BRANDYWINE REALTY TRUST
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2009

or

¨ **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	**(I.R.S. Employer**
Incorporation or organization)	**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 x No ¨
Brandywine Operating Partnership, L.P.	Yes x No ¨

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 ¨ No ¨
Brandywine Operating Partnership, L.P.	Yes ¨ No ¨

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

Brandywine Realty Trust:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

Brandywine Operating Partnership, L.P.:

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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	¨	No	x
Brandywine Operating Partnership, L.P.	Yes	¨	No	x

A total of 128,582,334 Common Shares of Beneficial Interest, par value $0.01 per share, were outstanding as of November 4, 2009.

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Filing Format

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

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands, except share and per share information)

	September 30, 2009	December 31, 2008 (as adjusted)
ASSETS		
Real estate investments:		
Rental properties	$ 4,513,378	$ 4,608,320
Accumulated depreciation	(695,870)	(639,688)
Operating real estate investments, net	3,817,508	3,968,632
Construction-in-progress	229,259	122,219
Land inventory	97,390	100,516
Total real estate investments, net	4,144,157	4,191,367
Cash and cash equivalents	3,296	3,924
Cash in escrow		31,385
Accounts receivable, net	7,282	11,762
Accrued rent receivable, net	85,708	86,362
Asset held for sale, net	74,006	
Investment in real estate ventures, at equity	75,929	71,028
Deferred costs, net	109,503	89,327
Intangible assets, net	114,080	145,757
Notes receivable	49,114	48,048
Other assets	58,227	59,008
Total assets	$ 4,721,302	$ 4,737,968
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	$ 554,616	$ 487,525
Borrowing under credit facilities		153,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,771,903	1,917,970
Accounts payable and accrued expenses	96,877	74,824
Distributions payable	15,238	29,288
Tenant security deposits and deferred rents	52,012	58,692
Acquired below market leases, net	39,639	47,626
Other liabilities	61,539	63,545
Liabilities related to assets held for sale	666	
Total liabilities	2,775,490	3,015,470
Commitments and contingencies (Note 15)		
Brandywine Realty Trust s equity:		
Preferred Shares (shares authorized-20,000,000):		
7.50% Series C Preferred Shares, $0.01 par value; issued and outstanding- 2,000,000 in 2009 and 2008	20	20

7.375% Series D Preferred Shares, $0.01 par value; issued and outstanding- 2,300,000 in 2008 and 2008	23	23
Common Shares of Brandywine Realty Trust s beneficial interest, $0.01 par value; shares authorized 200,000,000; 128,849,176 and 88,610,053 issued in 2009 and 2008, respectively and 128,582,334 and 88,158,937 outstanding in 2009 and 2008, respectively	1,286	882
Additional paid-in capital	2,609,212	2,351,428
Deferred compensation payable in common stock	5,549	6,274
Common shares in treasury, at cost, 266,842 and 451,116 in 2009 and 2008, respectively	(7,893)	(14,121)
Common shares in grantor trust, 255,700 in 2009 and 215,742 in 2008	(5,549)	(6,274)
Cumulative earnings	505,468	498,716
Accumulated other comprehensive loss	(10,349)	(17,005)
Cumulative distributions	(1,191,352)	(1,150,406)
Total Brandywine Realty Trust s equity	1,906,415	1,669,537
Non-controlling interests	39,397	52,961
Total equity	1,945,812	1,722,498
Total liabilities and equity	$ 4,721,302	$ 4,737,968

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except share and per share information)

	For the three-month periods ended September 30, 2009	For the three-month periods ended September 30, 2008 (as adjusted)	For the nine-month periods ended September 30, 2009	For the nine-month periods ended September 30, 2008 (as adjusted)
Revenue:				
Rents	$ 119,599	$ 120,285	$ 359,513	$ 362,342
Tenant reimbursements	19,164	18,553	56,853	55,920
Termination fees	1,764	338	2,840	4,462
Third Party management fees, labor reimbursement and leasing	5,194	4,390	14,055	15,239
Other	872	772	2,323	2,348
Total revenue	146,593	144,338	435,584	440,311
Operating Expenses:				
Property operating expenses	40,050	39,143	122,857	118,032
Real estate taxes	14,248	14,522	43,059	44,376
Third party management expenses	2,256	1,790	6,339	6,417
Depreciation and amortization	51,422	50,019	155,852	151,627
General & administrative expenses	5,018	6,863	15,491	17,902
Total operating expenses	112,994	112,337	343,598	338,354
Operating income	33,599	32,001	91,986	101,957
Other Income (Expense):				
Interest income	473	221	1,695	603
Interest expense	(31,455)	(36,037)	(102,045)	(109,822)
Amortization of deferred financing costs	(1,579)	(1,092)	(4,725)	(3,798)
Recognized hedge activity	(1,517)		(1,822)	
Equity in income of real estate ventures	1,331	1,059	3,450	3,838
Net gain (loss) on disposition of undepreciated real estate				(24)
Gain on early extinguishment of debt	5,073		23,724	3,106
Income (loss) from continuing operations	5,925	(3,848)	12,263	(4,140)
Discontinued operations:				
Income from discontinued operations	1,390	5,594	4,690	13,145
Net gain (loss) on disposition of discontinued operations	(6)		(1,037)	21,401
Provision for impairment			(3,700)	(6,850)
Total discontinued operations	1,384	5,594	(47)	27,696
Net income	7,309	1,746	12,216	23,556
Net (income) loss from discontinued operations attributable to non-controlling interests	(30)	(202)	14	(1,094)
Net (income) loss from continuing operations attributable to non-controlling interests	(131)	153	(248)	217

