facility. During each of the three and six-month periods ended June 30, 2013 and 2012, there were no weighted-average interest rates associated with the Credit Facility because there were no borrowings outstanding under the Credit Facility during either period.

The Company has the option to increase the amounts available to be advanced under the Credit Facility, the $150.0 million three-year term loan, and the $100.0 million four-year term loan by an aggregate of $200.0 million, subject to customary conditions and limitations, by obtaining additional commitments from the current lenders and other financial institutions. The Company also has the option to extend the maturity dates of each of the credit facilities, the $150.0 million three-year term loan and the $100.0 million four-year term loan by one year, subject to payment of an extension fee and other customary conditions and limitations. The Company may repay the $150.0 million three-year term loan and the $100.0 million four-year term loan at any time without penalty. The $200.0 million seven-year term loan is subject to a declining prepayment penalty (3.00% commencing one year after closing, 2.00% after two years, 1.00% after three years and without penalty thereafter).

The spread to LIBOR for LIBOR-based loans under the Credit Facility and term loans depends on the Company's unsecured senior debt credit rating. Based on the Company's current credit rating, the spread for such loans will be 150 basis points under the Credit Facility, 175 basis points under both the $150.0 million three-year term loan and the $100.0 million four-year term loan and 190 basis points under the $200.0 million seven-year term loan. At the Company's option, advances under the Credit Facility and term loans may also bear interest at a per annum floating rate equal to the higher of the prime rate or the federal funds rate plus 0.50% per annum. The Credit Facility contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loans to the Company at a reduced rate. The Company executed hedging transactions that fix the rate on the $200.0 million seven-year term loan at a 3.623% average rate for its full term, and the rate on the $150.0 million three-year term loan at a 2.596% average rate for periods of three to four years. All hedges commenced on February 1, 2012 and the rates are inclusive of the LIBOR spread based on the Company's current investment grade rating. See Note 9 for details of the interest rate swaps entered into as of June 30, 2013.

The Credit Facility and term loans contain financial and operating covenants and restrictions. The Company was in compliance with all such restrictions and financial covenants as of June 30, 2013.

As of June 30, 2013, the Company’s aggregate scheduled principal payments on debt obligations, excluding amortization of discounts and premiums, were as follows (in thousands):

2013 (six months remaining)	$5,700	
2014	244,141	
2015	411,463	
2016	346,528	
2017	330,323	
Thereafter	1,047,407	
Total principal payments	2,385,562	
Net unamortized premiums/(discounts)	(5,817	)

Outstanding indebtedness	$2,379,745

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determined the fair values disclosed below using available market information and discounted cash flow analyses as of June 30, 2013 and December 31, 2012, 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 estimates and valuation methodologies may have a material effect on the fair value amounts shown. The Company believes that the carrying amounts

reflected in the consolidated balance sheets at June 30, 2013 and December 31, 2012 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):

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage notes payable	$438,404	$474,036	$443,942	$486,412
Unsecured notes payable	$1,418,548	$1,495,998	$1,430,343	$1,553,123
Variable rate debt	$528,610	$526,693	$597,610	$595,693
Notes receivable	$7,026	$7,080	$7,226	$7,783

The fair value of the Company's unsecured notes payable is categorized at a Level 2 basis (as provided by the accounting standard for Fair Value Measurements and Disclosures). This is because the Company valued these instruments using quoted market prices as of June 30, 2013 and December 31, 2012.
The fair value of the Company's mortgage notes payable, variable rate debt and notes receivable are all categorized at a Level 3 basis (as provided by the accounting standard for Fair Value Measurements and Disclosures). The fair value of the variable rate debt was estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities, as applicable. The fair value of the mortgage debt was determined by discounting the future contractual interest and principal payments by a blended market rate. The fair value of the notes receivable was determined by using the expected cash flows of the notes receivable, and discounting those cash flows using the market rate of interest for mortgage notes with a comparable level of risk. These financial instruments have been categorized as Level 3 because the Company considers the rates used in the valuation techniques to be unobservable inputs.
The only significant unobservable input in the discounted cash flow model is the discount rate. For the fair value of the Company's unsecured notes, the Company uses a discount rate based on the indicative new issue pricing provided by lenders. For the Company's mortgage loans, the Company uses an estimate based on its knowledge of the mortgage market. The weighted average discount rate for the combined variable rate debt and mortgage loans used as of June 30, 2013 was 4.657%. An increase in the discount rate used in the discounted cash flow model would result in a decrease to the fair value of the Company's long-term debt. Conversely, a decrease in the discount rate used in the discounted cash flow model would result in an increase to the fair value of the Company's long-term debt.
Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of June 30, 2013 and December 31, 2012. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2013, and current estimates of fair value may differ from the amounts presented herein.

9. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Risk Management

In the course of its ongoing 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 of counterparties on derivatives contracts to fulfill their obligations. Market risk is the risk of declines in the value of Company properties due to changes in rental rates, interest rates, supply and demand of similar products and other market factors affecting the valuation of properties.

Risks and Uncertainties

Challenging economic conditions have reduced the volume of real estate transactions and created credit stresses on many businesses. Vacancy rates may increase through 2013 and possibly beyond as the current economic climate continues to negatively impact tenants. The current financial markets also have an adverse effect on the Company's Real Estate Venture partners and contractual counter parties, including counter parties in derivative contracts.

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The Company was in compliance with all financial covenants as of June 30, 2013. Management continuously monitors the Company’s compliance with and anticipated compliance with the covenants. Certain of the covenants restrict the Company’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 or deterioration in the economy, the Company may not be able to remain in compliance with such covenants, in which case a default would result absent a lender waiver.

Derivative Financial Instruments

The following table summarizes the terms and fair values of the Company's derivative financial instruments as of June 30, 2013 and December 31, 2012. The notional amounts provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks (amounts presented in thousands).

Hedge Product	Hedge Type	Designation	Notional Amount		Strike	Trade Date	Maturity Date	Fair value	
			06/30/2013	12/31/2012				06/30/2013	12/31/2012
Assets:									
Swap	Interest Rate	Cash Flow (a)	25,774	25,774	3.300 %	December 22, 2011	January 30, 2021	154	(1,262)
Swap	Interest Rate	Cash Flow (a)	25,774	25,774	3.090 %	January 6, 2012	October 30, 2019	21	(1,129)
			$51,548	$51,548				$175	$(2,391)
Liabilities:									
Swap	Interest Rate	Cash Flow (a)	$200,000	$200,000	3.623 %	December 6-13, 2011	February 1, 2019	$(1,506)	$(8,859)
Swap	Interest Rate	Cash Flow (a)	77,000	77,000	2.703 %	December 9-13, 2011	February 1, 2016	(798)	(1,343)
Swap	Interest Rate	Cash Flow (a)	50,000	50,000	2.470 %	December 13, 2011	February 1, 2015	(328)	(458)
Swap	Interest Rate	Cash Flow (a)	23,000	23,000	2.513 %	December 7-12, 2011	May 1, 2015	(174)	(245)
Swap	Interest Rate	Cash Flow (a)	27,062	27,062	2.750 %	December 21, 2011	September 30, 2017	(283)	(914)
			$377,062	$377,062				$(3,089)	$(11,819)

(a) Hedging unsecured variable rate debt.

The Company measures its derivative instruments at fair value and records them in the balance sheet as either an asset or liability. As of June 30, 2013, two interest rate swaps held an asset position and were included in other assets on the Company's consolidated balance sheets. The remaining swaps are included in other liabilities on the Company's consolidated balance sheets.

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. 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.

Concentration of Credit Risk

Concentrations of credit risk arise for the Company when multiple tenants of the Company are engaged in similar business activities, or are located in the same geographic region, or have similar economic features that impact in a similar manner their ability to meet contractual obligations, including those to the Company. 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 an unusual concentration of credit risk. No tenant accounted for 10% or more of the Company's rents during the three and six-month periods ended June 30, 2013 and 2012. Conditions in the general economy and the global credit markets have had a significant adverse effect on 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 were to default under their leases.

