BRANDYWINE REALTY TRUST
Form 10-Q
May 03, 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 March 31, 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

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 156,560,738 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of April 30, 2013.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 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 March 31, 2013, owned a 98.7% interest in the Operating Partnership. The remaining 1.3% 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.

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

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

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

TABLE OF CONTENTS

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)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate investments:		
Rental properties	$4,607,890	$4,726,169
Accumulated depreciation	(951,934)	(954,665)
Operating real estate investments, net	3,655,956	3,771,504
Construction-in-progress	53,468	48,950
Land inventory	92,776	102,439
Total real estate investments, net	3,802,200	3,922,893
Cash and cash equivalents	47,874	1,549
Accounts receivable, net	15,072	13,232
Accrued rent receivable, net	120,070	122,066
Investment in real estate ventures, at equity	184,802	193,555
Deferred costs, net	119,378	122,243
Intangible assets, net	66,104	70,620
Notes receivable	7,026	7,226
Other assets	62,778	53,325
Total assets	$4,425,304	$4,506,709
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable	$440,300	$442,974
Unsecured credit facility	—	69,000
Unsecured term loans	450,000	450,000
Unsecured senior notes, net of discounts	1,503,632	1,503,356
Accounts payable and accrued expenses	81,626	71,579
Distributions payable	23,684	23,652
Deferred income, gains and rent	81,976	82,947
Acquired lease intangibles, net	31,902	33,859
Other liabilities	53,551	55,826
Total liabilities	2,666,671	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; 143,712,578 and 143,538,733 issued and outstanding in 2013 and 2012, respectively	1,435	1,434
Additional paid-in capital	2,783,130	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	483,635	479,734
Accumulated other comprehensive loss	(14,048)	(15,918)
Cumulative distributions	(1,516,591)	(1,493,206)
Total Brandywine Realty Trust’s equity	1,737,601	1,752,278
Non-controlling interests	21,032	21,238
Total equity	1,758,633	1,773,516
Total liabilities and equity	$4,425,304	$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 period ended March 31,	
	2013	2012
Revenue:		
Rents	$115,552	$109,699
Tenant reimbursements	20,357	18,696
Termination fees	496	1,490
Third party management fees, labor reimbursement and leasing	3,236	3,142
Other	967	1,512
Total revenue	140,608	134,539
Operating Expenses:		
Property operating expenses	39,641	38,077
Real estate taxes	14,430	13,567
Third party management expenses	1,425	1,250
Depreciation and amortization	49,861	48,096
General and administrative expenses	6,551	6,050
Total operating expenses	111,908	107,040
Operating income	28,700	27,499
Other Income (Expense):		
Interest income	58	483
Interest expense	(30,914)	(34,144)
Interest expense — amortization of deferred financing costs	(1,161)	(1,311)
Interest expense — financing obligation	(218)	(182)
Equity in income of real estate ventures	1,535	44
Loss on early extinguishment of debt	(3)	(248)
Loss from continuing operations	(2,003)	(7,859)
Discontinued operations:		
Income from discontinued operations	618	2,527
Net gain on disposition of discontinued operations	5,304	14,668
Total discontinued operations	5,922	17,195
Net income	3,919	9,336
Net (income) loss from discontinued operations attributable to non-controlling interests — LP units	(75)	(315)
Net (income) loss attributable to non-controlling interests — LP units	47	181
Net (income) loss attributable to non-controlling interests	(28)	(134)
Net income attributable to Brandywine Realty Trust	3,891	9,202
Distribution to Preferred Shares	(1,725)	(1,998)
Amount allocated to unvested restricted shareholders	(108)	(96)
Net income attributable to Common Shareholders of Brandywine Realty Trust	$2,058	$7,108
Basic income (loss) per Common Share:		
Continuing operations	$(0.03)	$(0.07)
Discontinued operations	0.04	0.12
	$0.01	$0.05
Diluted income (loss) per Common Share:		
Continuing operations	$(0.03)	$(0.07)

Discontinued operations	0.04	0.12
	$0.01	$0.05
Basic weighted average shares outstanding	143,605,659	142,820,955
Diluted weighted average shares outstanding	143,605,659	142,820,955
Net income (loss) attributable to Brandywine Realty Trust		
Loss from continuing operations	$(1,956)	$(7,678)
Income from discontinued operations	5,847	16,880
Net income	$3,891	$9,202

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 period ended March 31,	
	2013	2012
Net income	$3,919	$9,336
Comprehensive income (loss):		
Unrealized gain on derivative financial instruments	1,845	27
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net (1)	48	48
Total comprehensive income	1,893	75
Comprehensive income	5,812	9,411
Comprehensive (income) loss attributable to non-controlling interest	(52)	(135)
Comprehensive income attributable to Brandywine Realty Trust	$5,760	$9,276

(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 three-month periods ended March 31, 2013 and 2012
(unaudited, in thousands, except number of shares)

March 31, 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									3,891		
Comprehensive income										1,870	
Equity issuance costs						(61)					
Bonus Share Issuance			27,918			361					
Vesting of Restricted Shares			21,116	7,050		(84)					
Restricted Share Amortization						849					
Vesting of Restricted Performance Units			26,067			(161)					
Restricted Performance Units Amortization						1,119					
Restricted Share Forfeitures									10		
Exercise of Stock Options			76,340		1	671					
Stock Option Amortization						261					
Share Issuance from/to Deferred Compensation Plan			22,404	17,958			164	(164)			

Adjustment to Non-controlling Interest						(19)						
Preferred Share distributions												(1,725
Distributions declared ($0.15 per share)												(21,660
BALANCE, March 31, 2013	4,000,000	$40	143,712,578	315,753	$1,435	$2,783,130	$5,516	$(5,516)	$483,635	$(14,048)	$(1,516,5	

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

10

March 31, 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)	Cumu Distril
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)	$(1,39
Net income									9,202		
Comprehensive income										74	
Conversion of LP Units to Common Shares			20,464			149			(49)		
Bonus Share Issuance			35,703			387					
Vesting of Restricted Shares			30,820	9,036	1	(90)					
Restricted Share Amortization						678					
Vesting of Restricted Performance Units			249,797		3	(1,331)					
Restricted Performance Units Amortization						479					
Stock Option Amortization						376					
Share Issuance from/to Deferred Compensation Plan			(5,389)	(8,560)			(195)	195			
Adjustment to Non-controlling Interest						303					
Preferred Share distributions											(1,998
Distributions declared ($0.15 per share)											(21,58
	4,300,000	$43	143,022,150	293,122	$1,428	$2,777,148	$5,436	$(5,436)	$486,491	$(6,005)	$(1,41

BALANCE,
March 31, 2012
The accompanying notes are an integral part of these consolidated financial statements.

11

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

	Three-month periods ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$3,919	$9,336
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	50,304	51,453
Amortization of deferred financing costs	1,161	1,311
Amortization of debt discount/(premium), net	366	365
Amortization of stock compensation costs	2,097	1,484
Shares used for employee taxes upon vesting of share awards	(245)	(1,418)
Straight-line rent income	(5,514)	(6,908)
Amortization of acquired above (below) market leases to rental revenue, net	(1,771)	(1,419)
Straight-line ground rent expense	474	474
Provision for doubtful accounts	505	781
Net gain on sale of interests in real estate	(5,304)	(14,666)
Loss on early extinguishment of debt	3	248
Real estate venture income in excess of distributions	(358)	163
Deferred financing obligation	(452)	(405)
Changes in assets and liabilities:		
Accounts receivable	(1,321)	976
Other assets	(4,772)	(3,629)
Accounts payable and accrued expenses	10,793	5,674
Deferred income, gains and rent	46	916
Other liabilities	(88)	(514)
Net cash from operating activities	49,843	44,222
Cash flows from investing activities:		
Acquisition of properties	—	(9,226)
Investments in available-for-sale securities	—	(50,694)
Sales of properties, net	112,863	92,401
Distribution of sales proceeds from real estate ventures	16,963	—
Proceeds from repayment of mortgage notes receivable	200	—
Capital expenditures for tenant improvements	(24,215)	(20,733)
Capital expenditures for redevelopments	(2,427)	(517)
Capital expenditures for developments	(82)	—
Reimbursement from real estate venture for pre-formation development costs	1,976	—
Advances for purchase of tenant assets, net of repayments	(375)	94
Investment in unconsolidated Real Estate Ventures	(7,039)	(12,512)
Cash distributions from unconsolidated real estate ventures	1,357	619
Leasing costs	(8,250)	(7,386)
Net cash from (used in) investing activities	90,971	(7,954)
Cash flows from financing activities:		
Proceeds from Unsecured Term Loans	—	600,000
Proceeds from Credit Facility	186,000	21,500
Repayments of Credit Facility borrowings	(255,000)	(297,000)
Repayments of mortgage notes payable	(2,765)	(2,941)

Deferred financing obligation non-cash interest expense	234	234
Repayments of unsecured notes	—	(4,217)
Repayments of unsecured term loan	—	(37,500)
Net settlement of hedge transactions	—	(74)
Debt financing costs	—	(8,426)
Exercise of stock options	672	—
Distributions paid to shareholders	(23,353)	(23,619)
Distributions to noncontrolling interest	(277)	(399)
Net cash from (used in) financing activities	(94,489)	247,558
Increase (decrease) in cash and cash equivalents	46,325	283,826
Cash and cash equivalents at beginning of period	1,549	410
Cash and cash equivalents at end of period	$47,874	$284,236
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2013 and 2012 of $625 and $467, respectively	$11,367	$10,348
Supplemental disclosure of non-cash activity:		
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	(1,701)	(2,608)
Change in capital expenditures financed through retention payable at period end	(697)	(163)
Change in unfunded tenant allowance	(64)	(612)