Net (income) attributable to non-controlling interests	(161)	(49)	(234)	(877)
Net income attributable to Brandywine Realty Trust	7,148	1,697	11,982	22,679
Distribution to Preferred Shares	(1,998)	(1,998)	(5,994)	(5,994)
Amount allocated to unvested restricted shareholders	(73)	(226)	(183)	(620)
Income (loss) allocated to Common Shares	$ 5,077	$ (527)	$ 5,805	$ 16,065
Basic earnings (loss) per Common Share:				
Continuing operations	$ 0.03	$ (0.07)	$ 0.05	$ (0.12)
Discontinued operations	0.01	0.06	(0.00)	0.30
	$ 0.04	$ (0.01)	$ 0.05	$ 0.18
Diluted earnings (loss) per Common Share:				
Continuing operations	$ 0.03	$ (0.07)	$ 0.05	$ (0.12)
Discontinued operations	0.01	0.06	(0.00)	0.30
	$ 0.04	$ (0.01)	$ 0.05	$ 0.18
Dividends declared per Common Share	$ 0.10	$ 0.44	$ 0.50	$ 1.32
Basic weighted average shares outstanding	128,582,498	87,695,892	106,273,509	87,423,108
Diluted weighted average shares outstanding	129,926,110	87,695,892	107,206,551	87,437,133
Net (loss) income attributable to Brandywine Realty Trust				
Income (loss) from continuing operations	$ 5,794	$ (3,695)	$ 12,015	$ (3,923)
Income (loss) from discontinued operations	1,354	5,392	(33)	26,602
Net income	$ 7,148	$ 1,697	$ 11,982	$ 22,679

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

(unaudited, in thousands)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2009	2008 (as adjusted)	2009	2008 (as adjusted)
Net income	$ 7,309	$ 1,746	$ 12,216	$ 23,556
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments	328	(1,664)	6,399	(1,139)
Reclassification of realized (gains) losses on derivative financial instruments to operations, net	(20)	(20)	(60)	(60)
Unrealized gain on available-for-sale securities				248
Total other comprehensive income (loss)	308	(1,684)	6,339	(951)
Comprehensive income	$ 7,617	$ 62	$ 18,555	$ 22,605
Comprehensive (income) loss attributable to non-controlling interest	(168)	(49)	83	(877)
Comprehensive income attributable to Brandywine Realty Trust	$ 7,449	$ 13	$ 18,638	$ 21,728

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

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CONSOLIDATED STATEMENTS OF EQUITY

For the Nine-Month Periods Ended September 30, 2009 and 2008

(unaudited, in thousands, except number of shares)

September 30, 2009

	Number of Preferred C Shares	Par Value of Preferred C Shares	Number of Preferred D Shares	Par Value of Preferred D Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital
BALANCE, December 31, 2008	**2,000,000**	**$ 20**	**2,300,000**	**$ 23**	**88,610,053**	**451,116**	**215,742**	**$ 882**	**$ 2,351,428**
Net Income									
Other comprehensive income									
Issuance of Common Shares of Beneficial Interest					40,250,000			402	241,920
Bonus Share Issuance						(36,826)			
Vesting of Restricted Stock						(78,607)	8,971	2	(778)
Restricted Stock Amortization									2,482
Restricted Performance Units Amortization									200
Share Issuance from/to Deferred Compensation Plan					(3,796)	(54,854)	26,092		(29)
Share Choice Plan Issuance					(7,081)				(46)
Stock Option Amortization									340
Outperformance Plan Amortization									803
Trustee Fees Paid in Shares						(13,987)	4,895		
Other - consolidated real estate ventures									
Preferred Share distributions									
Other activity									183
Adjustment for Non-Controlling Interests									12,709
Distributions declared ($0.10 per share)									
BALANCE, September 30, 2009	**2,000,000**	**$ 20**	**2,300,000**	**$ 23**	**128,849,176**	**266,842**	**255,700**	**$ 1,286**	**$ 2,609,212**

