BRANDYWINE REALTY TRUST
Form 10-Q
May 05, 2010

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

**FORM 10-Q**

**(Mark One)**

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended March 31, 2010**

**or**

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

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

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

| | |
|---|---|
| **MARYLAND (Brandywine Realty Trust)** | **23-2413352** |
| **DELAWARE (Brandywine Operating Partnership L.P.)** | **23-2862640** |
| **(State or other jurisdiction of Incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

| | |
|---|---|
| **555 East Lancaster Avenue** | |
| **Radnor, Pennsylvania** | **19087** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

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

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

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

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

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

Brandywine Operating Partnership, L.P.:

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

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

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

A total of 131,385,832 Common Shares of Beneficial Interest, par value $0.01 per share, were outstanding as of April 30, 2010.

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**Filing Format**

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

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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Real estate investments: | | |
| Rental properties | $ 4,452,085 | $ 4,512,618 |
| Accumulated depreciation | (731,626) | (716,956) |
| Operating real estate investments, net | 3,720,459 | 3,795,662 |
| Construction-in-progress | 307,144 | 271,962 |
| Land inventory | 105,556 | 97,368 |
| Total real estate investments, net | 4,133,159 | 4,164,992 |
| Cash and cash equivalents | 7,590 | 1,567 |
| Accounts receivable, net | 16,476 | 10,934 |
| Accrued rent receivable, net | 86,570 | 87,173 |
| Investment in real estate ventures, at equity | 77,472 | 75,458 |
| Deferred costs, net | 103,117 | 106,097 |
| Intangible assets, net | 95,085 | 105,163 |
| Notes receivable | 59,474 | 59,008 |
| Other assets | 56,185 | 53,358 |
| Total assets | $ 4,635,128 | $ 4,663,750 |
| **LIABILITIES AND BENEFICIARIES EQUITY** | | |
| Mortgage notes payable | $ 506,156 | $ 551,720 |
| Borrowing under credit facilities | 160,000 | 92,000 |
| Unsecured term loan | 183,000 | 183,000 |
| Unsecured senior notes, net of discounts | 1,581,693 | 1,627,857 |
| Accounts payable and accrued expenses | 95,621 | 88,599 |
| Distributions payable | 21,999 | 21,799 |
| Tenant security deposits and deferred rents | 53,745 | 58,572 |
| Acquired below market leases, net | 34,847 | 37,087 |
| Deferred income | 47,184 | 47,379 |
| Other liabilities | 30,965 | 33,997 |
| Total liabilities | 2,715,210 | 2,742,010 |
| Commitments and contingencies (Note 16) | | |
| Brandywine Realty Trust s equity: | | |
| Preferred Shares (shares authorized-20,000,000): | | |

| | | |
|---|---|---|
| 7.50% Series C Preferred Shares, $0.01 par value; issued and outstanding-2,000,000 in 2010 and 2009, respectively | 20 | 20 |
| 7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding-2,300,000 in 2010 and 2009, respectively | 23 | 23 |
| Common Shares of Brandywine Realty Trust s beneficial interest, $0.01 par value; shares authorized 200,000,000; 130,174,303 and 128,849,176 issued in 2010 and 2009, respectively and 130,013,432 and 128,597,412 outstanding in 2010 and 2009, respectively | 1,299 | 1,286 |
| Additional paid-in capital | 2,626,342 | 2,610,421 |
| Deferred compensation payable in common stock | 5,988 | 5,549 |
| Common shares in treasury, at cost, 160,871 and 251,764 in 2010 and 2009, respectively | (4,518) | (7,205) |
| Common shares in grantor trust, 296,294 in 2010 and 255,700 in 2009 | (5,988) | (5,549) |
| Cumulative earnings | 500,828 | 501,384 |
| Accumulated other comprehensive loss | (7,375) | (9,138) |
| Cumulative distributions | (1,235,017) | (1,213,359) |
| Total Brandywine Realty Trust s equity | 1,881,602 | 1,883,432 |
| Non-controlling interests | 38,316 | 38,308 |
| Total equity | 1,919,918 | 1,921,740 |
| Total liabilities and equity | $ 4,635,128 | $ 4,663,750 |