10. DISCONTINUED OPERATIONS

For the three and six-month periods ended June 30, 2013, income from discontinued operations relates to the twelve properties sold by the Company during 2013. The following table summarizes the revenue and expense information for properties classified as discontinued operations for the three and six-month periods ended June 30, 2013 (in thousands):

	Three-month period ended June 30, 2013	Six-month period ended June 30, 2013
Revenue:		
Rents	$626	$4,129
Tenant reimbursements	2	331
Other	9	123
Total revenue	637	4,583
Expenses:		
Property operating expenses	274	1,586
Real estate taxes	79	504
Depreciation and amortization	278	1,715
Total operating expenses	631	3,805
Other income (expense):		
Interest income	2	2
Income from discontinued operations before gain on sale of interests in real estate	8	780
Net gain (loss) on disposition of discontinued operations (a)	(2,260)	3,044
Income from discontinued operations	$(2,252)	$3,824

(a) The loss of $(2.3) million for the second quarter of 2013 includes $1.1 million of closing costs incurred to sell the properties.

For the three and six-month periods ended June 30, 2012, income from discontinued operations relates to the 26 properties sold by the Company from January 1, 2012 through June 30, 2013. The following table summarizes the revenue and expense information for properties classified as discontinued operations for the three and six-month periods ended June 30, 2012 (in thousands):

	Three-month period ended June 30, 2012	Six-month period ended June 30, 2012
Revenue:		
Rents	$7,322	$16,680
Tenant reimbursements	719	1,486
Termination fees	—	7
Other	164	188
Total revenue	8,205	18,361
Expenses:		
Property operating expenses	2,137	4,841
Real estate taxes	843	1,977
Depreciation and amortization	2,695	6,274
Total operating expenses	5,675	13,092
Other income (expense):		
Interest income	5	6

Income from discontinued operations before gain on sale of interests in real estate	2,535	5,275
Net gain on disposition of discontinued operations	10,177	24,845
Income from discontinued operations	$12,712	$30,120

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 June 30, 2013 and December 31, 2012, 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 $20.4 million and $21.2 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 $23.8 million and $22.5 million, respectively, as of June 30, 2013 and December 31, 2012.

12. BENEFICIARIES' EQUITY OF THE PARENT COMPANY

Earnings per Share (EPS)

The following tables detail 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 June 30,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (Loss) from continuing operations	$9,432	$9,432	$(5,910)	$(5,910)
Net income (loss) from continuing operations attributable to non-controlling interests	(88)	(88)	201	201
Amount allocable to unvested restricted shareholders	(85)	(85)	(95)	(95)
Preferred share dividends	(1,725)	(1,725)	(3,049)	(3,049)
Preferred share redemption charge	—	—	(2,090)	(2,090)
Income (Loss) from continuing operations available to common shareholders	7,534	7,534	(10,943)	(10,943)
Income (Loss) from discontinued operations	(2,252)	(2,252)	12,712	12,712
Discontinued operations attributable to non-controlling interests	26	26	(232)	(232)
Discontinued operations attributable to common shareholders	(2,226)	(2,226)	12,480	12,480
Net income attributable to common shareholders	$5,308	$5,308	$1,537	$1,537
Denominator				
Weighted-average shares outstanding	155,347,384	155,347,384	143,300,637	143,300,637
Contingent securities/Share based compensation	—	1,343,817	—	—
Total weighted-average shares outstanding	155,347,384	156,691,201	143,300,637	143,300,637
Earnings per Common Share:				
Income (Loss) from continuing operations attributable to common shareholders	$0.05	$0.05	$(0.08)	$(0.08)
Discontinued operations attributable to common shareholders	(0.02)	(0.02)	0.09	0.09
Net income attributable to common shareholders	$0.03	$0.03	$0.01	$0.01

	Six month periods ended June 30,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (Loss) from continuing operations	$7,275	$7,275	$(13,982)	$(13,982)
Net income (loss) from continuing operations attributable to non-controlling interests	(39)	(39)	386	386
Amount allocable to unvested restricted shareholders	(193)	(193)	(191)	(191)
Preferred share dividends	(3,450)	(3,450)	(5,047)	(5,047)
Preferred share redemption charge	—	—	(2,090)	(2,090)
Income (Loss) from continuing operations available to common shareholders	3,593	3,593	(20,924)	(20,924)
Income from discontinued operations	3,824	3,824	30,120	30,120
Discontinued operations attributable to non-controlling interests	(51)	(51)	(551)	(551)
Discontinued operations attributable to common shareholders	3,773	3,773	29,569	29,569
Net income (loss) attributable to common shareholders	$7,366	$7,366	$8,645	$8,645
Denominator				
Weighted-average shares outstanding	149,508,957	149,508,957	143,060,796	143,060,796
Contingent securities/Share based compensation	—	1,157,288	—	—
Total weighted-average shares outstanding	149,508,957	150,666,245	143,060,796	143,060,796
Earnings per Common Share:				
Income (Loss) from continuing operations attributable to common shareholders	$0.02	$0.02	$(0.15)	$(0.15)
Discontinued operations attributable to common shareholders	0.03	0.03	0.21	0.21
Net income (loss) attributable to common shareholders	$0.05	$0.05	$0.06	$0.06