	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Controlling Interests	Total

BALANCE, December 31, 2008	**$ (14,121)**	**$ 6,274**	**$ (6,274)**	**$ 498,716**	**$ (17,005)**	**$ (1,150,406)**	**$ 52,961**	**$ 1,722,498**
Net Income				11,982			234	12,216
Other comprehensive income					6,656		(317)	6,339
Issuance of Common Shares of Beneficial Interest								242,322
Bonus Share Issuance	1,228			(1,105)				123
Vesting of Restricted Stock	2,704	56	(56)	(2,142)				(214)
Restricted Stock Amortization								2,482
Restricted Performance Units Amortization								200
Share Issuance from/to Deferred Compensation Plan	1,830	(816)	816	(1,670)				131
Share Choice Plan Issuance								(46)
Stock Option Amortization								340
Outperformance Plan Amortization								803
Trustee Fees Paid in Shares	466	35	(35)	(313)				153
Other - consolidated real estate ventures							73	73
Preferred Share distributions						(5,994)		(5,994)
Other activity								183
Adjustment for Non-Controlling Interests							(12,709)	
Distributions declared ($0.10 per share)						(34,952)	(845)	(35,797)
BALANCE, September 30, 2009	**$ (7,893)**	**$ 5,549**	**$ (5,549)**	**$ 505,468**	**$ (10,349)**	**$ (1,191,352)**	**$ 39,397**	**$ 1,945,812**

September 30, 2008

	Number of Preferred C Shares	Par Value of Preferred C Shares	Number of Preferred D Shares	Par Value of Preferred D Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust s beneficial interest	Additional Paid-in Capital
BALANCE, December 31, 2007	**2,000,000**	**$ 20**	**2,300,000**	**$ 23**	**88,614,322**	**1,599,637**	**171,650**	**$ 870**	**$ 2,348,153**
Net income									
Other comprehensive income									
Vesting of Restricted Stock						(73,741)	9,895	3	(1,012)
Restricted Stock Amortization									2,389
Conversion of LP units to Common Shares						(561,568)		6	
Share Cancellation/Forfeiture					(1,374)	150	(458)	(1)	17
Share Issuance from/to Deferred Compensation Plan						(44,286)	32,597		
Share Choice Plan Issuance					(2,895)			(1)	(48)
Stock Option Amortization									189
Outperformance Plan Amortization									1,102
Trustee Fees Paid in Shares						(5,586)	2,058		60
Preferred Share distributions									
Distributions declared ($0.44 per share)									
BALANCE, September 30, 2008	**2,000,000**	**$ 20**	**2,300,000**	**$ 23**	**88,610,053**	**914,606**	**215,742**	**$ 877**	**$ 2,350,850**

	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Controlling Interests	Total
BALANCE, December 31, 2007	**$ (53,449)**	**$ 5,651**	**$ (5,651)**	**$ 471,902**	**$ (1,885)**	**$ (999,654)**	**$ 84,076**	**$ 1,850,056**
Net income				22,678			878	23,556
Other comprehensive income					(951)			(951)
Vesting of Restricted Stock	2,370	167	(167)	(1,205)				156
Restricted Stock Amortization								2,389
Conversion of LP units to Common Shares	21,346			(5,727)			(14,821)	804
Share Cancellation/Forfeiture		(15)	15					16
Share Issuance from/to Deferred Compensation Plan	976	434	(434)	(723)				253
Share Choice Plan Issuance								(49)
Stock Option Amortization								189
Outperformance Plan Amortization								1,102
Trustee Fees Paid in Shares	35	35	(35)	(97)				(2)
Preferred Share distributions						(5,994)		(5,994)
Distributions declared ($0.44 per share)						(116,042)	(4,652)	(120,694)
BALANCE, September 30, 2008	**$ (28,722)**	**$ 6,272**	**$ (6,272)**	**$ 486,828**	**$ (2,836)**	**$ (1,121,690)**	**$ 65,481**	**$ 1,750,831**