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

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

| | For the three-month periods ended March 31, | |
|---|---|---|
| | **2010** | **2009** |
| **Revenue:** | | |
| Rents | $ 115,509 | $ 120,285 |
| Tenant reimbursements | 21,483 | 20,688 |
| Termination fees | 1,754 | 113 |
| Third party management fees, labor reimbursement and leasing | 3,467 | 4,764 |
| Other | 921 | 881 |
| Total revenue | 143,134 | 146,731 |
| **Operating Expenses:** | | |
| Property operating expenses | 45,148 | 43,422 |
| Real estate taxes | 13,052 | 14,832 |
| Third party management expenses | 1,412 | 2,115 |
| Depreciation and amortization | 52,622 | 51,215 |
| General and administrative expenses | 6,092 | 4,958 |
| Total operating expenses | 118,326 | 116,542 |
| **Operating income** | 24,808 | 30,189 |
| **Other Income (Expense):** | | |
| Interest income | 865 | 579 |
| Interest expense | (31,524) | (35,646) |
| Interest expense amortization of deferred financing costs | (1,011) | (1,252) |
| Equity in income of real estate ventures | 1,296 | 586 |
| (Loss) gain on early extinguishment of debt | (1,192) | 6,639 |
| **Income (loss) from continuing operations** | (6,758) | 1,095 |
| **Discontinued operations:** | | |
| Income from discontinued operations | 10 | 1,538 |
| Net gain on disposition of discontinued operations | 6,349 | 194 |
| Provision for impairment | | (3,700) |
| **Total discontinued operations** | 6,359 | (1,968) |
| **Net loss** | (399) | (873) |
| Net income (loss) from discontinued operations attributable to non-controlling interests LP units | (136) | 61 |

| | | | | |
|---|---|---|---|---|
| Net income attributable to non-controlling interests partners share of consolidated real estate ventures | | | | |
| Net income attributable to non-controlling interests LP units | | 187 | | 28 |
| **Net income (loss) attributable to non-controlling interests** | | 51 | | 95 |
| **Net loss attributable to Brandywine Realty Trust** | | (348) | | (778) |
| Distribution to Preferred Shares | | (1,998) | | (1,998) |
| Amount allocated to unvested restricted shareholders | | (128) | | (37) |
| **Net loss attributable to Common Shareholders of Brandywine Realty Trust** | $ | (2,474) | $ | (2,813) |
| **Basic earnings per Common Share:** | | | | |
| Continuing operations | $ | (0.07) | $ | (0.01) |
| Discontinued operations | | 0.05 | | (0.02) |
| | $ | (0.02) | $ | (0.03) |
| **Diluted earnings per Common Share:** | | | | |
| Continuing operations | $ | (0.07) | $ | (0.01) |
| Discontinued operations | | 0.05 | | (0.02) |
| | $ | (0.02) | $ | (0.03) |
| **Basic weighted average shares outstanding** | | 128,767,718 | | 88,210,384 |
| **Diluted weighted average shares outstanding** | | 128,767,718 | | 88,210,384 |
| **Net (loss) income attributable to Brandywine Realty Trust** | | | | |
| Income (loss) from continuing operations | $ | (6,571) | $ | 1,129 |
| Income (loss) from discontinued operations | | 6,223 | | (1,907) |
| Net loss | $ | (348) | $ | (778) |

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

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

| | For the three-month periods ended March 31, 2010 | 2009 |
|---|---|---|
| Net loss | $ (399) | $ (873) |
| Comprehensive income: | | |
| Unrealized gain on derivative financial instruments | 1,816 | 10,287 |
| Reclassification of realized (gains)/losses on derivative financial instruments to operations, net | (15) | (20) |
| Total comprehensive income | 1,801 | 10,267 |
| Comprehensive income | 1,402 | 9,394 |
| Comprehensive (income) loss attributable to non-controlling interest | 13 | 95 |
| Comprehensive income attributable to Brandywine Realty Trust | $ 1,415 | $ 9,489 |

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

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**BRANDYWINE REALTY TRUST**
**CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY**
**For the Three-Month Periods Ended March 31, 2010 and 2009**
**(unaudited, in thousands, except number of shares)**