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)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate investments:		
Operating properties	$4,607,890	$4,726,169
Accumulated depreciation	(951,934)	(954,665)
Operating real estate investments, net	3,655,956	3,771,504
Construction-in-progress	53,468	48,950
Land inventory	92,776	102,439
Total real estate investments, net	3,802,200	3,922,893
Cash and cash equivalents	47,874	1,549
Accounts receivable, net	15,072	13,232
Accrued rent receivable, net	120,070	122,066
Investment in real estate ventures, at equity	184,802	193,555
Deferred costs, net	119,378	122,243
Intangible assets, net	66,104	70,620
Notes receivable	7,026	7,226
Other assets	62,778	53,325
Total assets	$4,425,304	$4,506,709
LIABILITIES AND EQUITY		
Mortgage notes payable	$440,300	$442,974
Unsecured credit facility	—	69,000
Unsecured term loans	450,000	450,000
Unsecured senior notes, net of discounts	1,503,632	1,503,356
Accounts payable and accrued expenses	81,626	71,579
Distributions payable	23,684	23,652
Deferred income, gains and rent	81,976	82,947
Acquired lease intangibles, net	31,902	33,859
Other liabilities	53,551	55,826
Total liabilities	2,666,671	2,733,193
Commitments and contingencies (Note 17)		
Redeemable limited partnership units at redemption value; 1,845,737 issued and outstanding in 2013 and 2012	27,940	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, 143,712,578 and 143,538,733 units issued and outstanding in 2013 and 2012, respectively	1,648,167	1,666,341
Accumulated other comprehensive loss	(14,324)	(16,452)
Total Brandywine Operating Partnership, L.P.'s equity	1,730,693	1,746,739
Total liabilities and partners' equity	$4,425,304	$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 March 31,	
	2013	2012
Revenue:		
Rents	$115,552	$109,699
Tenant reimbursements	20,357	18,696
Termination fees	496	1,490
Third party management fees, labor reimbursement and leasing	3,236	3,142
Other	967	1,512
Total revenue	140,608	134,539
Operating Expenses:		
Property operating expenses	39,641	38,077
Real estate taxes	14,430	13,567
Third party management expenses	1,425	1,250
Depreciation and amortization	49,861	48,096
General & administrative expenses	6,551	6,050
Total operating expenses	111,908	107,040
Operating income	28,700	27,499
Other Income (Expense):		
Interest income	58	483
Interest expense	(30,914)	(34,144)
Interest expense — amortization of deferred financing costs	(1,161)	(1,311)
Interest expense — financing obligation	(218)	(182)
Equity in income of real estate ventures	1,535	44
Loss on early extinguishment of debt	(3)	(248)
Loss from continuing operations	(2,003)	(7,859)
Discontinued operations:		
Income from discontinued operations	618	2,527
Net gain on disposition of discontinued operations	5,304	14,668
Total discontinued operations	5,922	17,195
Net income	3,919	9,336
Distribution to Preferred Units	(1,725)	(1,998)
Amount allocated to unvested restricted unitholders	(108)	(96)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$2,086	$7,242
Basic income (loss) per Common Partnership Unit:		
Continuing operations	$(0.03)	$(0.07)
Discontinued operations	0.04	0.12
	$0.01	$0.05
Diluted income (loss) per Common Partnership Unit:		
Continuing operations	$(0.03)	$(0.07)
Discontinued operations	0.04	0.12
	$0.01	$0.05
Basic weighted average common partnership units outstanding	145,451,396	145,485,422
Diluted weighted average common partnership units outstanding	145,451,396	145,485,422

Net income (loss) attributable to Brandywine Operating Partnership, L.P.		
Loss from continuing operations	$(2,003)	$(7,859)
Income from discontinued operations	5,922	17,195
Net income	$3,919	$9,336

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

14

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

	For the three-month period ended March 31,	
	2013	2012
Net income	$3,919	$9,336
Comprehensive income (loss):		
Unrealized gain on derivative financial instruments	1,845	27
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net (1)	48	48
Total comprehensive income	1,893	75
Comprehensive income attributable to Brandywine Operating Partnership, L.P.	$5,812	$9,411

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

	Three-month periods ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$3,919	$9,336
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	50,304	51,453
Amortization of deferred financing costs	1,161	1,311
Amortization of debt discount/(premium), net	366	365
Amortization of stock compensation costs	2,097	1,484
Shares used for employee taxes upon vesting of share awards	(245)	(1,418)
Straight-line rent income	(5,514)	(6,908)
Amortization of acquired above (below) market leases, net	(1,771)	(1,419)
Straight-line ground rent expense	474	474
Provision for doubtful accounts	505	781
Net gain on sale of interests in real estate	(5,304)	(14,666)
Loss on early extinguishment of debt	3	248
Real estate venture income in excess of distributions	(358)	163
Deferred financing obligation	(452)	(405)
Changes in assets and liabilities:		
Accounts receivable	(1,321)	976
Other assets	(4,772)	(3,629)
Accounts payable and accrued expenses	10,793	5,674
Deferred income, gains and rent	46	916
Other liabilities	(88)	(514)
Net cash from operating activities	49,843	44,222
Cash flows from investing activities:		
Acquisition of properties	—	(9,226)
Investments in available-for-sale securities	—	(50,694)
Sales of properties, net	112,863	92,401
Distribution of sales proceeds from real estate ventures	16,963	—
Proceeds from repayment of mortgage notes receivable	200	—
Capital expenditures for tenant improvements	(24,215)	(20,733)
Capital expenditures for redevelopments	(2,427)	(517)
Capital expenditures for developments	(82)	—
Reimbursement from real estate venture for pre-formation development costs	1,976	—
Advances for purchase of tenant assets, net of repayments	(375)	94
Investment in unconsolidated Real Estate Ventures	(7,039)	(12,512)
Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income	1,357	619
Leasing costs	(8,250)	(7,386)
Net cash from (used in) investing activities	90,971	(7,954)
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	(2,765)	(2,941)
Deferred financing obligation non-cash interest expense	234	234
Repayments of unsecured notes	—	(4,217)
Repayments of unsecured term loan	—	(37,500)
Net settlement of hedge transactions	—	(74)
Debt financing costs	—	(8,426)
Exercise of stock options	672	—
Distributions paid to preferred and common partnership unitholders	(23,630)	(24,018)
Net cash from (used in) financing activities	(94,489)	247,558
Increase (decrease) in cash and cash equivalents	46,325	283,826
Cash and cash equivalents at beginning of period	1,549	410
Cash and cash equivalents at end of period	$47,874	$284,236
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the three months ended March 31, 2013 and 2012 of $625 and $467, respectively	$11,367	$10,348
Supplemental disclosure of non-cash activity:		
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	(1,701)	(2,608)
Change in capital expenditures financed through retention payable at period end	(697)	(163)
Change in unfunded tenant allowance	(64)	(612)

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

BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 March 31, 2013, owned a 98.7% interest in the Operating Partnership. The Parent Company's common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol "BDN".

As of March 31, 2013, the Company owned 214 properties, consisting of 185 office properties, 19 industrial facilities, five mixed-use properties, one development property, two redevelopment properties and two re-entitlement properties (collectively, the "Properties") containing an aggregate of approximately 24.3 million net rentable square feet. In addition, as of March 31, 2013, the Company owned economic interests in 19 unconsolidated real estate ventures that contain approximately 6.4 million net rentable square feet (collectively, the "Real Estate Ventures"). As of March 31, 2013, the Company also owned 431 acres of undeveloped land, and held options to purchase approximately 51 additional acres of undeveloped land. As of March 31, 2013, the total potential development that these land parcels could support, under current zoning, entitlements or combination thereof, amounted to 6.1 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, Carlsbad and Rancho Bernardo, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of March 31, 2013, the management company subsidiaries were managing properties containing an aggregate of approximately 31.1 million net rentable square feet, of which approximately 24.3 million net rentable square feet related to Properties owned by the Company and approximately 6.8 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial statements. 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 March 31, 2013, the results of its operations for the three-month periods ended March 31, 2013 and 2012 and its cash flows for the three-month periods ended March 31, 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 March 31, 2013 (see Note 4), as well as a guarantee of the Company's

17

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, a joint venture among the Company and 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-month periods ended March 31, 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 development rights in one of the land parcels to a newly formed joint venture (please refer to Note 4 for further information), and the 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 economic interest and an additional extension of the development period cannot be negotiated, 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 $5.9 million as of March 31, 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 joint ventures are recorded initially at cost, as investments in Real Estate Ventures, and subsequently adjusted for equity in earnings, cash contributions, less distributions and impairments. On a periodic basis, management also assesses whether there are any indicators that the value of the Company's investments in unconsolidated Real Estate Ventures may be other than temporarily impaired. An investment is impaired only if the value of the investment, as estimated by management, is less than the carrying value of the investment and the decline is other than temporary. To the extent 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 $4.9 million and $6.3 million for the three-month periods ended March 31, 2013 and 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 for each of the three-month periods ended March 31, 2013 and 2012. 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 $0.3 million and $0.4 million for the three-month periods ended March 31, 2013 and 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 March 31, 2013, 5,197,094 common shares remained available for future awards under the 1997 Plan (including 3,166,998 shares available solely for options and share appreciation rights). Through March 31, 2013, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of \$2.3 million and \$1.7 million during the three-month periods ended March 31, 2013 and 2012, of which \$0.5 million and \$0.4 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 March 31, 2013 (in thousands):

	Fair Value Measurements at Reporting Date Using:			
Description	March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring Liabilities:				
Interest Rate Swaps	$12,383	$—	$12,383	$—

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 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 three months ended March 31, 2013.

Notes Receivable

As of March 31, 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.

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 2014, however, during the three months ended March 31, 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 March 31, 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 March 31, 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.

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

23

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 March 31, 2013 and December 31, 2012, the gross carrying value of the Company's Properties was as follows (in thousands):

	March 31, 2013	December 31, 2012
Land	$641,507	$662,107
Building and improvements	3,483,888	3,576,065
Tenant improvements	482,495	487,997
	$4,607,890	$4,726,169

Acquisitions

The Company did not complete any acquisitions during the three-month period ended March 31, 2013.

Dispositions

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 sale of the Princeton Pike Corporate Center is included in discontinued operations (see Note 10).

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of March 31, 2013, the Company had an aggregate investment of approximately $184.8 million in 19 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 March 31, 2013, 14 of the Real Estate Ventures owned 52 office buildings that contain an aggregate of approximately 6.4 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 March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Net property	$823,199	$923,536
Other assets	168,077	174,677
Other liabilities	31,209	53,645
Debt	726,507	724,780
Equity	233,560	319,788
Company's share of equity (Company's basis) (a)	184,802	193,555

(a) Amounts reflect the effects of basis differences resulting from assets contributed to joint ventures, as well as certain costs at the 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 joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

The following is a summary of results of operations of the Real Estate Ventures for the three-month periods ended March 31, 2013 and 2012 (in thousands):

	Three-month periods ended March 31,	
	2013	2012
Revenue	$40,889	$38,593
Operating expenses	18,266	16,815
Interest expense, net	9,772	11,249
Depreciation and amortization	12,906	11,471
Net loss	(55)	(942)
Company’s share of income (Company’s basis)	1,535	44

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 which, together with development rights, was contributed to the Grove Venture by the Company 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 March 31, 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).