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine-month periods ended September 30,	
	2009	**2008 (as adjusted)**
Cash flows from operating activities:		
Net income	$ 12,216	$ 23,556
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	119,432	120,185
Amortization:		
Deferred financing costs	4,725	3,799
Amortization of debt discount	3,015	4,518
Deferred leasing costs	13,472	12,306
Acquired above (below) market leases, net	(4,827)	(6,493)
Acquired lease intangibles	24,926	31,589
Deferred compensation costs	3,880	3,952
Recognized hedge activity	1,822	
Straight-line rent	(6,778)	(13,730)
Provision for doubtful accounts	4,643	3,150
Provision for impairment in real estate	3,700	6,850
Real estate venture income in excess of distributions	(1,450)	(569)
Net gain on sale of interests in real estate	1,038	(21,377)
Gain on early extinguishment of debt	(23,724)	(3,106)
Cummulative interest accretion on repayments of unsecured notes	(3,730)	(435)
Changes in assets and liabilities:		
Accounts receivable	3,827	7,046
Other assets	(8,243)	(7,145)
Accounts payable and accrued expenses	18,102	24,497
Tenant security deposits and deferred rents	(4,594)	(4,851)
Other liabilities	1,647	(3,592)
Net cash from operating activities	163,099	180,150
Cash flows from investing activities:		
Sales of properties, net	33,354	53,601
Capital expenditures	(157,348)	(130,717)
Investment in unconsolidated real estate ventures	(14,980)	(853)
Escrowed cash	31,385	
Cash distributions from unconsolidated real estate ventures in excess of equity in income	11,528	1,984
Leasing costs	(22,687)	(7,302)
Net cash used in investing activities	(118,748)	(83,287)
Cash flows from financing activities:		
Proceeds from Credit Facility borrowings	806,000	302,000
Repayments of Credit Facility borrowings	(959,000)	(257,727)
Proceeds from mortgage notes payable	149,800	
Repayments of mortgage notes payable	(81,558)	(21,946)
Proceeds from unsecured	247,030	33,000
Repayments of unsecured notes	(369,862)	(27,958)
Debt financing costs	(24,354)	(273)
Net proceeds from issuance of common shares	242,332	
Distributions paid to shareholders	(53,958)	

Distributions paid to noncontrolling interest	(1,409)	(126,885)
Net cash used in financing activities	(44,979)	(99,789)
Increase (decrease) in cash and cash equivalents	(628)	(2,926)
Cash and cash equivalents at beginning of period	3,924	5,600
Cash and cash equivalents at end of period	$ 3,296	$ 2,674
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	$ 92,309	$ 110,121
Supplemental disclosure of non-cash activity:		
Change in capital expenditures financed through accounts payable	$ 8,290	$ 1,072

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

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

1. THE COMPANY

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

As of September 30, 2009, the Company owned 213 office properties, 22 industrial facilities and three mixed-use properties (collectively, the Properties) containing an aggregate of approximately 23.7 million net rentable square feet. The Company also has two properties under development and four properties under redevelopment containing an aggregate 2.0 million net rentable square feet. As of September 30, 2009, the Company consolidates three office properties owned by real estate ventures containing 0.4 million net rentable square feet. Therefore, the Company owns and consolidates 247 properties with an aggregate of 26.1 million net rentable square feet. In addition, as of September 30, 2009, the Company owned economic interests in 11 unconsolidated real estate ventures that contain approximately 4.2 million net rentable square feet (collectively, the Real Estate Ventures). The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania, Metropolitan Washington, D.C., Southern and Central New Jersey, Richmond, Virginia, Wilmington, Delaware, Austin, Texas and Oakland, Carlsbad and Rancho Bernardo, California.

Brandywine Realty Trust is the sole general partner of the Operating Partnership and, as of September 30, 2009, owned a 97.9% interest in the Operating Partnership. The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries.

As of September 30, 2009, the management company subsidiaries were managing properties containing an aggregate of approximately 36.5 million net rentable square feet, of which approximately 25.8 million net rentable square feet related to Properties owned by the Company and approximately 10.7 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of September 30, 2009, the results of its operations for the nine-month periods ended September 30, 2009 and 2008 and its cash flows for the nine-month periods ended September 30, 2009 and 2008 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and footnotes included in the Company s 2008 Annual Report on Form 10-K filed with the SEC on March 2, 2009.

Reclassifications and Revisions

Certain amounts have been reclassified in prior years to conform to the current year presentation. The reclassifications are primarily due to the treatment of sold or held for sale properties as discontinued operations on the statement of operations for all periods presented and the adoption of new accounting pronouncements.

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

See Accounting Pronouncements Adopted January 1, 2009 on a Retrospective Basis for details pertaining to the changes to prior periods resulting from the adoption of new accounting pronouncements.