**March 31, 2010**

| e red es | Number of Preferred D Shares | Par Value of Preferred D Shares | Number of Common Shares | Number of Treasury Shares | Number of Rabbi Trust/Deferred Compensation Shares | Common Shares of Brandywine Realty Trust s beneficial interest | Additional Paid-in Capital | Common Shares in Treasury | Deferred Compensation Payable in Common Stock | Common Shares in Grantor Trust | Cumulative Earnings | Accumulated Other Comprehensive Income (Loss) | Cu Dis |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **0** | **2,300,000** | **$ 23** | **128,849,176** | **251,764** | **255,700** | **$ 1,286** | **$ 2,610,421** | **$ (7,205)** | **$ 5,549** | **$ (5,549)** | **$ 501,384** | **$ (9,138)** | **$ (1** |
| | | | | | | | | | | | (348) | | |
| | | | | | | | | | | | | 1,763 | |
| | | | 1,325,200 | | | 13 | 16,421 | | | | | | |
| | | | | | | | (336) | | | | | | |
| | | | | (32,607) | 32,607 | | | 871 | 369 | (369) | (502) | | |
| | | | | (58,286) | 8,989 | | (897) | 1,816 | 103 | (103) | (1,145) | | |
| | | | | | | | 745 | | | | | | |
| | | | | | | | 154 | | | | | | |
| | | | (73) | | (1,002) | | | | (33) | 33 | | | |
| | | | | | | | 190 | | | | | | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 124 | | | | | | |
| | | | | | | | (480) | | | | | | |
| | | | | | | | | | | | 1,439 | | |
| 0 | **2,300,000** | **$ 23** | **130,174,303** | **160,871** | **296,294** | **$ 1,299** | **$ 2,626,342** | **$ (4,518)** | **$ 5,988** | **$ (5,988)** | **$ 500,828** | **$ (7,375)** | **$ (1** |

**March 31, 2009**

| e<br>red<br>es | Number of Preferred D Shares | Par Value of Preferred D Shares | Number of Common Shares | Number of Treasury Shares | Number of Rabbi Trust/Deferred Compensation Shares | Common Shares of Brandywine Realty Trust s beneficial interest | Additional Paid-in Capital | Common Shares in Treasury | Deferred Compensation Payable in Common Stock | Common Shares in Grantor Trust | Cumulative Earnings | Accumulated Other Comprehensive Income (Loss) | Cu Dist |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | **2,300,000** | **$ 23** | **88,610,053** | **451,116** | **215,742** | **$ 882** | **$ 2,351,428** | **$ (14,121)** | **$ 6,274** | **$ (6,274)** | **$ 498,716** | **$ (17,005)** | **$ (1** |
| | | | | | | | | | | | (778) | | |
| | | | | | | | | | | | | 10,471 | |
| | | | | (66,924) | 8,971 | | (657) | 2,313 | 56 | (56) | (1,861) | | |
| | | | | | | | 737 | | | | | | |
| | | | (2,719) | | (19,668) | | (21) | | (668) | 668 | | | |

| | | |
|---|---|---|
| (7,081) | (46) | |
| | 112 | |
| | 306 | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **)** | **2,300,000** | **$ 23** | **88,600,253** | **384,192** | **205,045** | **$ 882** | **$ 2,351,859** | **$ (11,808)** | **$ 5,662** | **$ (5,662)** | **$ 496,077** | **$ (6,534)** | **$ (1** |