Redeemable common limited partnership units totaling 1,763,739 and 2,657,721 as of June 30, 2013 and 2012, 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 from continuing operations 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 six months ended June 30, 2013 and 2012, 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 April 10, 2013, the Parent Company closed a public offering of 12,650,000 common shares, inclusive of 1,650,000 common shares issued upon exercise by the underwriters of the option granted to them to purchase additional shares. The Parent Company contributed the net proceeds from the sale of shares, amounting to $181.7 million after deducting underwriting discounts and commissions and other offering expenses, to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Operating Partnership continues to use the net proceeds for working capital, capital expenditures and other general corporate purposes, which may include acquisitions, developments and the repayment, repurchase and refinancing of debt.

On May 30, 2013, the Parent Company declared a distribution of $0.15 per common share, totaling $23.8 million, which was paid on July 19, 2013 to shareholders of record as of July 5, 2013. On May 30, 2013, the Parent Company declared distributions on its Series E Preferred Shares to holders of record as of June 30, 2013. These shares are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions paid on July 15, 2013 to holders of Series E Preferred Shares totaled $1.7 million.

In March 2010, the Parent Company commenced a continuous equity offering program (the “Offering Program”), that provided for the Parent Company's sale, from time to time until March 10, 2013, of up to an aggregate of 15,000,000 common shares in amounts and at times determined by the Parent Company. The Parent Company determined to sell shares under the Offering Program based on a variety of factors, including the trading price of its common shares, overall market conditions and the Parent Company's needs for and assessment of alternative sources of capital. Under the Offering Program, the Parent Company engaged sales agents, who received compensation of up to 2% of the gross sales price per share sold. From January 1, 2013 through the expiration of the Offering Program, as well as during the six-month period ended June 30, 2013, the Parent Company did not sell any shares under the Offering Program. From the inception of the Offering Program in March 2010 through its expiration, the Parent Company sold an aggregate of 6,421,553 common shares under the Offering Program at an average sales price of $12.50 per share. The Parent Company contributed the net proceeds from the sale of its shares to the Operating Partnership in exchange for the issuance of 6,421,553 common partnership units to the Parent Company. The Operating Partnership used the net proceeds contributed to it by the Parent Company to repay balances on credit facilities and for general corporate purposes.

Common Share Repurchases

The Parent Company maintains a share repurchase program under which it may repurchase its common shares from time to time in accordance with limits set by the Board of Trustees.

The Parent Company did not repurchase any shares under the share repurchase program during the six-month period ended June 30, 2013. As of June 30, 2013, the Parent Company may purchase an additional 0.5 million shares under the current program limits.

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 tables detail 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 June 30,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (Loss) from continuing operations	$9,432	$9,432	$(5,910)	$(5,910)
Amount allocable to unvested restricted unitholders	(85)	(85)	(95)	(95)
Preferred unit dividends	(1,725)	(1,725)	(3,049)	(3,049)
Preferred unit redemption charge	—	—	(2,090)	(2,090)
Income (Loss) from continuing operations available to common unitholders	7,622	7,622	(11,144)	(11,144)
Discontinued operations attributable to common unitholders	(2,252)	(2,252)	12,712	12,712
Net income attributable to common unitholders	$5,370	$5,370	$1,568	$1,568
Denominator				
Weighted-average units outstanding	157,131,697	157,131,697	145,958,358	145,958,358
Contingent securities/Share based compensation	—	1,343,817	—	—
Total weighted-average units outstanding	157,131,697	158,475,514	145,958,358	145,958,358
Earnings per Common Partnership Unit:				
Income (Loss) from continuing operations attributable to common unitholders	$0.05	$0.05	$(0.08)	$(0.08)
Discontinued operations attributable to common unitholders	(0.02)	(0.02)	0.09	0.09
Net income attributable to common unitholders	$0.03	$0.03	$0.01	$0.01