Principles of Consolidation

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

Use of Estimates

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

Operating Properties

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

Purchase Price Allocation

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

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

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

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

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

Impairment or Disposal of Long-Lived Assets

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

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

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

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

For the nine month period ending September 30, 2009, the Company determined that one of its properties, during testing for impairment under the held and used model, had a historical cost greater than the probability weighted undiscounted cash flows. Accordingly, the recorded amount was reduced to an amount based on management s estimate of the current fair value. This property was sold in the second quarter. During the Company s impairment review for the three-month period ending September 30, 2009, it was determined that no additional impairment charges were necessary.

Revenue Recognition

Rental revenue is recognized on the straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The straight-line rent adjustment increased revenue by approximately $2.1 million and $4.7 million for the three-and nine month periods ended September 30, 2009 and approximately $1.7 million and $11.6 million for the three- and nine month periods ended September 30, 2008. Deferred rents on the balance sheet represent rental revenue received prior to their due dates and amounts paid by the tenant for certain improvements considered to be landlord assets that will remain as the Company s property at the end of the tenant s lease term. The amortization of the amounts paid by the tenant for such improvements is calculated on a straight-line basis over the term of the tenant s lease and is a component of straight-line rental income and increased revenue by $0.6 million and $2.1 million for the three-and nine month periods ended September 30, 2009 and $0.7 million and $2.1 million for the three-and nine month periods ended September 30, 2008. 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 $0.4 million and $0.8 million for the three-and nine month periods ended September 30, 2009 and $0.2 million and $0.6 million for the three-and nine month periods ended September 30, 2008.

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. Termination fees received from tenants, bankruptcy settlement fees, third party management fees, labor reimbursement and leasing income are recorded when earned.

Stock-Based Compensation Plans

The Company maintains a shareholder-approved equity-incentive plan known as the Amended and Restated 1997 Long-Term Incentive Plan (the 1997 Plan). The 1997 Plan is administered by the Compensation Committee of the Company s Board of Trustees. Under the 1997 Plan, the Compensation Committee is authorized to award equity and equity-based awards, including incentive stock options, non-qualified stock options, restricted shares and performance-based shares. As of September 30, 2009, 1.8 million common shares remained available for future awards under the 1997 Plan. Through September 30, 2009, all options awarded under the 1997 Plan had a one to ten-year term.

The Company incurred stock-based compensation expense of $1.0 million and $3.3 million during the three-and nine month periods ended September 30, 2009, of which $0.2 million and $0.7 million, respectively, were capitalized as part of the Company s review of employee salaries eligible for capitalization. The Company recognized stock-based compensation expense of $1.3 million and $4.0 million during the three-and nine month periods ended September 30, 2008, respectively. The expensed amounts are included in general and administrative expense on the Company s consolidated income statement in the respective periods.

Accounting for Derivative Instruments and Hedging Activities

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

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in other comprehensive income. During the three months ended September 30, 2009, the Company recorded a $1.1 million fair value adjustment in its consolidated statements of operations related to two of its interest swaps in which the hedging relationship ceased due to the issuance of its unsecured notes on September 25, 2009. The ineffective portions of hedges are recognized in earnings in the current period and during the three and nine months period ended September 30, 2009, the Company recognized $0.4 million and $0.7 million, respectively for the ineffective portion of its forward starting swaps prior to the termination of the hedging relationship (See Note 9).

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 adopted a newly issued accounting standard for fair value measurements and disclosures. The new accounting standard defines fair value, establishes a framework for measuring fair value in GAAP and provides for expanded disclosure about fair value measurements. The accounting standard is applied prospectively and is applied to all other accounting pronouncements that require or permit fair value measurements. The accounting standard was applied to the Company s outstanding derivatives and available-for-sale-securities effective January 1, 2008 and to all non-financial assets and non-financial liabilities effective January 1, 2009.

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little, if any, related market activity or information. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

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 September 30, 2009:

Description	September 30, 2009	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring				
Assets:				
Available-for-Sale Securities	$ 420	$ 420	$	$
Liabilities:				
Interest Rate Swaps	$ 14,012	$	$ 14,012	$

The following table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008:

Description	December 31, 2008	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Available-for-Sale Securities	$ 423	$ 423	$	$
Liabilities:				
Interest Rate Swaps	$ 10,985	$	$ 10,985	$
Forward Starting Interest Rate Swaps	7,481		7,481	
	$ 18,466	$	$ 18,466	$

The adoption of the accounting standard for fair value measurements and disclosures did not have a material impact on the Company s financial and non-financial assets and liabilities. Non-financial assets and liabilities recorded at fair value on a non-recurring basis to which the Company would apply the accounting standard where a measurement was required under fair value would include:

Non-financial assets and liabilities initially measured at fair value in an acquisition or business combination that are not remeasured at least annually at fair value,

Long-lived assets measured at fair value due to an impairment in accordance with the accounting standard for the impairment or disposal of long-lived assets and

Asset retirement obligations initially measured at fair value under the accounting standard for asset retirement obligations.
There were no items that were accounted for at fair value on a non-recurring basis during the third quarter of 2009.