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.

25

5. DEFERRED COSTS

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

	March 31, 2013		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$147,528	$(57,203)	$90,325
Financing Costs	40,205	(11,152)	29,053
Total	$187,733	$(68,355)	$119,378

	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-month periods ended March 31, 2013 and 2012, the Company capitalized internal direct leasing costs of $1.5 million and $1.3 million, respectively, in accordance with the accounting standard for the capitalization of leasing costs.

6. INTANGIBLE ASSETS

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

	March 31, 2013		
	Total Cost	Accumulated Amortization	Intangible assets, net
In-place lease value	$83,905	$(41,743)	$42,162
Tenant relationship value	50,268	(33,019)	17,249
Above market leases acquired	8,565	(1,872)	6,693
Total	$142,738	$(76,634)	$66,104
Below market leases acquired	$76,892	$(44,990)	$31,902

	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 March 31, 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	$11,562	$5,715
2014	12,871	6,081
2015	10,494	3,914
2016	6,166	1,974
2017	4,894	1,445
Thereafter	20,117	12,773
Total	$66,104	$31,902

7. DEBT OBLIGATIONS

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

Property / Location	March 31, 2013	December 31, 2012	Effective Interest Rate		Maturity Date
MORTGAGE DEBT:					
Tysons Corner	92,732	93,188	5.36	% (a)	Aug-15
Two Logan Square	89,133	89,340	7.57	%	Apr-16
Fairview Eleven Tower	21,939	22,000	4.25	%	Jan-17
IRS Philadelphia Campus	195,608	197,111	7.00	%	Sep-30
Cira South Garage	41,765	42,303	7.12	%	Sep-30
Principal balance outstanding	441,177	443,942			
Plus: fair market value premiums (discounts), net	(877)	(968)			
Total mortgage indebtedness	$440,300	$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	238,379	238,379	5.53	%	Nov-14
$250.0M 7.500% Guaranteed Notes due 2015	166,535	166,535	7.76	%	May-15
$250.0M 6.000% Guaranteed Notes due 2016	150,429	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	1,958,953	2,027,953			
plus: original issue premium (discount), net	(5,321)	(5,597)			

Total unsecured indebtedness	$1,953,632	$2,022,356
Total Debt Obligations	$2,393,932	$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 three-month periods ended March 31, 2013 and 2012, the Company’s weighted-average effective interest rate on its mortgage notes payable was 6.65% and 6.72%, respectively.

The Parent Company unconditionally guarantees the unsecured debt obligations of the Operating Partnership (or is a co-borrower with the Operating Partnership) but does not by itself incur 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 March 31, 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 March 31, 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-month periods ended March 31, 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 Facility, 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 March 31, 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 March 31, 2013.

As of March 31, 2013, the Company's aggregate scheduled principal payments on debt obligations, excluding amortization of discounts and premiums, were as follows (in thousands):

2013	$8,473	
2014	250,321	
2015	416,568	
2016	347,038	
2017	330,323	
Thereafter	1,047,407	
Total principal payments	2,400,130	
Net unamortized premiums/(discounts)	(6,198	)

Outstanding indebtedness	$2,393,932

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 March 31, 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 March 31, 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):

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage notes payable	$441,177	$490,915	$443,942	$486,412
Unsecured notes payable	$1,430,343	$1,582,027	$1,430,343	$1,553,123
Variable rate debt	$528,610	$526,693	$597,610	$595,693
Notes receivable	$7,026	$8,283	$7,226	$7,783

The fair value of the Company's unsecured notes payable is categorized at a Level 1 basis (as provided by the accounting standard for Fair Value Measurements and Discloses). This is because the Company valued these instruments using quoted market prices as of March 31, 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 March 31, 2013 was 3.199%. 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 March 31, 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 March 31, 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 joint venture partners and contractual counter parties, including counter parties in derivative contracts.

The Company was in compliance with all financial covenants as of March 31, 2013. Management continuously monitors the Company's compliance with and anticipated compliance with the covenants. Certain of the covenants restrict management's ability to obtain alternative sources of capital. While the Company currently believes it will remain in compliance with its covenants, in the event of a continued slow-down in the credit markets, the Company may not be able to remain in compliance with such covenants and if the lenders would not provide a waiver, an event of default could result.

Derivative Financial Instruments

The following table summarizes the terms and fair values of the Company's derivative financial instruments as of March 31, 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 and included in other liabilities on the Company's consolidated balance sheets).

Hedge Product	Hedge Type	Designation		Notional Amount		Strike	Trade Date	Maturity Date	Fair value	
				03/31/2013	12/31/2012				03/31/2013	12/31/2012
Swap	Interest Rate	Cash Flow	(a)	$200,000	$200,000	3.623 %	December 6-13, 2011	February 1, 2019	$7,761	$ 8,859
Swap	Interest Rate	Cash Flow	(a)	77,000	77,000	2.703 %	December 9-13, 2011	February 1, 2016	1,229	1,343
Swap	Interest Rate	Cash Flow	(a)	50,000	50,000	2.470 %	December 13, 2011	February 1, 2015	404	458
Swap	Interest Rate	Cash Flow	(a)	23,000	23,000	2.513 %	December 7-12, 2011	May 1, 2015	221	245
Swap	Interest Rate	Cash Flow	(a)	27,062	27,062	2.750 %	December 21, 2011	September 30, 2017	825	914
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.300 %	December 22, 2011	January 30, 2021	1,003	1,262
Swap	Interest Rate	Cash Flow	(a)	25,774	25,774	3.090 %	January 6, 2012	October 30, 2019	940	1,129
				$428,610	$428,610				$12,383	$ 14,210

(a) Hedging unsecured variable rate debt.

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-month periods ended March 31, 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-month period ended March 31, 2013, income from discontinued operations relates to the eight 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-month period ended March 31, 2013 (in thousands):

30

	Three-month period ended March 31, 2013
Revenue:	
Rents	$2,818
Tenant reimbursements	323
Other	20
Total revenue	3,161
Expenses:	
Property operating expenses	1,089
Real estate taxes	332
Depreciation and amortization	1,122
Total operating expenses	2,543
Income from discontinued operations before gain on sale of interests in real estate	618
Net gain on disposition of discontinued operations	5,304
Income from discontinued operations	$5,922

For the three-month period ended March 31, 2012, income from discontinued operations relates to the 22 properties sold by the Company from January 1, 2012 through March 31, 2013. The following table summarizes the revenue and expense information for properties classified as discontinued operations for the three-month period ended March 31, 2012 (in thousands):

	Three-month period ended March 31, 2012
Revenue:	
Rents	$8,650
Tenant reimbursements	727
Termination fees	7
Other	23
Total revenue	9,407
Expenses:	
Property operating expenses	2,487
Real estate taxes	1,036
Depreciation and amortization	3,357
Total operating expenses	6,880
Income from discontinued operations before gain on sale of interests in real estate	2,527
Net gain on disposition of discontinued operations	14,668
Income from discontinued operations	$17,195

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

11. NON-CONTROLLING INTERESTS IN THE PARENT COMPANY

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

As of March 31, 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 $21.0 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 $27.4 million and $22.5 million, respectively.

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 months ended March 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Loss from continuing operations	$(2,003)	$(2,003)	$(7,859)	$(7,859)
Net income from continuing operations attributable to non-controlling interests	47	47	181	181
Amount allocable to unvested restricted shareholders	(108)	(108)	(96)	(96)
Preferred share dividends	(1,725)	(1,725)	(1,998)	(1,998)
Loss from continuing operations available to common shareholders	(3,789)	(3,789)	(9,772)	(9,772)
Income from discontinued operations	5,922	5,922	17,195	17,195
Discontinued operations attributable to non-controlling interests	(75)	(75)	(315)	(315)
Discontinued operations attributable to common shareholders	5,847	5,847	16,880	16,880
Net income attributable to common shareholders	$2,058	$2,058	$7,108	$7,108
Denominator				
Weighted-average shares outstanding	143,605,659	143,605,659	142,820,955	142,820,955
Earnings per Common Share:				
Loss from continuing operations attributable to common shareholders	$(0.03)	$(0.03)	$(0.07)	$(0.07)
Discontinued operations attributable to common shareholders	0.04	0.04	0.12	0.12
Net income attributable to common shareholders	$0.01	$0.01	$0.05	$0.05

Redeemable common limited partnership units totaling 1,845,737 and 2,657,721 as of March 31, 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 three months ended March 31, 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 March 13, 2013, the Parent Company declared a distribution of $0.15 per common share, totaling $21.7 million, which was paid on April 19, 2013 to shareholders of record as of April 5, 2013. On March 13, 2013, the Parent Company declared distributions on its Series E Preferred Shares to holders of record as of March 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 April 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 three-month period ended March 31, 2012, 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 three-month period ended March 31, 2013. As of March 31, 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 months ended March 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Numerator				
Loss from continuing operations	$(2,003)	$(2,003)	$(7,859)	$(7,859)
Amount allocable to unvested restricted unitholders	(108)	(108)	(96)	(96)
Preferred unit dividends	(1,725)	(1,725)	(1,998)	(1,998)
Loss from continuing operations available to common unitholders	(3,836)	(3,836)	(9,953)	(9,953)
Discontinued operations attributable to common unitholders	5,922	5,922	17,195	17,195
Net income attributable to common unitholders	$2,086	$2,086	$7,242	$7,242
Denominator				
Weighted-average units outstanding	145,451,396	145,451,396	145,485,422	145,485,422
Earnings per Common Partnership Unit:				
Loss from continuing operations attributable to common unitholders	$(0.03)	$(0.03)	$(0.07)	$(0.07)
Discontinued operations attributable to common unitholders	0.04	0.04	0.12	0.12
Net income attributable to common unitholders	$0.01	$0.01	$0.05	$0.05

Unvested restricted units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three months ended March 31, 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 March 13, 2013, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $21.7 million, which was paid on April 19, 2013 to unitholders of record as of April 5, 2013.

On March 13, 2013, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of March 30, 2013. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions paid on April 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 three-month period ended March 31, 2013 and accordingly, during the three-month period ended March 31, 2013, the Operating Partnership did not repurchase any units in connection with the Parent Company’s share repurchase program.