	Six-month periods ended June 30,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Income (Loss) from continuing operations	$7,275	$7,275	$(13,982)	$(13,982)
Amount allocable to unvested restricted unitholders	(193)	(193)	(191)	(191)
Preferred unit dividends	(3,450)	(3,450)	(5,047)	(5,047)
Preferred unit redemption charge	—	—	(2,090)	(2,090)
Income (Loss) from continuing operations available to common unitholders	3,632	3,632	(21,310)	(21,310)
Discontinued operations attributable to common unitholders	3,824	3,824	30,120	30,120
Net income attributable to common unitholders	$7,456	$7,456	$8,810	$8,810
Denominator				
Weighted-average units outstanding	151,323,813	151,323,813	145,721,890	145,721,890
Contingent securities/Share based compensation	—	1,157,288	—	—
Total weighted-average units outstanding	151,323,813	152,481,101	145,721,890	145,721,890
Earnings per Common Partnership Unit:				
Income (Loss) from continuing operations attributable to common unitholders	$0.02	$0.02	$(0.15)	$(0.15)
Discontinued operations attributable to common unitholders	0.03	0.03	0.21	0.21
Net income attributable to common unitholders	$0.05	$0.05	$0.06	$0.06

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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 six months ended June 30, 2013 and 2012, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted units.

Common Partnership Units and Preferred Mirror Units

On April 10, 2013, the Parent Company closed a public offering of 12,650,000 common shares, inclusive of 1,650,000 common shares issued upon exercise by the underwriters of the option granted to them to purchase additional shares. The Company contributed the net proceeds from the sale of shares, amounting to $181.7 million after deducting underwriting discounts and commissions and other offering expenses, to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Operating Partnership continues to use the net proceeds for working capital, capital expenditures and other general corporate purposes, which may include acquisitions, developments and the repayment, repurchase and refinancing of debt.

On May 30, 2013, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $23.8 million, which was paid on July 19, 2013 to unitholders of record as of July 5, 2013.

On May 30, 2013, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of June 30, 2013. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per unit liquidation preference. Distributions paid on July 15, 2013 to holders of Series E-Linked Preferred Mirror Units totaled $1.7 million.

From January 1, 2013 through expiration of the Offering Program on March 10, 2013, the Parent Company did not sell any shares under the Offering Program and, accordingly, the Operating Partnership did not issue any common partnership units to the Parent Company in connection with the Offering Program during this time. From the inception of the Offering Program in March 2010 through expiration of the Offering Program in March 2013, the Parent Company sold an aggregate of 6,421,553 common shares under the Offering Program at an average sales price of $12.50 per share. The Operating Partnership used the net proceeds contributed to it by the Parent Company to repay balances on credit facilities and for general corporate purposes.

Common Unit Repurchases

The Parent Company did not repurchase any shares under its share repurchase program during the six-month period ended June 30, 2013 and accordingly, during the six-month period ended June 30, 2012, 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 June 30, 2013, options exercisable for 2,868,838 common shares were outstanding under the Parent Company's shareholder approved equity incentive plan. There were 184,429 options unvested as of June 30, 2013 and $0.3 million of unrecognized compensation expense associated with these options to be recognized over a weighted average term of 0.7 years. During the three and six-month periods ended June 30, 2013 the Company recognized compensation expense related to unvested options of $0.2 million and $0.4 million, of which a nominal amount and $0.1 million, respectively, were capitalized. During the three and six-month periods ended June 30, 2012 the Company recognized compensation expense related to unvested options of $0.4 million and $0.7 million, of which $0.1 million and $0.2 million, respectively, were capitalized consistent with the Company’s policies for capitalizing eligible portions of employee compensation.