Income Taxes

Brandywine Realty Trust has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). In order to continue to qualify as a REIT, Brandywine Realty Trust is required to, among other things, distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, Brandywine Realty Trust is not subject to federal and state income taxes with respect to the portion of its income that meets certain criteria and is distributed annually to its stockholders. Accordingly, no provision for federal and state

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

income taxes is included in the accompanying consolidated financial statements with respect to the operations of Brandywine Realty Trust. Brandywine Realty Trust intends to continue to operate in a manner that allows it to meet the requirements for taxation as a REIT. If Brandywine Realty Trust fails to qualify as a REIT in any taxable year, Brandywine Realty Trust will be subject to federal and state income taxes and may not be able to qualify as a REIT for the four subsequent tax years. Brandywine Realty Trust is subject to certain local income taxes. Provision for such taxes has been included in general and administrative expenses in Brandywine Realty Trust s Consolidated Statements of Operations and Comprehensive Income.

Brandywine Realty Trust has elected to treat several of its subsidiaries as REITs under Sections 856 through 860 of the Code. As a result, each subsidiary REIT generally is not subject to federal and state income taxation at the corporate level to the extent it distributes annually at least 100% of its REIT taxable income to its stockholders and satisfies certain other organizational and operational requirements. Each subsidiary REIT has met these requirements and, accordingly, no provision has been made for federal and state income taxes in the accompanying consolidated financial statements. If any subsidiary REIT fails to qualify as a REIT in any taxable year, that subsidiary REIT will be subject to federal and state income taxes and may not be able to qualify as a REIT for the four subsequent taxable years. In addition, this may adversely impact Brandywine Realty Trust s ability to qualify as a REIT. Also, each subsidiary REIT may be subject to local income taxes.

Brandywine Realty Trust has elected to treat several of its subsidiaries as taxable REIT subsidiaries (each a TRS). A TRS is subject to federal, state and local income tax. In general, a TRS may perform additional non-customary services for tenants and generally may engage in any real estate or non-real estate related businesses that are not permitted REIT activities.

Accounting Pronouncements Adopted January 1, 2009 on a Retrospective Basis

Effective January 1, 2009, the Company adopted a newly issued accounting standard for convertible debt instruments. The new accounting standard requires the initial proceeds from convertible debt that may be settled in cash to be bifurcated between a liability component and an equity component. The objective of the guidance is to require the liability and equity components of convertible debt to be separately accounted for in a manner such that the interest expense recorded on the convertible debt would not equal the contractual rate of interest on the convertible debt, but instead would be recorded at a rate that would reflect the issuer s conventional debt borrowing rate. This is accomplished through the creation of a discount on the debt that would be accreted using the effective interest method as additional non-cash interest expense over the period the debt is expected to remain outstanding (i.e. through the first optional redemption date). The provisions of the new accounting standard were adopted on January 1, 2009 and applied retrospectively.

The new accounting standard for convertible debt instruments impacted the Company s accounting for its 3.875% Exchangeable Notes and has a material impact on the Company s consolidated financial statements and results of operations. The principal amount outstanding is $159.5 million at September 30, 2009 and $282.3 million at December 31, 2008 (see Note 7). At certain times and upon certain events, the notes are exchangeable for cash up to their principal amount and, with respect to the remainder, if any, of the exchange value in excess of such principal amount, cash or common shares. The initial exchange rate is 25.4065 shares per $1,000 principal amount of notes (which is equivalent to an initial exchange price of $39.36 per share). The carrying amount of the equity component is $24.4 million. The unamortized debt discount is $6.2 million at September 30, 2009 and $12.2 million at December 31, 2008 and will be amortized through October 15, 2011. The effective interest rate at September 30, 2009 and 2008 was 5.5%. The Company recognized $1.9 million and $7.3 million of contractual coupon interest during the three-and nine-month periods ended September 30, 2009 and $3.0 million and $9.3 million for the three-and nine-month periods ended September 30, 2008, respectively. In addition, the Company recognized $0.9 million and $2.6 million of interest on amortization of the debt discount, during the three and nine month periods ended September 30, 2009 and $1.1 million and $3.3 million for the three-and nine-month periods ended September 30, 2008. The application of the accounting standard for convertible debt resulted in an aggregate of approximately $3.9 million (net of incremental capitalized interest) of additional non-cash interest expense retrospectively applied for the year ended December 31, 2008. Excluding the impact of capitalized interest, the additional non-cash interest expense was approximately $4.3 million for the year ended December 31, 2008. The application of the new accounting standard required the Company to reduce the amount of gain recognized on early extinguishment of debt for the year ended December 31, 2008 by approximately $2.6 million.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