14. SHARE BASED AND DEFERRED COMPENSATION

Stock Options

At March 31, 2013, options exercisable for 3,166,998 common shares were outstanding under the Parent Company's shareholder approved equity incentive plan. There were 184,430 options unvested as of March 31, 2013 and $0.5 million of unrecognized compensation expense associated with these options to be recognized over a weighted average term of 0.9 years. During the three-month periods ended March 31, 2013 and 2012 the Company recognized compensation expense related to unvested options of $0.3 million and $0.4 million, of which a nominal amount and $0.1 million, respectively, were capitalized, consistent with the Company’s policies for capitalizing eligible portions of employee compensation.

Option activity as of March 31, 2013 and changes during the three months ended March 31, 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	(76,340)	$10.11	—	—
Canceled	(94,211)	$19.00		
Outstanding at March 31, 2013	3,166,998	$14.84	5.72	$—
Vested/Exerciseable at March 31, 2013	2,982,568	$15.16	5.64	$—

Restricted Share Awards

As of March 31, 2013, 719,677 restricted shares were outstanding under the 1997 Plan and vest over three to seven years from the initial grant date. At March 31, 2013, approximately $3.8 million of compensation expense remained to be recognized and is expected to be recognized over a weighted average remaining vesting period of 1.4 years. The Company recognized compensation expense related to outstanding restricted shares of $0.9 million and $0.7 million during the three-month periods ended March 31, 2013 and 2012, of which $0.2 million was capitalized in each of these periods, consistent with the Company’s policies for capitalizing eligible portions of employee compensation. The expensed amounts are included in general and administrative expense on the Company’s consolidated statement of operations in the respective periods.

The following table summarizes the Company’s restricted share activity for the three months ended March 31, 2013:

	Shares	Weighted Average Grant Date Fair value
Non-vested at January 1, 2013	597,708	$9.46
Granted	157,208	12.96
Vested	(26,974)	25.16
Forfeited	(8,265)	10.60
Non-vested at March 31, 2013	719,677	$12.20

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-month periods ended March 31, 2013 and 2012, the Company recognized total compensation expense for the 2013, 2012 and 2011 awards of $1.2 million and $0.6 million, of which $0.3 million and $0.2 million, respectively, were capitalized consistent with the Company’s policies for capitalizing eligible portions of employee compensation.

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 March 31, 2013 and December 31, 2012. The contributions were recorded net of the amount allocated to non-controlling interest as described above of $2.6 million at the end of each of the periods ended March 31, 2013 and 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 March 31, 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 $0.4 million for each of the three-month periods ended March 31, 2013 and 2012.

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 March 31, 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 March 31, 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 March 31, 2013, the Company was managing its portfolio within seven segments: (1) Pennsylvania, (2) Philadelphia Central Business District (CBD), (3) Metropolitan Washington D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia and 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, Carlsbad and Rancho Bernardo. The corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions. Land held for development and construction in progress are transferred to operating properties by region upon completion of the associated construction or project.

Segment information is as follows (in thousands):

	Pennsylvania Suburbs	Philadelphia CBD	Metropolitan, D.C.	New Jersey/Delaware	Richmond, Virginia	Austin, Texas	California	Corporate	Total
As of March 31, 2013:									
Real estate investments, at cost:									
Operating properties	$1,179,683	$994,939	$1,197,904	$414,485	$310,621	$285,540	$224,718	$—	$4,607,890
Construction-in-progress								53,468	53,468
Land inventory								92,776	92,776
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								48,950	48,950
Land inventory								102,439	102,439
For the three-months ended March 31, 2013:									
Total revenue	$38,187	$35,925	$27,785	$15,602	$8,765	$9,257	$5,389	$(302)	$140,608
Property operating expenses, real estate taxes and third party management expenses	13,977	13,534	10,763	7,408	3,683	3,958	2,395	(222)	55,496
Net operating income	$24,210	$22,391	$17,022	$8,194	$5,082	$5,299	$2,994	$(80)	$85,112
For the three-months ended March 31, 2012:									
Total revenue	$38,105	$33,149	$26,437	$15,730	$9,034	$7,495	$4,971	$(382)	$134,539
Property operating expenses, real estate taxes and third party management expenses	13,348	12,686	10,065	7,831	3,643	3,397	2,368	(444)	52,894
Net operating income	$24,757	$20,463	$16,372	$7,899	$5,391	$4,098	$2,603	$62	$81,645

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

	Three-month periods ended March 31,	
	2013	2012
	(amounts in thousands)	
Consolidated net operating income	$85,112	$81,645
Less:		
Interest expense	(30,914)	(34,144)
Deferred financing costs	(1,161)	(1,311)
Depreciation and amortization	(49,861)	(48,096)
Administrative expenses	(6,551)	(6,050)
Plus:		
Interest income	58	483
Interest expense - financing obligation	(218)	(182)
Equity in income of real estate ventures	1,535	44
Loss on early extinguishment of debt	(3)	(248)
Loss from continuing operations	(2,003)	(7,859)
Income from discontinued operations	5,922	17,195
Net income	$3,919	$9,336

17. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Environmental

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

Ground Rent

Future minimum rental payments under the terms of all non-cancelable ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The Company's ground leases have remaining lease terms ranging from 16 to 90 years. Minimum future rental payments on non-cancelable leases at March 31, 2013 are as follows (in thousands):

2013 (nine months remaining)	$1,364
2014	1,818
2015	1,818
2016	1,909
2017	1,909
Thereafter	288,297

One of the land leases for a property provides for contingent rent participation by the lessor in certain capital transactions and net operating cash flows of the property after certain returns are achieved by the Company. Such amounts, if any, will be reflected as contingent rent when incurred. The leases also provide for payment by the Company of certain operating costs relating to the land,

primarily real estate taxes. The above schedule of future minimum rental payments does not include any contingent rent amounts or any reimbursed expenses.

The Company acquired ground tenancy rights under a long term ground lease agreement related to its acquisition of 3020 Market Street in Philadelphia, Pennsylvania on August 12, 2011. The annual rental payments under this ground lease is equal to a percentage of the NOI generated by the property. The Company has not included the amounts in the table above since such amounts are not fixed or determinable.

The Company also acquired ground tenancy rights under a long term ground lease agreement through its acquisition of Three Logan Square on August 5, 2010. The annual rental payment under this ground lease is ten dollars through August 2022 which is when the initial term of the ground lease is scheduled to end. After the initial term, the Company has the option to renew the lease until 2091. The Company also has the option to purchase the land at fair market value after providing a written notice to the owner. The annual rental payment after 2022 will be adjusted at the lower of $3.0 million or the prevailing market rent at that time until 2030. Subsequent to 2030, the annual rental payment will be adjusted at the lower of $4.0 million or the prevailing market rent at the time until 2042 and at fair market value until 2091. The Company believes that based on conditions as of the date the Company acquired its rights under the lease (August 5, 2010), the lease will reset to market after the initial term. Using the estimated fair market rent as of the date of the acquisition over the extended term of the ground lease (assuming the purchase option is not exercised), the future payments will aggregate to $27.4 million. The Company has not included the amounts in the table above since such amounts are not fixed or determinable. Please see Note 18 for further information regarding this ground lease.

Other Commitments or Contingencies

As part of the Company’s September 2004 acquisition of a portfolio of properties from The Rubenstein Company (which the Company refers to as the "TRC acquisition"), the Company acquired its interest in Two Logan Square, a 708,844 square foot office building in Philadelphia, primarily through its ownership of a second and third mortgage secured by this property. This property is consolidated, as the borrower is a variable interest entity and the Company, through its ownership of the second and third mortgages, is the primary beneficiary. The Company currently does not expect to take title to Two Logan Square until, at the earliest, September 2019. If the Company takes fee title to Two Logan Square upon a foreclosure of its mortgage, the Company has agreed to pay an unaffiliated third party that holds a residual interest in the fee owner of this property an amount equal to $2.9 million. On the TRC acquisition date, the Company recorded a liability of $0.7 million and this amount will accrete up to $2.9 million through September 2019. As of March 31, 2013, the Company had a balance of $1.5 million for this liability in its consolidated balance sheet.

The Company was audited by the Internal Revenue Service (the “IRS”) for its 2004 tax year. The audit concerned the tax treatment of the TRC acquisition in September 2004 in which the Company acquired a portfolio of properties through the acquisition of a limited partnership. On December 17, 2010, the Company received notice that the IRS proposed an adjustment to the allocation of recourse liabilities allocated to the contributor of the properties. The Company appealed the proposed adjustment and expects to enter into a settlement agreement with the IRS which will not result in a material tax liability for the Company. Assuming that the settlement agreement is finalized as expected, the contributor of partnership interests in the 2004 transaction has agreed not to assert a claim against the Company under the tax protection agreement entered into as part of the transaction.

As part of the Company’s 2006 merger with Prentiss Properties Trust ("Prentiss"), the 2004 TRC acquisition and several of our other transactions, the Company agreed not to sell certain of the properties it acquired in transactions that would trigger taxable income to the former owners. In the case of the TRC acquisition, the Company agreed not to sell acquired properties in non-exempt transactions for periods up to 15 years from the date of the TRC acquisition as follows at March 31, 2013: One Rodney Square and 130/150/170 Radnor Financial Center (January, 2015); and One Logan Square, Two Logan Square and Radnor Corporate Center (January, 2020). In the Prentiss acquisition, the Company assumed the obligation of Prentiss not to sell Concord Airport Plaza before March, 2018. The Company’s agreements generally provide that it may dispose of the subject properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transactions. If the Company were to sell a restricted property before expiration of the restricted period in a non-exempt transaction, the Company may be required to make significant payments to the parties who sold the applicable property on account of tax liabilities attributed to them.

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

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

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

18. SUBSEQUENT EVENTS

On April 25, 2013, the Company purchased the land previously held under a long-term ground lease agreement related to its Three Logan Square property. The total cost of the purchase was $20.8 million, and relieves the Company of any future obligations under the previous ground lease agreement.

On April 10, 2013, the Company completed 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 intends 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.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

- failure of dispositions to close in a timely manner;
- failure of buyers of our properties to comply with the terms of their financing agreements to us;
- earthquakes and other natural disasters;
- the unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;
- risks associated with federal, state and local tax audits;
- complex regulations relating to our status as a REIT and the adverse consequences of the Parent Company's failure to qualify as a REIT; and
- the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results.