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)**

| | Three-month periods ended March 31, 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (399) | $ (873) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation | 40,283 | 39,403 |
| Amortization: | | |
| Deferred financing costs | 1,011 | 1,252 |
| Amortization of debt discount | 310 | 1,111 |
| Deferred leasing costs | 5,085 | 4,493 |
| Acquired above (below) market leases, net | (1,548) | (1,741) |
| Acquired lease intangibles | 7,198 | 8,729 |
| Deferred compensation costs | 1,355 | 1,021 |
| Straight-line rent | (2,915) | (1,912) |
| Provision for doubtful accounts | 1,309 | 3,234 |
| Provision for impairment in real estate | | 3,700 |
| Real estate venture income in excess of distributions | (1,114) | (656) |
| Net gain on sale of interests in real estate | (6,349) | (194) |
| Loss (gain) on early extinguishment of debt | 1,192 | (6,639) |
| Cumulative interest accretion of repayments of unsecured notes | (1,586) | (202) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (795) | 1,376 |
| Other assets | (4,387) | (2,258) |
| Accounts payable and accrued expenses | 6,424 | 15,430 |
| Tenant security deposits and deferred rents | (3,937) | 1,129 |
| Other liabilities | (1,199) | (2,525) |
| Net cash from operating activities | 39,938 | 63,878 |
| **Cash flows from investing activities:** | | |
| Sales of properties, net | 10,445 | 8,650 |
| Capital expenditures | (45,808) | (30,484) |
| Investment in unconsolidated Real Estate Ventures | | (14,961) |
| Escrowed cash | | 31,385 |
| Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income | 393 | 555 |
| Decrease in cash due to the deconsolidation of variable interest entities | (1,382) | |
| Leasing costs | (11,009) | (5,146) |
| Net cash used in investing activities | (47,361) | (10,001) |
| **Cash flows from financing activities:** | | |
| Proceeds from Credit Facility borrowings | 122,000 | 140,000 |
| Repayments of Credit Facility borrowings | (54,000) | (93,000) |

| | 2010 | 2009 |
|---|---|---|
| Repayments of mortgage notes payable | (2,303) | (3,205) |
| Repayments of unsecured notes | (46,479) | (68,243) |
| Debt financing costs | 3 | 18 |
| Net proceeds from issuance of shares | 16,100 | |
| Distributions paid to shareholders | (21,454) | (28,443) |
| Distributions to noncontrolling interest | (421) | (845) |
| Net cash from (used in) financing activities | 13,446 | (53,718) |
| Increase (decrease) in cash and cash equivalents | 6,023 | 159 |
| Cash and cash equivalents at beginning of period | 1,567 | 3,924 |
| Cash and cash equivalents at end of period | $ 7,590 | $ 4,083 |
| Supplemental disclosure: | | |
| Cash paid for interest, net of capitalized interest during the quarter ended March 31, 2010 and 2009 of $3,245 and $1,574, respectively | $ 13,551 | $ 13,108 |
| Supplemental disclosure of non-cash activity: | | |
| Note receivable issued in a property sale transaction | | 950 |
| Change in capital expenditures financed through accounts payable at period end | (889) | 5,899 |
| Change in capital expenditures financed through retention payable at period end | 2,520 | 1,068 |
| Change in unfunded tenant allowance | 411 | |

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

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**BRANDYWINE REALTY TRUST**
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**March 31, 2010**

## 1. THE COMPANY

Brandywine Realty Trust, a Maryland real estate investment trust, or REIT, is a self-administered and self-managed real estate investment trust, that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office and industrial properties. Brandywine Realty Trust owns its assets and conducts its operations through Brandywine Operating Partnership, L.P., a Delaware limited partnership (the Operating Partnership ) and subsidiaries of the Operating Partnership. Brandywine Realty Trust, the Operating Partnership and their consolidated subsidiaries are collectively referred to below as the Company. The Company s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol BDN .

As of March 31, 2010, the Company owned 213 office properties, 21 industrial facilities and three mixed-use properties (collectively, the Properties ) containing an aggregate of approximately 23.5 million net rentable square feet. The Company also has two properties under development and two properties under redevelopment containing an aggregate 1.6 million net rentable square feet. Therefore, as of March 31, 2010, the Company owns 241 properties containing an aggregate of 25.1 million net rentable square feet. In addition, as of March 31, 2010, the Company owned economic interests in 15 unconsolidated real estate ventures that contain approximately 4.6 million net rentable square feet (collectively, the Real Estate Ventures ). The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania, Metropolitan Washington, D.C., Southern and Central New Jersey, Richmond, Virginia, Wilmington, Delaware, Austin, Texas and Oakland, Concord, Carlsbad and Rancho Bernardo, California.