Accordingly, in accordance with the Company s retrospective adoption of the accounting standard, the December 31, 2008 balance sheet herein has been revised as follows:

	As Reported	Adjustment	As Revised
Construction-in-progress	$ 121,402	$ 817	$ 122,219
Deferred costs, net	89,866	(539)	89,327
Unsecured bonds, net of discount	1,930,147	(12,177)	1,917,970
Additional paid-in capital	2,327,617	23,811	2,351,428
Cumulative earnings	509,834	(11,118)	498,716
Non-controlling interests	53,199	(238)	52,961
Total equity	$ 1,710,043	$ 12,455	$ 1,722,498

Effective January 1, 2009, the Company adopted a newly issued accounting standard related to whether instruments granted in share-based payment transactions are participating securities. This new standard requires that non-vested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents be treated as participating securities in the computation of earnings per share pursuant to the two-class method. The accounting standard was applied retrospectively to all periods presented. The accounting standard required the Company to include the impact of its unvested restricted shares in earnings per share using this more dilutive methodology. The face of the Company s consolidated statement of operations and earnings per share disclosure (See Note 11) has been updated to reflect the adoption of this accounting standard and are presented as amounts allocated to unvested restricted shareholders. The adoption of the new accounting standard did not have a material impact on the Company s consolidated financial position or results of operations.

Effective January 1, 2009, the Company adopted a newly issued accounting standard for non-controlling interests. In accordance with this accounting standard, non-controlling interests are presented as a component of consolidated shareholders equity unless these interests are considered redeemable. Also, under this standard, net income will encompass the total income of all consolidated subsidiaries and there will be separate disclosure on the face of the income statement of the attribution of that income between controlling and non-controlling interests. Lastly, increases and decreases in non-controlling interests will be treated as equity transactions. The face of the Company s consolidated balance sheet, statement of operations and statements of other comprehensive income has been updated to reflect the adoption of this accounting standard. The adoption of this accounting standard did not have material impact on the Company s financial position or results of operations. As a result of the Company s adoption of this standard, amounts reported prior to adoption as minority interests in consolidated real estate ventures on its balance sheets are now presented as non-controlling interests within equity. There has been no change in the measurement of this line item from amounts previously reported other than those discussed above relating to the adoption of the new accounting standard on convertible debt instruments. During the nine months ended September 30, 2009, the Company allocated $0.5 million to non-controlling interests, which relates to the accumulated other comprehensive income balance as of December 31, 2008 attributable to the non-controlling interests. The Company determined the out of period adjustment was not material to prior periods or to the current period.

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

Accounting Pronouncements Adopted During 2009 on a Prospective Basis

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification). The Codification became the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification is not expected to change GAAP and will not have an effect on the Company s consolidated financial position or results of operations.

In May 2009, the FASB issued a new accounting standard for subsequent events reporting. The new accounting standard established principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. The accounting standard also requires disclosure of the date through which subsequent events are evaluated by management (see Note 17). The Company s adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

In April 2009, the FASB issued an amendment to the disclosure requirements about fair value instruments. The amendment require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual financial statements. It also requires those disclosures in summarized financial information at interim reporting periods. The amendment is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption.

In April 2009, the FASB issued a new accounting standard for determining fair value when the volume and level of activity for financial and non-financial assets or liabilities have significantly decreased and for identifying transactions that are not orderly. The new accounting standard is effective for fiscal years and interim periods ending after June 15, 2009 and shall be applied prospectively. The Company s adoption of the new standard did not have a material impact on its consolidated financial position or results of operations.

In April 2009, the FASB issued amendments to the recognition and presentation requirements of other-than-temporary impairments to make the guidance in U.S. GAAP for debt securities more operational and to improve the presentation and disclosure of other-than temporary impairments on debt and equity securities in the financial statements. The amendments are effective for fiscal years and interim periods ending after June 15, 2009. The Company s adoption of these amendments did not have a material impact on its consolidated financial position or results of operations.

Effective January 1, 2009, the Company adopted the FASB issued accounting standard for disclosures about derivative instruments and hedging activities. This new standard enhances disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under the accounting standard for derivative instruments and hedging activities and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The new accounting standard is to be applied prospectively for the first annual reporting period beginning on or after November 15, 2008. See Note 9 for further discussion.