Given these uncertainties, and the other risks identified in the “Risk Factors” section of our 2012 Annual Report on Form 10-K, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

The discussion that follows is based primarily on our consolidated financial statements as of March 31, 2013 and December 31, 2012 and for the three-month periods ended March 31, 2013 and 2012 and should be read along with the consolidated financial statements and related notes appearing elsewhere in this report. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

OVERVIEW

As of March 31, 2013, our 214 property portfolio consisted of 185 office properties, 19 industrial facilities, five mixed-use properties (209 core properties), one development property, two redevelopment properties and two re-entitlement properties that contain an aggregate of approximately 24.3 million net rentable square feet. As of March 31, 2013, we also held economic interests in 19 unconsolidated real estate ventures that we formed with third parties to develop or own commercial properties. The properties owned by these Real Estate Ventures contain approximately 6.4 million net rentable square feet.

As of March 31, 2013, we managed our portfolio within seven geographic segments: (1) Pennsylvania, (2) Philadelphia CBD, (3) Metropolitan Washington, D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia and southern Maryland. The New Jersey/Delaware segment includes properties in Burlington, Camden county 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, Carlsbad and Rancho Bernardo.

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

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

Challenging economic conditions could result in a reduction of the availability of financing and potentially in higher borrowing costs. These factors, coupled with ongoing economic recovery, have reduced the volume of real estate transactions and created credit stresses on most businesses. Vacancy rates may increase through 2013 and possibly beyond as the current economic climate negatively impacts tenants.

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

We seek revenue growth throughout our portfolio by increasing occupancy and rental rates. Occupancy at our wholly owned properties at March 31, 2013 was 87.7%.

The table below summarizes the key operating and leasing statistics of our wholly owned operating properties for the three months ended March 31, 2013:

	Three-month period ended March 31, 2013	
Leasing Activity:		
Core portfolio net rentable square feet owned (1)	23,440,710	
Occupancy percentage (end of period)	87.7	%
Average occupancy percentage	87.7	%
New leases and expansions commenced (square feet)	319,244	
Leases renewed (square feet)	372,873	
Net absorption (square feet) (2)	(123,940	)
Percentage change in rental rates per square feet (3):		
New and expansion rental rates	5.7	%
Renewal rental rates	11.0	%
Combined rental rates	9.5	%
Capital Costs Committed (4):		
Leasing commissions (per square feet)	$5.35	
Tenant Improvements (per square feet)	$11.71	

(1) Includes all properties in the core portfolio (i.e. not under development or redevelopment or a re-entitlement property), including properties that were sold during these periods.
(2) Includes leasing related to completed developments and redevelopments, as well as sold properties.
(3) Rental rates include base rent plus reimbursement for operating expenses and real estate taxes.
(4) Calculated on an average basis.

In seeking to increase revenue through our operating, financing and investment activities, we also seek to minimize operating risks, including (i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

Tenant Rollover Risk:

We are subject to the risk that tenant leases, upon expiration, will not be renewed, that space may not be relet, or that the terms of renewal or reletting (including the cost of renovations) may be less favorable to us than the current lease terms. Leases accounting for approximately 5.5% of our aggregate final annualized base rents as of March 31, 2013 (representing approximately 5.5% of the net rentable square feet of the Properties) expire without penalty in 2013. As of March 31, 2013, the annualized rent per square foot of these expiring leases amounted to $23.25, and although we can provide no assurance, we currently expect that the annualized market rent per square foot will increase by 3% to 5% through a combination of new leases and renewals throughout the year. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. During the three months ended March 31, 2013, we achieved a 52.7% retention rate in our core portfolio, which was primarily attributable to a former tenant in our Austin, Texas region vacating approximately 0.1 million net rentable square feet. We have leased the majority of this vacant space, which will be occupied over the remainder of 2013. If we are unable to renew leases or relet space under expiring leases, at anticipated rental rates, or if tenants terminate their leases early, our cash flow would be adversely impacted.

Tenant Credit Risk:
In the event of a tenant default, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. Our management regularly evaluates our accounts receivable reserve policy in light of our tenant base and general and local economic conditions. Our accounts receivable allowance was $16.5 million or 10.9% of total receivables (including accrued rent receivables) as of March 31, 2013 compared to $16.6 million or 10.9% of total receivables (including accrued rent receivables) as of December 31, 2012.
If economic conditions persist or deteriorate further, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents. This condition would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition.
Development Risk:
As of March 31, 2013, we owned approximately 431 acres of undeveloped land, and held options to purchase approximately 51 additional acres of undeveloped land. As market conditions warrant, we will seek to opportunistically dispose of those parcels that we do not anticipate developing. For parcels of land that we ultimately develop, we will be subject to risks and costs associated with land development, including building moratoriums and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals, construction cost increases or overruns and construction delays, and insufficient occupancy rates and rental rates. As of March 31, 2013, the total potential development that these land parcels could support amounted to 6.1 million square feet.
We are a party to a development agreement and related ground leases covering two adjacent parcels of land. On January 25, 2013, we contributed our development rights in one of the land parcels to a newly formed joint venture (please refer to Note 4 for further information), and the venture commenced construction during the three months ended March 31, 2013. We have 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 we determine that we will not be able to commence development of the other parcel by December 31, 2015, or if we determine that development is not in our best economic interest and an additional extension of the development period cannot be negotiated, then we will be required to write off all costs that we have incurred in preparing this remaining land parcel for development, amounting to $5.9 million as of March 31, 2013.
RECENT PROPERTY TRANSACTIONS
On January 25, 2013, we 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"). We and Campus Crest each own 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 which, together with development rights, we contributed to the Grove Venture 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.
In connection with our development of the Grove project through the Grove Venture (as described in Note 4 to the consolidated financial statements), we and Campus Crest have 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 our share of the payment guaranty being approximately $23.0 million).
On February 25, 2013, we 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.
We continually assess our portfolio in light of our strategic and economic considerations to determine whether to sell properties in the portfolio. Sales of properties, and determinations to hold properties for sale, may result in an impairment or other loss, and such loss could be material to our statement of operations.
CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of

America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in accounting policies are reasonably likely to occur from period to period. Management bases its estimates and assumptions on historical experience and current economic conditions. On an on-going basis, management evaluates its estimates and assumptions including those related to revenue, impairment of long-lived assets and the allowance for doubtful accounts. Actual results may differ from those estimates and assumptions.

Our Annual Report on Form 10-K for the year ended December 31, 2012 contains a discussion of our critical accounting policies. There have been no significant changes in our critical accounting policies since December 31, 2012. See also Note 2 in our unaudited consolidated financial statements for the three months ended March 31, 2013 set forth herein. Management discusses our critical accounting policies and management's judgments and estimates with our Audit Committee.

RESULTS OF OPERATIONS

The following discussion is based on our Consolidated Financial Statements for the three-month periods ended March 31, 2013 and 2012. We believe that presentation of our consolidated financial information, without a breakdown by segment, will effectively present important information useful to our investors.

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

Comparison of the Three-Month Periods Ended March 31, 2013 and March 31, 2012

The table below shows selected operating information for the "Same Store Property Portfolio" and the "Total Portfolio." The Same Store Property Portfolio consists of 208 properties containing an aggregate of approximately 23.3 million net rentable square feet, and represents properties that we owned for the entire three-month periods ended March 31, 2013 and 2012. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to January 1, 2012 and owned through March 31, 2013. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2012 or disposed prior to March 31, 2013. A property is excluded from our Same Store Property Portfolio and moved into the redevelopment column in the period that we determine that a redevelopment would be the best use of the asset, and when said asset is taken out of service or is undergoing re-entitlement for a future development strategy. This table also includes a reconciliation from the Same Store Property Portfolio to the Total Portfolio net income (i.e., all properties owned by us during the three-month periods ended March 31, 2013 and 2012) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the three-month periods ended March 31, 2013 and 2012 (in thousands).

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

Comparison of three-months ended March 31, 2013 to the three-months ended March 31, 2012

	Same Store Property Portfolio			Recently Completed/Acquired Properties (a)		Development Properties (b)		Other (Eliminations) (c)		Total Portfolio		
(dollars in thousands)	2013	2012	Increase/ (Decrease)	2013	2012	2013	2012	2013	2012	2013	2012	In (D
Revenue:												
Cash rents	$106,324	$102,328	$3,996	$561	$—	$2,163	215	$(735)	$(733)	$108,313	$101,810	$6
Straight-line rents	4,643	6,436	(1,793)	82	—	720	16	—	—	5,445	6,452	(1
Above/below market rent amortization	1,500	1,437	63	50	—	244	—	—	—	1,794	1,437	35
Total rents	112,467	110,201	2,266	693	—	3,127	231	(735)	(733)	115,552	109,699	5,
Tenant reimbursements	19,572	18,480	1,092	349	—	455	230	(19)	(14)	20,357	18,696	1,
Termination fees	496	1,490	(994)	—	—	—	—	—	—	496	1,490	(9
Third party management fees, labor reimbursement and leasing	—	—	—	—	—	—	—	3,236	3,142	3,236	3,142	94
Other	722	1,369	(647)	—	—	15	13	230	130	967	1,512	(5
Total revenue	133,257	131,540	1,717	1,042	—	3,597	474	2,712	2,525	140,608	134,539	6,
Property operating expenses	40,481	39,987	(494)	183	—	1,337	418	(2,360)	(2,328)	39,641	38,077	1,
Real estate taxes	13,545	13,243	(302)	170	—	603	154	112	170	14,430	13,567	86
Third party management expenses	—	—	—	—	—	—	—	1,425	1,250	1,425	1,250	17
Net operating income	79,231	78,310	921	689	—	1,657	(98)	3,535	3,433	85,112	81,645	3,
General & administrative expenses	—	—	—	—	—	—	—	6,551	6,050	6,551	6,050	50
Depreciation and amortization	45,873	47,734	(1,861)	352	—	3,605	235	31	127	49,861	48,096	1,
Operating income (loss)	$33,358	$30,576	$2,782	$337	$—	$(1,948)	(333)	$(3,047)	$(2,744)	$28,700	$27,499	$1
Number of properties	208	208		1		5		—		214		
Square feet	23,305	23,305		136		858		—		24,299		
Core Occupancy % (d)	87.6%	87.4%		100.0%		N/A				87.7%		

Other Income (Expense):			
Interest income	58	483	(4
Interest expense	(30,914)	(34,144)	3,
Deferred financing costs	(1,161)	(1,311)	15
Interest expense — Deferred financing costs	(218)	(182)	(3
Equity in income of real estate ventures	1,535	44	1,
Loss on early extinguishment of debt	(3)	(248)	24
Loss from continuing operations	(2,003)	(7,859)	5,
Income from discontinued operations	5,922	17,195	(1
Net income	$3,919	$9,336	$(
Income per common share	$0.01	$0.05	$(

EXPLANATORY NOTES

(a) Results include: One acquired property.