Brandywine Realty Trust is the sole general partner of the Operating Partnership and, as of March 31, 2010, owned a 97.9% interest in the Operating Partnership. The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries.

As of March 31, 2010, the management company subsidiaries were managing properties containing an aggregate of approximately 34.1 million net rentable square feet, of which approximately 25.1 million net rentable square feet related to Properties owned by the Company and approximately 9.1 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 ). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of March 31, 2010, the results of its operations for the three-month periods ended March 31, 2010 and 2009 and its cash flows for the three-month periods ended March 31, 2010 and 2009 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 Company s consolidated financial statements and footnotes included in the Company s 2009 Annual Report on Form 10-K filed with the SEC on March 1, 2010.

***Reclassifications and Revisions***

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 or held for sale 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. 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 partner 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 which the Company controls and the limited partners neither have the ability to dissolve the entity or remove the Company without cause nor any substantive participating rights. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company s share of earnings or losses, plus contributions, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence and (iii) entities that are non-VIE s that the Company controls through its general partner status, but the limited partners in the entity have the substantive ability to dissolve the entity or remove the Company without cause or have substantive participating rights. The Company will reconsider 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, if certain events occur that are likely to cause a change in the original determinations. The portion of the entities that are consolidated but not owned by the Company is presented as non-controlling interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

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

***Operating Properties***

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

***Purchase Price Allocation***

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

Other intangible assets also include amounts representing the value of tenant relationships and in-place leases based on the Company s evaluation of the specific characteristics of each tenant s lease and the Company s overall relationship with the respective tenant. The Company estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, including leasing commissions, legal and other related expenses. This intangible asset is amortized to expense over the remaining term of the respective leases. Company estimates of value are made using

methods similar to those used by independent appraisers or by using independent appraisals. Factors considered by the Company in this analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. The Company also uses the information obtained as a result of its pre-acquisition due diligence as part of its consideration of the accounting standard governing asset retirement obligations and when necessary, will record a conditional asset retirement obligation as part of its purchase price.

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

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

***Impairment or Disposal of Long-Lived Assets***

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

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

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

During the Company s impairment review for the three months period ended March 31, 2010, it was determined that no impairment charges were necessary. For the three months period ended March 31, 2009, the Company determined that one of its properties, during testing for impairment under the held and used model, had a historical cost greater than the probability weighted undiscounted cash flows. Accordingly, the recorded amount was reduced to an amount based on management s estimate of the current fair value. This property was sold in the second quarter of the prior year.

***Revenue Recognition***

Rental revenue is recognized on the straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The straight-line rent adjustment increased revenue by approximately $2.0 million and $1.1 million for the three-month periods ended March 31, 2010 and 2009, 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 $0.9 million and $0.8 million for the three-month periods ended March 31, 2010 and 2009, respectively. Lease incentives, which are included as reductions of rental revenue in the accompanying consolidated statements of operations, are recognized on a straight-line basis over the term of the lease. Lease incentives decreased revenue by $0.8 million and $0.2 million for the three-month periods ended March 31, 2010 and 2009, 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 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 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 March 31, 2010, 0.8 million common shares remained available for future awards under the 1997 Plan. Through March 31, 2010, all options awarded under the 1997 Plan had a one to ten-year term. The Company incurred stock-based compensation expense of $1.1 million and $1.0 million during the three-month periods ended March 31, 2010 and 2009, respectively, of which $0.2 million were capitalized for each period, respectively, as part of the Company s review of employee salaries eligible for capitalization. The expensed amounts are included in general and administrative expense on the Company s consolidated income statement in the respective periods.

***Accounting for Derivative Instruments and Hedging Activities***

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

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

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

***Fair Value Measurements***

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

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

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

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.

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

| Description | March 31, 2010 | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Recurring Assets:** | | | | |
| Available-for-Sale Securities | $ 220 | $ 220 | $ | $ |
| **Liabilities:** | | | | |
| Interest Rate Swaps | $ 5,505 | $ | $ 5,505 | $ |

The following table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009:

| Description | December 31, 2009 | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Available-for-Sale Securities | $ 431 | $ 431 | $ | $ |
| **Liabilities:** | | | | |
| Interest Rate Swaps | $ 7,320 | $ | $ 7,320 | $ |

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 annually 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 during the first quarter of 2010.