In April 2008, the FASB issued a new accounting standard for the proper determination of the useful life of intangible assets. The new accounting standard is to be applied prospectively for fiscal years beginning after December 15, 2008. The Company has not entered into any acquisition transactions during the nine months ended September 30, 2009, therefore the adoption of this accounting standard did not have a material impact on the Company s consolidated financial statements.

New Pronouncements

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment requires greater transparency and additional disclosures for transfers of financial assets and the entity s continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, this amendment eliminates the concept of a qualifying special-purpose entity (QSPE). This amendment is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact of adopting this amendment on its consolidated financial position or results of operations.

BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

In June 2009, the FASB also issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise s financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact of adopting this amendment on its consolidated financial position or results of operations.

3. REAL ESTATE INVESTMENTS

As of September 30, 2009 and December 31, 2008 the gross carrying value of the Company s operating properties was as follows (amounts in thousands):

	September 30, 2009	December 31, 2008
Land	$ 690,442	$ 707,591
Building and improvements	3,390,344	3,481,289
Tenant improvements	432,592	419,440
	$ 4,513,378	$ 4,608,320

Acquisitions and Dispositions

The Company did not complete any acquisitions during the periods covered in these financial statements.

On April 29, 2009, the Company sold 7735 Old Georgetown Road, a 122,543 net rentable square feet office property located in Bethesda, Maryland, for a sales price of $26.5 million.

On March 16, 2009, the Company sold 305 Harper Drive, a 14,980 net rentable square feet office property located in Moorestown, New Jersey, for a sales price of $1.1 million.

On February 4, 2009, the Company sold two office properties, totaling 66,664 net rentable square feet in Exton, Pennsylvania, for an aggregate sales price of $9.0 million.

All sales presented above and three properties included as held for sale assets (see Note 10) are included within discontinued operations.

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of September 30, 2009, the Company had an aggregate investment of approximately $75.9 million in its 11 actively operating unconsolidated Real Estate Ventures. The Company formed these ventures with unaffiliated third parties, or acquired them, to develop office properties or to acquire land in anticipation of possible development of office properties. Ten of the Real Estate Ventures own 45 office buildings that contain an aggregate of approximately 4.3 million net rentable square feet and one Real Estate Venture developed a hotel property that contains 137 rooms in Conshohocken, PA.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

The Company accounts for its unconsolidated interests in its Real Estate Ventures using the equity method. The Company s unconsolidated interests range from 3% to 50%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

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

The following is a summary of the financial position of the Real Estate Ventures as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Net property	$ 546,557	$ 554,424
Other assets	88,291	96,278
Other Liabilities	36,738	39,388
Debt	473,136	514,308
Equity	124,974	97,006
Company s share of equity (Company s basis)	75,929	71,028

The following is a summary of results of operations of the Real Estate Ventures for the three-month and nine-month periods ended September 30, 2009 and 2008 (in thousands):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	2008	2009	2008
Revenue	$ 24,228	$ 27,358	$ 77,917	$ 80,254
Operating expenses	7,725	10,931	26,401	28,727
Interest expense, net	8,186	8,042	22,183	23,795
Depreciation and amortization	7,698	9,794	25,379	28,418
Net income (loss)	619	(1,409)	3,954	(686)
Company s share of income (Company basis)	1,331	1,059	3,450	3,838

As of September 30, 2009, the Company had guaranteed repayment of approximately $2.1 million of loans on behalf of certain Real Estate Ventures. The Company also provides customary environmental indemnities in connection with construction and permanent financing both for its own account and on behalf of its Real Estate Ventures.

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BRANDYWINE REALTY TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

5. DEFERRED COSTS

As of September 30, 2009 and December 31, 2008, the Company s deferred costs were comprised of the following (in thousands):

	September 30, 2009		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$ 124,342	$ (48,061)	$ 76,281
Financing Costs	44,702	(11,480)	33,222
Total	$ 169,044	$ (59,541)	$ 109,503

	December 31, 2008		
	Total Cost	Accumulated Amortization	Deferred Costs, net
Leasing Costs	$ 115,262	$ (39,528)	$ 75,734
Financing Costs	25,170	(11,577)	13,593
Total	$ 140,432	$ (51,105)	$ 89,327

6. INTANGIBLE ASSETS

As of September 30, 2009 and December 31, 2008, the Company s intangible assets were comprised of the following (in thousands):

	September 30, 2009		
	Total Cost	Accumulated Amortization	Intangible Assets, net
In-place lease value	$ 126,392	$ (69,458)	$ 56,934
Tenant relationship value	99,111	(47,600)	51,511
Above market leases acquired	16,829	(11,194)	