(b) Results include: One development, two redevelopments and two re-entitlement properties.

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

(d) Pertains to properties that are part of our core portfolio (i.e. not under development, redevelopment or re-entitlement).

Total Revenue

Cash rents from the Total Portfolio increased by $6.5 million from the first quarter of 2012 to the first quarter of 2013, primarily attributable to:

- an increase of $4.0 million due to an increase in same store occupancy of 200 basis points from the first quarter of 2012 to the first quarter of 2013;
- an increase of $1.9 million due to our acquisition of 1900 Market Street during the fourth quarter of 2012. This property was 76.3% occupied as of March 31, 2013, with redevelopment expected to commence in 2013 in anticipation of the lead tenant's departure in late 2015;
- an increase of $0.6 million related to the acquisition of 7000 West at Lantana during the fourth quarter of 2012, and;
- a 490 basis point increase in renewal cash rental rates from the first quarter of 2012 to the first quarter of 2013.

Straight-line rents decreased by $1.0 million due to free rent converting to cash rent subsequent to the first quarter of 2012 at our same store properties. These decreases were offset by a $0.7 million increase related to a tenant taking occupancy of a portion of a redevelopment property, 660 Germantown Pike, during the third quarter of 2012.

Tenant reimbursements increased $1.7 million, consistent with the increase in operating expenses over the same period. Please see the Property Operating Expenses and Real Estate Taxes explanations below and note that certain costs, such as snow removal costs, carry a higher tenant reimbursement percentage.

Termination fees at our Total Portfolio decreased by $1.0 million due to timing and volume of tenant move-outs during the first quarter of 2013 when compared to the first quarter of 2012.

Property Operating Expenses

Property operating expenses across our total portfolio increased $1.6 million from the first quarter of 2012 to the first quarter of 2013, mainly attributable to the following, (i) an increase of $0.4 million in snow removal costs due to additional snow storms experienced in our Pennsylvania and New Jersey submarkets during the first quarter 2013 compared to the first quarter of 2012, (ii) an increase of $0.4 million in repairs and maintenance expenses, directly attributable to timing and tenant needs, and (iii) an increase of $0.4 million in leasing commissions expenses incurred during the first quarter of 2013 compared to the first quarter of 2012, which is directly related to the increase in occupancy noted above. The remaining increase is attributable to increases in various expenses from the first quarter of 2012 to the first quarter of 2013, none of which were materially significant.

Real Estate Taxes

Real estate taxes increased by $0.9 million, mainly attributable to our acquisitions of 7000 West Lantana and 1900 Market Street during the fourth quarter of 2012, as well as the placement into service of a portion of 660 West Germantown Pike subsequent to the first quarter of 2012.

Depreciation and Amortization

Depreciation and amortization expense increased by $1.8 million, primarily attributable to the acceleration of depreciation expense related to our two re-entitlement properties, 6 East Clementon and 1000 Plaza at Main Street. We are in the process of re-entitling these properties for residential and mixed-use development, and accordingly, we shortened the useful lives for each of these buildings to the expected demolition date. In addition, a portion of 660 West Germantown Pike was placed into service subsequent to the first quarter of 2012 resulting in additional depreciation expense during the first quarter of 2013.

Interest Expense

The decrease in interest expense of $3.2 million is primarily due to the following:

- a decrease of $2.7 million as a result of the repurchases of debt subsequent to the first quarter of 2012, including (i) $1.0 million of our 5.400% Guaranteed Notes due 2014, (ii) $60.4 million of our 7.500% Guaranteed Notes due 2015, and (iii) $99.6 million of our 6.000% Guaranteed Notes due 2016;

- a decrease of $2.2 million related to our 5.400% Guaranteed Notes that matured and were repaid in full during the second quarter of 2012, and;

48

- a decrease of $1.2 million in mortgage interest expense which is directly related to the $60.0 million decrease resulting from the repayment of two mortgage loans during the fourth quarter 2012.

The decrease of $6.1 million in interest expense described above was offset by the following increases in interest expense during the first quarter of 2013 compared to the first quarter of 2012:

- an increase of $2.5 million related to our $250.0 million 3.950% Guaranteed Notes due 2023 issued in the fourth quarter of 2012;

- an increase of $0.2 million related to interest expense incurred related to our term loans. The increase in interest expense was the result of incurring a full quarter of interest expense during the first quarter of 2013 compared to incurring two months of interest expense during the first quarter of 2012. This increase was offset by the repayment of $150.0 million of our term loan due 2016, and;

- an increase of $0.2 million in swap interest expense. We have entered into interest rate swap agreements related to all of our variable rate debt except $100.0 million of term loan indebtedness.

Equity in Income of Real Estate Ventures

The increase in equity in income of real estate ventures of $1.5 million is attributable to the following: (i) an increase of $0.6 million from a cash distribution received from the Beacon Venture in excess of our investment basis, (ii) an increase of $0.3 million related to the acquisition of three properties during the third quarter of 2012 by the BDN AI Venture, and (iii) an increase of $0.4 million as a result of an increase in the preferred return recognized at the One and Two Commerce Square Real Estate Venture. The remainder of the increase is the result of normal operating activities at the partnership level.

Discontinued Operations

During the three months ended March 31, 2013, we sold a portfolio of eight office properties located in Lawrenceville, New Jersey. Through the date of sale during the first quarter, the properties had total revenues of $3.1 million, property operating expenses of $1.4 million and $1.1 million of depreciation and amortization expense. We recognized a net gain on sale related to this transaction of $5.3 million.

The March 31, 2012 amounts are reclassified to include the operations of the properties sold through the first quarter of 2013, as well as all properties that were sold through the year ended December 31, 2012. Therefore, the discontinued operations amount for the first quarter of 2012 includes total revenue of $9.4 million, operating expense of $3.5 million, and depreciation and amortization of $3.4 million.

Net income

Net income decreased by $5.4 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 as a result of the factors described above. Net income is significantly impacted by depreciation of operating properties and amortization of acquired intangibles. These non-cash charges do not directly affect our ability to pay dividends. Amortization of acquired intangibles will continue over the related lease terms or estimated duration of the tenant relationships.

Income per Common Share

Income per share was $0.01 during the three months ended March 31, 2013 as compared to income per share of $0.05 during the three months ended March 31, 2012 as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES OF THE PARENT COMPANY

The Parent Company conducts its business through the Operating Partnership and the Parent Company's only material asset is its ownership of partnership interests in the Operating Partnership. The Parent Company, other than acting as the sole general partner of the Operating Partnership, issues equity from time to time (and contributes the net proceeds of such issuances to the Operating Partnership in exchange for additional equity interests in the Operating Partnership) and guarantees the debt obligations of the Operating Partnership. The Parent Company’s principal funding requirement is the payment of dividends on its common shares and preferred shares. The Parent Company's source of funding for its dividend payments and other obligations is the distributions it receives from the Operating Partnership.

As of March 31, 2013, the Parent Company owned a 98.7% interest in the Operating Partnership. The remaining interest of approximately 1.3% pertains to common limited partnership interests owned by non-affiliated investors who contributed property to the Operating Partnership in exchange for their interests. As the sole general partner of the Operating Partnership, the Parent Company has full and complete responsibility for the Operating Partnership’s day-to-day operations and management.

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

The Parent Company receives proceeds from equity issuances from time to time and contributes such proceeds from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Parent Company’s ability to sell common shares and preferred shares is dependent on, among other things, general market conditions for REITs, market perceptions about the Company as a whole and the current trading price of its shares. The Parent Company regularly analyzes which source of capital is most advantageous to it at any particular point in time.

On April 10, 2013, the Parent Company completed 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 intends 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.

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 three-month period ended March 31, 2012, 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.

On March 13, 2013, the Parent Company declared a distribution of $0.15 per common share, totaling $21.7 million, which it paid on April 19, 2013 to its shareholders of record as of April 5, 2013. In addition, the Parent Company declared distributions on its Series E Preferred Shares to holders of record as of March 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 April 15, 2013 to holders of Series E Preferred Shares totaled $1.7 million.

The Parent Company also maintains a share repurchase program under which its Board of Trustees has authorized the Parent Company to repurchase its common shares from time to time. As of March 31, 2013, there were approximately 0.5 million shares remaining to be repurchased under this program. The Parent Company did not repurchase any shares during the three-month period ended March 31, 2013. The Parent Company’s Board of Trustees has not limited the duration of the program, however, it may be terminated at any time.

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

The Parent Company unconditionally guarantees the Operating Partnership’s secured and unsecured obligations, which, as of March 31, 2013, amounted to $441.2 million and $1,959.0 million, respectively. If the Operating Partnership were to fail to comply with the covenants and restrictions in its loan agreements and indenture, then the Parent Company would be required to fulfill the Operating Partnership’s commitments under such guarantees. The Parent Company's only material asset, however, is its ownership interest in the Operating Partnership. As of March 31, 2013, the Operating Partnership was in compliance with all of its debt covenant and requirement obligations.

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

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

LIQUIDITY AND CAPITAL RESOURCES OF THE OPERATING PARTNERSHIP

General

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

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

The Operating Partnership believes that with uncertain economic conditions, vacancy rates may increase, effective rental rates on new and renewed leases may decrease and tenant installation costs, including concessions, may increase in most or all of its markets throughout 2013 and possibly beyond. As a result, the Operating Partnership's revenue from the overall reduced demand for office space, and its cash flow could be insufficient to cover increased tenant installation costs over the short-term. If this situation were to occur, the Operating Partnership expects that it would finance cash deficits through borrowings under the Credit Facility and other debt and equity financings.

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

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

The Operating Partnership's liquidity management remains a priority. The Operating Partnership regularly pursues new financing opportunities to ensure an appropriate balance sheet position. As a result of these dedicated efforts, the Operating Partnership is comfortable with its ability to meet future debt maturities and development or property acquisition funding needs. The Operating Partnership believes that its current balance sheet is in an adequate position at the date of this filing, despite the volatility in the credit and financial markets.