***Income Taxes***

Brandywine Realty Trust 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, Brandywine Realty Trust is required to, among other things, distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, Brandywine Realty Trust 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 stockholders. Accordingly, no provision for federal and state income taxes is included in the accompanying consolidated financial statements with respect to the operations of Brandywine Realty Trust. Brandywine Realty Trust intends to continue to operate in a manner that allows it to meet the requirements for taxation as a REIT. If Brandywine Realty Trust fails to qualify as a REIT in any taxable year, Brandywine Realty Trust 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. Brandywine Realty Trust is subject to certain local income taxes. Provision for such taxes has been included in general and administrative expenses in Brandywine Realty Trust s Consolidated Statements of Operations and Comprehensive Income.

Brandywine Realty Trust has elected to treat several of its subsidiaries as REITs under Sections 856 through 860 of the Code. As a result, each subsidiary REIT generally is not subject to federal and state income taxation at the corporate level to the extent it distributes annually at least 100% of its REIT taxable income to its stockholders and satisfies certain other organizational and operational requirements. Each subsidiary REIT has met these requirements 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. In addition, this non-qualification can adversely impact Brandywine Realty Trust s ability to qualify as a REIT. Also, each subsidiary REIT may be subject to local income taxes.

Brandywine Realty Trust 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 Brandywine Realty Trust, as a REIT, cannot hold directly and generally may engage in any real estate or non-real estate related business.

***Accounting Pronouncements Adopted During 2010***

In January 2010, the FASB issued a new accounting standard for distributions to stockholders with components of stock and cash. The guidance clarifies that in calculating earnings per share, an entity should account for the stock portion of the distribution as a stock issuance and not as a stock dividend. The new standard is effective for fiscal years and interim periods ending after December 15, 2009, and should be applied on a retrospective basis. The Company s adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

In January 2010, the FASB issued an amendment to the accounting standard for fair value measurements and disclosures. The amendment clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. This amendment is effective for fiscal years and interim periods ending after December 15, 2009. The Company s adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

In December 2009, the FASB issued a new accounting standard governing transfer of financial assets. This new standard is a revision to the existing accounting standard for the transfer and servicing of financial assets and amends the guidance on accounting for transfers of financial assets, including securitization transactions, where entities have continued exposure to risks related to transferred financial assets. The new accounting standard also expands the disclosure requirements for such transactions. This amendment is effective for fiscal years beginning after November 15, 2009. The Company s adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIE). The elimination of the concept of a qualifying special-purpose entity (QSPE) removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise s financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment was adopted on January 1, 2010 and applied prospectively.

As a result of the adoption of the amendment to the accounting and disclosure requirements for the consolidation of VIEs, the Company has determined that it will no longer consolidate three of the VIEs that it has previously consolidated. In reaching its conclusion, the Company considered the requirements provided by the accounting standard to qualitatively assess if the Company is the primary beneficiary of the VIEs based on whether the Company has (i) the power to direct those matters that most significantly impact 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. The Company s consideration included an assessment of each of the entities with which it has involvement and review of applicable documents such as, but not limited to applicable partnership agreements, real estate venture agreements,

LLC agreements, management and leasing agreements. As of January 1, 2010, the Company held interests in 17 real estate ventures, 15 of which are unconsolidated and two of which the Company continues to consolidate. The Company s basis in reaching its conclusion for these entities is provided below:

***Previously Consolidated:***

***Four Tower Bridge and Six Tower Bridge Ventures***

Each of the Four Tower Bridge and Six Tower Bridge Real Estate Ventures was formed as limited partnerships to own and manage an office property located in Conshohocken, Pennsylvania. The Company entered into these ventures with two other partners during 1997 and 1998, respectively. The other partner in Four Tower Bridge owns 35% interest and the other partner in Six Tower Bridge owns a 37% interest in the partnership entities. These Real Estate Ventures were determined to be VIEs and were previously consolidated in the Company s financial statements in accordance with the amended accounting standard for the consolidation of VIEs. The Real Estate Ventures were determined to be VIEs due to insufficient equity at the latest reconsideration event. However, upon the Company s adoption of the new accounting standard on January 1, 2010, the Company has determined that will no longer consolidate these Real Estate Ventures after it was determined that the partners have shared power in the ventures and no related party considerations were identified. All significant decisions are approved by both partners in the venture. Based on the facts and circumstances provided, the Company deconsolidated these two Real Estate Ventures in accordance with the new accounting standard.