Option activity as of June 30, 2013 and changes during the six months ended June 30, 2013 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	3,337,549	$14.50	7.20	$—
Granted	—	—	—	—
Exercised	(166,620)	$10.26	—	—
Canceled	(117,662)	$18.61		
Outstanding at June 30, 2013	3,053,267	$15.35	5.68	$—

Vested/Exerciseable at June 30, 2013	2,868,838	$15.58	5.56	$—

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Restricted Share Awards

As of June 30, 2013, 563,713 restricted shares were outstanding under the 1997 Plan and vest over three to seven years from the initial grant date. At June 30, 2013, approximately $3.3 million of compensation expense remained to be recognized and is expected to be recognized over a weighted average remaining vesting period of 1.6 years. The Company recognized compensation expense related to outstanding restricted shares of $0.9 million and $1.8 million during the three and six-month periods ended June 30, 2013, of which $0.1 million and $0.3 million, respectively, were capitalized as part of the Company's policies for capitalizing eligible portions of employee compensation. The Company recognized compensation expense related to outstanding restricted shares of $0.8 million and $1.5 million during the three and six-month periods ended June 30, 2012, of which $0.2 million and $0.3 million, respectively, were capitalized. The expensed amounts are included in general and administrative expense on the Company's consolidated statement of operations in the respective periods.

The following table summarizes the Company's restricted share activity for the six months ended June 30, 2013:

	Shares	Weighted Average Grant Date Fair value
Non-vested at January 1, 2013	597,708	$9.46
Granted	182,576	13.13
Vested	(208,306)	13.13
Forfeited	(8,265)	11.41
Non-vested at June 30, 2013	563,713	$12.56

On February 25, 2013, the Compensation Committee of the Company's Board of Trustees awarded 157,208 restricted shares to the Company's executives. The restricted shares will cliff vest after three years from the grant date. The vesting of the restricted shares is also subject to acceleration upon a change in control or if the recipient of the award were to die, become disabled or retire in a qualifying retirement. In the case of two of the Company's executives who have employment agreements with the Company, the vesting of the restricted shares is also subject to acceleration if either executive were to be terminated without cause or resign for good reason. Qualifying retirement means the recipient's voluntary termination of employment after reaching at least age 57 and accumulating at least 15 years of service with the Company. In accordance with the accounting standard for stock-based compensation, the Company amortizes stock-based compensation costs through the qualifying retirement dates for those executives who meet the conditions for qualifying retirement during the scheduled vesting period.

Restricted Performance Share Units Plan

On each of February 25, 2013, March 1, 2012 and March 2, 2011, the Compensation Committee of the Parent Company's Board of Trustees awarded an aggregate of 231,093, 242,122, and 113,256 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, 2013 (in the case of the February 25, 2013 awards), January 1, 2012 (in the case of the March 1, 2012 awards), and January 1, 2011 (in the case of the March 2, 2011 awards), and that ends on December 31, 2015, December 31, 2014 or December 31, 2013 (as applicable) or, if earlier, the date of a change of control. In the case of the awards made on February 25, 2013 and March 1, 2012, our performance is compared to the shareholder return of REITs within an index over the measurement period for 50% of the RPSUs awarded on that date, with the remaining 50% being compared to the total shareholder return of REITs within our proxy peer group over such period. In the case of the awards made on March 2, 2011, our performance is compared to the total shareholder return of REITs within an index over the performance period. The vesting of RPSUs is 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" additional RPSUs for the account of the unit holder at the price per common share on the dividend payment date. If earned, RPSUs will be settled in common shares in an amount that reflects both the number of RPSUs 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 returns of the REITs within the index or peer group, as applicable.
On the date of each grant, the RPSUs were valued using a Monte Carlo simulation. The fair values of the 2013, 2012 and 2011 awards on the grant dates were $4.1 million, $4.2 million and $2.0 million, respectively. The fair values of each award are being amortized over the three-year cliff vesting period. The vesting of RPSUs is subject to acceleration upon a change in control or if the recipient of the award were to die, become disabled or retire in a qualifying retirement prior to the vesting date. In the case of two of the Company's executives who have employment agreements with the Company, the vesting of the restricted shares is also

subject to acceleration if either executive were to be terminated without cause or resign for good reason. Qualifying retirement means the recipient's voluntary termination of employment after reaching age 57 and accumulating at least 15 years of service with the Company. In accordance with the accounting standard for stock-based compensation, the Company amortizes stock-based compensation costs through the qualifying retirement date for those executives who meet the conditions for qualifying retirement.

For the three and six-month periods ended June 30, 2013, the Company recognized total compensation expense for the 2013, 2012 and 2011 awards of $1.3 million and $2.5 million, of which $0.2 million and $0.4 million, respectively, were capitalized consistent with the Company's policies for capitalizing eligible portions of employee compensation. For the three and six-month periods ended June 30, 2012, the Company recognized total compensation expense for the 2012, 2011 and 2010 awards of $0.7 million and $1.3 million, of which $0.2 million and $0.4 million, respectively, were capitalized.