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

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

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

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

Cash Flows

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

As of March 31, 2013 and December 31, 2012, the Operating Partnership maintained cash and cash equivalents of $47.9 million and $1.5 million, respectively. The following are the changes in cash flow from its activities for the three-month periods ended March 31, 2013 and 2012 (in thousands):

Activity	2013	2012
Operating	$49,843	$44,222
Investing	90,971	(7,954)
Financing	(94,489)	247,558
Net cash flows	$46,325	$283,826

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

The net increase of $5.6 million in cash from operating activities of the Operating Partnership during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 is primarily attributable to the following:

- an increase due to the amount of gain on sale of interests in real estate recognized during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, and;
- the timing of cash receipts and cash expenditures in the normal course of operations.

The net increase of $98.9 million in cash from investing activities of the Operating Partnership during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 is primarily attributable to the following:

- the purchase of $50.7 million in held-to-maturity securities during the first quarter of 2012, with no comparable purchases for the first quarter of 2013;
- an increase of $20.5 million of net proceeds from the sale of eight properties during the first quarter of 2013. There were two property sales during the first quarter of 2012 (see Note 3 to the consolidated financial statements for details);
- an increase of $17.0 million in proceeds from the sale of our entire 20% interest in the BDN Beacon, LLC Venture during the first quarter of 2013, with no comparable activity for the first quarter of 2012 (see Note 4 to the consolidated financial statements for details);
- a decrease of $9.2 million in funds used to acquire operating properties, mainly attributable to the Operating Partnership's acquisition of a development property, 660 West Germantown Pike, during the first quarter of 2012,

with no comparable acquisitions during the first quarter of 2013;

- a decrease of $5.5 million of investments in unconsolidated Real Estate Ventures during the first quarter of 2013, primarily reflecting $12.0 million that the Company contributed to a venture to fund its share of mortgage indebtedness that was repaid during the first quarter of 2012, offset by the Company's contributions of capital to fund the operations of the One and Two Commerce Square Real Estate Ventures to during the first quarter of 2013, and;
- the reimbursement of pre-formation development expenses from a real estate venture of $2.0 million during the first quarter of 2013, with no comparable reimbursements during the first quarter of 2012;
- an increase in cash distributions from unconsolidated Real Estate Ventures of $0.7 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, primarily reflecting increased distributions of operating cash flow by the BDN AI Venture during the first quarter of 2013;
- payment of $0.2 million received on a mortgage note receivable during the three months ended March 31, 2013. There were no comparable proceeds received during the three months ended March 31, 2012.

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

- an increase in capital expenditures related to our developments, redevelopments, tenant and building improvements and leasing commissions by $6.4 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The increase in capital expenditures during the first three months of 2013 was mainly attributable to the increased expenditures incurred related to new leasing efforts, as well as increased development expenditures related to 660 West Germantown Pike during the first quarter of 2013, and;
- a decrease in advances made for purchase of tenant assets, net of repayments of $0.5 million during the three months ended March 31, 2013 when compared to the three months ended March 31, 2012.

The net increase of $342.0 million in cash used in financing activities of the Operating Partnership during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 is mainly due to the following:

- Receipt of new unsecured term loan funding of $600.0 million during the three months ended March 31, 2012, with no comparable funding for the three months ended March 31, 2013;

The net increase in cash used in financing activities described above was offset by the following:

- an increase in proceeds from the Credit Facility of $164.5 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012;
- a decrease in repayments of the Credit Facility and mortgage notes payable of $42.2 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012;
- repayment of an unsecured term loan of $37.5 million during the first quarter of 2012, with no comparable repayment during the first quarter of 2013;
- debt financing costs paid of $8.4 million during the three months ended March 31, 2012, with no comparable costs paid during the three months ended March 31, 2013;
- repayment of unsecured notes of $4.2 million during the three months ended March 31, 2012, with no comparable repayments during the three months ended March 31, 2013;
- exercise of stock options of $0.7 million during the three months ended March 31, 2013, with no comparable exercises during the three months ended March 31, 2012;
- net settlement of hedge transactions of $0.1 million during the three months ended March 31, 2012, with no comparable settlements during the three months ended March 31, 2013, and;
- a decrease in distributions paid by the Parent Company to its shareholders and on non-controlling interests from $24.0 million during the three months ended March 31, 2012 to $23.6 million during the three months ended March 31, 2013.

Capitalization

Indebtedness

The table below summarizes the Operating Partnership's indebtedness under its mortgage notes payable, its unsecured notes and its Credit Facility at March 31, 2013 and December 31, 2012:

	March 31, 2013		December 31, 2012	
	(dollars in thousands)			
Balance:				
Fixed rate	$2,300,130		$2,302,895	
Variable rate — unhedged	100,000		169,000	
Total	$2,400,130		$2,471,895	
Percent of Total Debt:				
Fixed rate	95.8	%	93.2	%
Variable rate — unhedged	4.2	%	6.8	%
Total	100	%	100	%
Weighted-average interest rate at period end:				
Fixed rate	5.3	%	5.3	%
Variable rate — unhedged	2.0	%	1.9	%
Total	5.2	%	5.1	%

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

The Operating Partnership will use Credit Facility borrowings for general business purposes, including the acquisition, development and redevelopment of properties and the repayment of other debt. It has the option to increase the maximum borrowings under the Credit Facility to $800.0 million subject to the absence of any defaults and its ability to obtain additional commitments from its existing or new lenders. The Credit Facility requires the maintenance of financial covenants, including ratios related to minimum net worth, debt to total capitalization and fixed charge coverage and customary non-financial covenants. The Operating Partnership is in compliance with all covenants as of March 31, 2013.

The indenture under which the Operating Partnership issued its unsecured notes contains financial covenants, including (i) a leverage ratio not to exceed 60%, (ii) a secured debt leverage ratio not to exceed 40%, (iii) a debt service coverage ratio of greater than 1.5 to 1.0 and (iv) an unencumbered asset value of not less than 150% of unsecured debt. The Operating Partnership is in compliance with all covenants as of March 31, 2013.

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

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

As of March 31, 2013, the Operating Partnership had guaranteed repayment of approximately $0.6 million of loans on behalf of one Real Estate Venture. The Operating Partnership also provides customary environmental indemnities and completion guarantees in connection with construction and permanent financing both for its own account and on behalf of certain of the Real Estate Ventures.

Equity

On April 10, 2013, the Parent Company completed 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

54

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 intends 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 March 13, 2013, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $21.7 million, which was paid on April 19, 2013 to unitholders of record as of April 5, 2013.

On March 13, 2013, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of March 30, 2013. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions paid on April 15, 2013 to holders of Series E-Linked Preferred Mirror Units totaled $1.7 million.

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

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

Short- and Long-Term Liquidity

The Operating Partnership believes that its available cash balances and cash flow from operations are adequate to fund its short-term liquidity requirements, excluding principal payments under its debt obligations. Cash flow from operations is generated primarily from rental revenues and operating expense reimbursements from tenants and management services income from providing services to third parties. The Operating Partnership intends to use these funds to meet short-term liquidity needs, which are to fund operating expenses, recurring capital expenditures, tenant allowances, leasing commissions, interest expense and the minimum distributions required to maintain the Parent Company’s REIT qualification under the Internal Revenue Code. The Operating Partnership expects to meet short-term scheduled debt maturities through borrowings under the Credit Facility and proceeds from potential asset dispositions. As of March 31, 2013, the Operating Partnership had $1,959.0 million of total unsecured debt and $441.2 million of mortgage debt with $8.5 million of mortgage principal payments scheduled to be repaid through December 31, 2013. The Operating Partnership expects to meet its long-term liquidity requirements, such as for property acquisitions, development, investments in real estate ventures, scheduled debt maturities, major renovations, expansions and other significant capital improvements, through cash from operations, borrowings under the Credit Facility, additional secured and unsecured indebtedness, the issuance of equity securities, contributions from joint venture investors and proceeds from asset dispositions.

Inflation

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

Commitments and Contingencies

The following table outlines the timing of payment requirements related to the Operating Partnership's contractual commitments as of March 31, 2013:

	Payments by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Mortgage notes payable (a)	$441,177	$11,432	$111,630	$126,879	$191,236
Unsecured term loan	450,000	—	250,000	—	200,000
Unsecured debt (a)	1,508,953	—	555,343	625,000	328,610
Ground leases (b)	297,115	1,364	5,545	5,727	284,479
Development contracts (c)	360	360	—	—	—
Interest expense (d)	447,855	104,958	170,774	78,952	93,171
Other liabilities (e)	13,275	—	—	—	13,275
	$3,158,735	$118,114	$1,093,292	$836,558	$1,110,771

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

(b) Future minimum rental payments under the terms of all non-cancelable ground leases under which we are the lessee are expensed on a straight-line basis regardless of when payments are due. The table above does not include the future minimum annual rental payments related to the ground lease that we assumed in connection with our acquisition of Three Logan Square as the amounts cannot be determined at this time. The table also does not include the future minimum rental payments related to the ground lease in connection with our acquisition of 3020 Market Street in Philadelphia, Pennsylvania. Both of these ground leases are discussed below.

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

(d) Variable rate debt future interest expense commitments are calculated using March 31, 2013 interest rates.

(e) Other liabilities consists of deferred compensation liability and the interest accretion on the existing transfer tax liability on Two Logan Square in Philadelphia, Pennsylvania (see related discussion below), as of March 31, 2013.

The Operating Partnership obtained ground tenancy rights under a long term ground lease agreement when it acquired Three Logan Square on August 5, 2010. On April 25, 2013, the Company completed a buy-out of the ground tenancy rights under a long term ground agreement related to its Three Logan Square property. The total cost of the buy-out was $20.8 million, and relieves the Company of any future obligations under the previous ground lease agreement.

The Operating Partnership also acquired ground tenancy rights under a long term ground lease agreement related to its acquisition of 3020 Market Street in Philadelphia, Pennsylvania on August 12, 2011. The annual rental payments under this ground lease are equal to a percentage of the NOI generated by the property. The Company has not included the amounts in the table above since such amounts are not fixed or determinable.