***Coppell Associates***

Coppell Associates is a Real Estate Venture that owns one property in Austin, Texas. The Company entered into this venture with another partner which owns a 50% interest in the partnership. This Real Estate Venture is a VIE and was previously consolidated in the Company s financial statements in accordance with the amended accounting standard for the consolidation of VIEs. The venture was determined to be a VIE due to insufficient equity at the latest reconsideration event. However, upon the Company s adoption of the new accounting standard on January 1, 2010, the Company has determined that will no longer consolidate this Real Estate Venture after it concluded that the partners have shared power in the venture. All significant decisions are approved by both partners in the venture. Based on the facts and circumstances provided, the Company deconsolidated this Real Estate Venture in accordance with the new accounting standard.

***Other VIEs:***

***PJP VII***

The Company holds a 25% interest in a Real Estate Venture that it entered into with two other partners. One of the other partners has 50% ownership interest in the venture while the other one has ownership interest of 25%. This venture is considered a VIE due to the fact that at the last reconsideration event, it entered into a construction loan to fund the building construction of the property and it was determined that there was insufficient equity in the joint venture. In addition, this loan has not been refinanced as of March 31, 2010 and the Company guarantees $0.7 million or 8.75% of the total construction note. It is expected that this entity will remain a VIE until the venture refinances the construction loan into a permanent financing. It was determined that the Company does not have the power to direct the significant economic activities of the Real Estate Venture in accordance with the standard and as a result is not the primary beneficiary of this real estate venture.

***Residence Inn Hotel***

The Company holds a 50% interest in a Real Estate Venture that owns a Residence Inn Hotel located in Conshohocken, Pennsylvania. The Company has two other partners in this venture with one of them having a 46.4% interest while the other one has 3.6% interest. The Real Estate Venture was considered as a VIE in accordance with the amended accounting standard for the consolidation of VIEs due to the participating rights of the non-equity holder hotel manager. However, the Company has determined that the partners have shared power in the venture. All significant decisions are approved by all partners in the venture. Accordingly this Real Estate Venture was not consolidated in the financial statements of the Company. Upon the adoption of the new accounting standard, the Company still has the same determination that it does not have the power to control the business of the Real Estate Venture and that it is still appropriate to account for this venture under the equity method of accounting.

***G&I VI Interchange Office LLC***

The Company holds a 20% interest in a Real Estate Venture that owns a portfolio of 29 office properties located in Montgomery, Bucks, and Lehigh counties in Pennsylvania. The Company has one other partner in this venture with an 80% ownership interest. The Real Estate Venture was considered as a VIE in accordance with the amended accounting standard for the consolidation of VIEs. The venture continues to be determined a VIE due to the disproportionate voting rights. The Company has determined that it is not the primary beneficiary of the venture. Accordingly, this Real Estate Venture was not consolidated in the financial statements of the Company. Upon the adoption of the new accounting standard, the Company still has the same determination that it does not have the power to control the business of the Real Estate Venture and that it is still appropriate to account for this venture under the equity method of accounting.

***Seven Tower Bridge***

The Company has a 10% total ownership interest in a Real Estate Venture that will develop a suburban office building in Conshohocken, Pennsylvania. The Company has three other partners in this venture having ownership interests of 50%, 20%, and 20%, respectively. This venture is considered a VIE as the property is under development and there is insufficient equity to fund the construction. The Company has determined that it is not the primary beneficiary of the venture. Accordingly, this Real Estate Venture was not consolidated in the financial statements of the Company. Upon the adoption of the new accounting standard, the Company still has the same determination that it does not have the power to control the business of the Real Estate Venture and that it is still appropriate to account for this venture under

the equity method of accounting.

***VIEs that Continue to be Co***