A total of 372,102 common shares vested on December 31, 2012 (the end of the three-year measurement period for the linked RPSUs) and were delivered to holders of the RPSUs on March 1, 2013 in settlement of the RPSUs. Holders of these RPSUs also received cash dividend equivalents to the cash dividends paid on common shares on February 8, 2013.

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. In connection with this completed development project, USB contributed to the Company $64.1 million of total project costs.

In exchange for its contributions to the development of the IRS Philadelphia Campus, USB is entitled to substantially all of the benefits derived from the tax rehabilitation credits available under section 47 of the Internal Revenue Code. USB does not have a material interest in the underlying economics of the property. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase USB's interest in the IRS Philadelphia Campus. The Company believes the put will be exercised and the amount attributed to that puttable non-controlling interest obligation is included in other liabilities and is being accreted to the expected fixed put price.

Based on the contractual arrangements that obligate the Company to deliver tax benefits and provide other guarantees to USB and that entitle the Company through fee arrangements to receive substantially all available cash flow from the IRS Philadelphia Campus, the Company concluded that the IRS Philadelphia Campus should be consolidated. The Company also concluded that capital contributions received from USB, in substance, are consideration that the Company receives in exchange for its obligation to deliver tax credits and other tax benefits to USB. These receipts other than the amounts allocated to the put obligation will be recognized as revenue in the consolidated financial statements beginning when the obligation to USB is relieved which occurs upon delivery of the expected tax benefits net of any associated costs. The tax credit is subject to 20% recapture per year beginning one year after the completion of the IRS Philadelphia Campus. The total USB contributions presented within the Company's consolidated balance sheet amounted to $39.1 million as of both June 30, 2013 and December 31, 2012. The contributions were recorded net of the amount allocated to non-controlling interest as described above of $2.7 million at the end of the period ended June 30, 2013 and $2.6 million at December 31, 2012, with the remaining balance being presented within deferred income. Beginning in September 2011 to September 2015, the Company recognized and will recognize, on an annual basis, the cash received as revenue net of allocated expenses over the five year credit recapture period as defined in the Internal Revenue Code within other income (expense) in its consolidated statements of operations. Direct and incremental costs incurred in structuring the transaction are deferred and will be recognized as expense in the consolidated financial statements upon the recognition of the related revenue as discussed above. The deferred cost at both June 30, 2013 and December 31, 2012 is $1.6 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 $0.3 million and $0.7 million for the three and six-month periods ended June 30, 2013, respectively, and and $0.3 million and $0.7

million for the three and six-month periods ended June 30, 2012, respectively.

New Markets Tax Credit Transaction

On December 30, 2008, the Company entered into a transaction with USB related to the Cira South Garage in Philadelphia, Pennsylvania and expects to receive a net benefit of $7.8 million under a qualified New Markets Tax Credit Program (“NMTC”). The NMTC was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce investment capital in under-served 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 to 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. This 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 each of June 30, 2013 and December 31, 2012. 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 2017.

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 each of June 30, 2013 and December 31, 2012 is $5.3 million, and is included in other assets in the Company’s consolidated balance sheet.

16. SEGMENT INFORMATION

As of June 30, 2013, the Company was managing its portfolio within seven geographic 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 southern Maryland. The New Jersey/Delaware segment includes properties in Burlington, Camden and Mercer counties in New Jersey and in New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Chesterfield, Goochland and Henrico counties and one property in Durham, North Carolina. The Austin, Texas segment includes properties in Austin. The California segment includes properties in Oakland, Concord, and Carlsbad, California. 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.

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 June 30, 2013:									
Real estate investments, at cost:									
Operating properties	$1,198,731	$1,023,619	$1,199,885	$408,940	$310,229	$286,808	$192,248	$—	$4,620,460
Construction-in-progress								51,260	51,260
Land inventory								94,444	94,444
As of December 31, 2012:									
Real estate investments, at cost:									
Operating properties	$1,178,730	$988,590	$1,193,200	$546,644	$309,923	$285,346	$223,736	$—	$4,726,169
Construction-in-progress									