As part of the Operating Partnership's September 2004 acquisition of a portfolio of properties from the Rubenstein Company (which the Operating Partnership refers to as the "TRC acquisition"), the Operating Partnership acquired its interest in Two Logan Square, a 708,844 square foot office building in Philadelphia, primarily through its ownership of a second and third mortgage secured by this property. This property is consolidated as the borrower is a variable interest entity and the Operating Partnership, through its ownership of the second and third mortgages, is the primary beneficiary. The Operating Partnership currently does not expect to take title to Two Logan Square until, at the earliest, September 2019. If the Operating Partnership takes fee title to Two Logan Square upon a foreclosure of its mortgage, the Operating Partnership has agreed to pay an unaffiliated third party that holds a residual interest in the fee owner of this property an amount equal to $2.9 million. On the TRC acquisition date, the Operating Partnership recorded a liability of $0.7 million and this amount will accrete up to $2.9 million through September 2019. As of March 31, 2013, the Operating Partnership has a balance of $1.5 million for this liability on its consolidated balance sheet.

The Operating Partnership was audited by the IRS for its 2004 tax year. The audit concerned the tax treatment of the TRC acquisition in September 2004 in which the Operating Partnership acquired a portfolio of properties through the acquisition of a limited partnership. On December 17, 2010, the Operating Partnership received notice that the IRS proposed an adjustment to the allocation of recourse liabilities allocated to the contributor of the properties. The Operating Partnership appealed the proposed adjustment and expects to enter into a settlement agreement with the IRS which will not result in a material tax liability for the Operating Partnership. Assuming that the settlement agreement is finalized as expected, the contributor of partnership interests in the 2004 transaction has agreed not to assert a claim against the Operating Partnership under the tax protection agreement entered into as part of the transaction.

As part of the Operating Partnership's 2006 Prentiss merger, the 2004 TRC acquisition and several of its other transactions, it agreed not to sell certain of the properties it acquired in transactions that would trigger taxable income to the former owners. In the case of the TRC acquisition, the Operating Partnership agreed not to sell acquired properties in non-exempt transactions for periods up to 15 years from the date of the TRC acquisition as follows at March 31, 2013: One Rodney Square and 130/150/170 Radnor Financial Center (January, 2015); and One Logan Square, Two Logan Square and Radnor Corporate Center (January, 2020). In the Prentiss acquisition, the Operating Partnership assumed the obligation of Prentiss not to sell Concord Airport Plaza before March, 2018. The Operating Partnership's agreements generally provide that we may dispose of the subject properties only in transactions that qualify as tax-free exchanges under Section 1031 of the Internal Revenue Code or in other tax deferred transactions. If the Operating Partnership was to sell a restricted property before expiration of the restricted period in a non-exempt transaction, it would be required to make significant payments to the parties who sold the applicable property to the Operating Partnership for tax liabilities attributed to them.

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

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

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

Interest Rate Risk and Sensitivity Analysis

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

The Operating Partnership's financial instruments consist of both fixed and variable rate debt. As of March 31, 2013, its consolidated debt consisted of $441.2 million of mortgage loans and $1,430.3 million of unsecured notes, all of which are fixed rate borrowings. We also have variable rate debt consisting of $78.6 million in trust preferred securities and $450.0 million of unsecured term loans all of which are swapped to fixed, except for $100.0 million of unsecured term loans which bear interest at a variable rate. All financial instruments were entered into for other than trading purposes and the net market value of these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no

impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.
If market rates of interest increase by 100 basis points, the fair value of the Operating Partnership's outstanding fixed-rate mortgage debt would decrease by approximately $25.7 million. If market rates of interest decrease by 100 basis points, the fair value of its outstanding fixed-rate mortgage debt would increase by approximately $28.3 million.
As of March 31, 2013, based on prevailing interest rates and credit spreads, the fair value of the Operating Partnership's $1,430.3 million of unsecured notes was $1,582.0 million. For sensitivity purposes, a 100 basis point change in the discount rate equates to a change in the total fair value of the Operating Partnership's debt of approximately $14.3 million at March 31, 2013.

From time to time or as the need arises, the Operating Partnership uses derivative instruments to manage interest rate risk exposures and not for speculative purposes. The total carrying value of the Operating Partnership's variable rate debt (including variable swapped to fixed) was approximately $528.6 million and $597.6 million at March 31, 2013 and December 31, 2012, respectively. The total fair value of the Operating Partnership's debt was approximately $526.7 million and $595.7 million at March 31, 2013 and December 31, 2012, respectively. For sensitivity purposes, if market rates of interest increase by 100 basis points the fair value of its variable rate debt would decrease by approximately $7.1 million at March 31, 2013. If market rates of interest decrease by 100 basis points the fair value of its outstanding variable rate debt would increase by approximately $3.4 million. A 100 basis point change in the market rate of interest equates to a change in the total fair value of its debt of approximately $1.7 million at December 31, 2012.

At March 31, 2013, the Operating Partnership's outstanding variable rate debt based on LIBOR totaled approximately $528.6 million, of which $100.0 million remained variable, with the remaining $428.6 million being swapped to fixed. At March 31, 2013, the interest rate on the Operating Partnership's variable rate debt was approximately 2.0%. If market interest rates on its variable rate debt were to change by 100 basis points, total interest expense would have changed by approximately $0.3 million for the quarter ended March 31, 2013.

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

Funds from Operations (FFO)

Pursuant to the revised definition of FFO adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), we calculate FFO by adjusting net income/(loss) attributable to common unit holders (computed in accordance with GAAP) for gains (or losses) from sales of properties, impairment losses on depreciable consolidated real estate, impairment losses on investments in unconsolidated joint ventures driven by a measurable decrease in the fair value of depreciable real estate held by the unconsolidated joint ventures, real estate related depreciation and amortization, and after similar adjustments for unconsolidated real estate ventures. FFO is a non-GAAP financial measure. The Operating Partnership believes that the use of FFO combined with the required U.S. GAAP presentations, has been beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REITs' operating results more meaningful. The Operating Partnership considers FFO to be a useful measure for reviewing comparative operating and financial performance because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and real estate depreciation and amortization, FFO can help the investing public compare the operating performance of a company's real estate between periods or as compared to other companies. The Operating Partnership's computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently.

The Operating Partnership considers net income, as defined by U.S. GAAP, to be the most comparable earnings measure to FFO. While FFO and FFO per unit are relevant and widely used measures of operating performance of REITs, FFO does not represent cash flow from operations or net income as defined by U.S. GAAP and should not be considered as alternatives to those measures in evaluating the company's liquidity or operating performance. The Operating Partnership believes that to further understand our performance, FFO should be compared with its reported net income/(loss) attributable to common unit holders and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net income (loss) attributable to common unit holders to FFO for the three-month periods ended March 31, 2013 and 2012:

	Three-month periods ended March 31,	
	2013	2012
	(amounts in thousands, except share information)	
Net income attributable to common unitholders	$2,086	$7,242
Add (deduct):		
Amount allocated to unvested restricted unitholders	108	96
Net gain on disposition of discontinued operations	(5,304)	(14,668)
Depreciation and amortization:		
Real property — continuing operations	40,419	37,134
Leasing costs including acquired intangibles — continuing operations	9,407	10,856
Real property — discontinued operations	1,121	3,208
Leasing costs including acquired intangibles — discontinued operations	1	149
Company's share of unconsolidated real estate ventures	4,149	3,390
Funds from operations	$51,987	$47,407
Funds from operations allocable to unvested restricted shareholders	(259)	(318)
Funds from operations available to common share and unit holders (FFO)	$51,728	$47,089
Weighted-average shares/units outstanding — fully diluted	146,446,730	145,901,718

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 4. Controls and Procedures

Controls and Procedures (Parent Company)

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

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

Controls and Procedures (Operating Partnership)

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

that the Operating Partnership's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 1A. Risk Factors
There has been no material change to the risk factors previously disclosed by us in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following table summarizes the share repurchases during the three-month period ended March 31, 2013:

	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs (b)
2013:				
January	1,374	$12.76	—	539,200
February	16,728	$12.96	—	539,200
March	16,028	$14.01	—	539,200
Total	34,130		—	

(a) Represents common shares surrendered by employees to the Company to satisfy such employees' tax withholding obligations in connection with the vesting of restricted common shares.

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

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits

(a) Exhibits

10.1	Form of Performance Unit Award Agreement (incorporated by reference to Exhibit 10.1 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
10.2	Form of Restricted Share Award (incorporated by reference to Exhibit 10.2 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
10.3	2013 -2015 Performance Share Unit Program (incorporated by reference to Exhibit 10.3 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
31.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
31.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from the Quarterly Reports on Form 10-Q of Brandywine Realty Trust and Brandywine Operating Partnership, L.P. for the quarter ended March 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, detailed tagged and filed herewith.

* Management contract or compensatory plan or arrangement.

SIGNATURES OF REGISTRANT

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

BRANDYWINE REALTY TRUST
(Registrant)

Date:	May 3, 2013	By:	/s/ Gerard H. Sweeney Gerard H. Sweeney, President and Chief Executive Officer (Principal Executive Officer)
Date:	May 3, 2013	By:	/s/ Howard M. Sipzner Howard M. Sipzner, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	May 3, 2013	By:	/s/ Gabriel J. Mainardi Gabriel J. Mainardi, Vice President and Chief Accounting Officer (Principal Accounting Officer)

SIGNATURES OF REGISTRANT

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.
(Registrant)
BRANDYWINE REALTY TRUST,
as general partner

Date:	May 3, 2013	By:	/s/ Gerard H. Sweeney Gerard H. Sweeney, President and Chief Executive Officer (Principal Executive Officer)
Date:	May 3, 2013	By:	/s/ Howard M. Sipzner Howard M. Sipzner, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	May 3, 2013	By:	/s/ Gabriel J. Mainardi Gabriel J. Mainardi, Vice President and Chief Accounting Officer (Principal Accounting Officer)

Index to Exhibits

10.1	Form of Performance Unit Award Agreement (incorporated by reference to Exhibit 10.1 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
10.2	Form of Restricted Share Award (incorporated by reference to Exhibit 10.2 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
10.3	2013 -2015 Performance Share Unit Program (incorporated by reference to Exhibit 10.3 to Brandywine Realty Trust's Current Report on Form 8-K filed on March 1, 2013) *
31.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
31.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from the Quarterly Reports on Form 10-Q of Brandywine Realty Trust and Brandywine Operating Partnership, L.P. for the quarter ended March 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, detailed tagged and filed herewith.

* Management contract or compensatory plan or arrangement.