

BRANDYWINE REALTY TRUST  
Form 10-K/A  
June 22, 2004  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K/A**

**Amendment No. 1**

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934  
**For the fiscal year ended December 31, 2003 or**  
Transition report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the transition period from to  
**Commission File Number 1-9106**

**BRANDYWINE REALTY TRUST**  
(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
Incorporation or organization)  
**401 Plymouth Road, Plymouth Meeting,**  
**Pennsylvania**  
(Address of principal executive offices)

**23-2413352**  
(I.R.S. Employer  
Identification No.)  
**19462**  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| <b><u>Title of each class</u></b>   | <b><u>Name of each exchange on which registered</u></b> |
|---|---|
| Common Shares of Beneficial Interest,<br>(par value \$0.01 per share)   | New York Stock Exchange                                 |
| 7.50% Series C Cumulative<br>Redeemable Preferred Shares of<br>Beneficial Interest<br>(par value \$0.01 per share)  | New York Stock Exchange                                 |
| 7.375% Series D Cumulative<br>Redeemable Preferred Shares of<br>Beneficial Interest<br>(par value \$0.01 per share) | New York Stock Exchange                                 |

Securities registered pursuant to Section 12(g) of the Act: none

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(Title of class)

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(Title of class)

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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. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Shares of Beneficial Interest held by non-affiliates of the registrant as of the last day of the registrant's most recently completed second fiscal quarter was \$903.3 million. The aggregate market value has been computed by reference to the closing price of the Common Shares of Beneficial Interest on the New York Stock Exchange on such date. An aggregate of 45,663,743 Common Shares of Beneficial Interest were outstanding as of March 11, 2004.

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the proxy statement for the Annual Meeting of Shareholders of Brandywine Realty Trust to be held May 3, 2004 are incorporated by reference into Part III of this Form 10-K.

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### EXPLANATORY NOTE

Brandywine Realty Trust (the Company) is filing this Form 10K/A to address the following:

- The Company engaged PricewaterhouseCoopers LLP (the firm that audited the Company's financial statements for the fiscal year ended December 31, 2003) to audit the Company's financial statements for the fiscal years ended December 31, 2002 and December 31, 2001. The Company is amending Item 15 to include the report, and related consent, of PricewaterhouseCoopers LLP with respect to the Company's consolidated balance sheet as of December 31, 2002 and the related consolidated statements of operations, beneficiaries' equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2002 in replacement of the report, and related consent, of KPMG LLP with respect to such financial statements.
- In December 2003, the Company incurred a \$20.6 million charge in connection with the redemption/conversion of its Series B Preferred Shares. In accordance with EITF Topic D-42, this charge was recorded in retained earnings and presented as a reduction to net income in arriving at net income available for common shareholders. The Company has subsequently determined that a portion of this charge should have been allocated to the Operating Partnership's Class A Limited Partnership Unitholders as a corresponding charge was recorded at the Operating Partnership when the Operating Partnership redeemed its corresponding Series C Preferred Mirror Units held by the Company. The resulting adjustment of \$.9 million has caused the Company's net income to increase from \$85.8 million to \$86.7 million and its earnings per common share, basic and diluted, to increase from \$1.40 to \$1.43 for the year ended December 31, 2003. The respective information contained in Item 6  Selected Financial Data and Item 7.  Management's Discussion and Analysis of Financial Condition and Results of Operations have been updated to reflect the aforementioned adjustment.
- The Company has eliminated all discussions related to the use of Same Store Net Operating Income as a non-GAAP financial measure in Item 7.  Management's Discussion and Analysis of Financial Condition and Results of Operations.

With the exceptions of the foregoing, no other changes have been made to the Company's Consolidated Financial Statements or Financial Statement Schedules and the Company's Form 10-K for the fiscal year ended December 31, 2003 has not otherwise been updated.

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(in thousands, except per Common Share data and number of properties)

| Year Ended December 31,                                  | 2003          | 2002         | 2001         | 2000(A)      | 1999(A)      |
|--|---------------|--------------|--------------|--------------|--------------|
|  | (as restated) |              |              |              |              |
| <b>Operating Results</b>                                 |               |              |              |              |              |
| Total revenue  | \$ 305,659    | \$ 291,040   | \$ 270,488   | \$ 254,100   | \$ 247,480   |
| Net income   | 86,678        | 62,984       | 33,722       | 52,158       | 34,606       |
| Income allocated to Common Shares                        | 54,174        | 51,078       | 21,816       | 40,252       | 29,816       |
| Earnings per Common Share                                |               |              |              |              |              |
| Basic  | \$ 1.43       | \$ 1.40      | \$ 0.57      | \$ 1.12      | \$ 0.80      |
| Diluted  | \$ 1.43       | \$ 1.39      | \$ 0.57      | \$ 1.12      | \$ 0.80      |
| Cash distributions declared per Common Share             | \$ 1.76       | \$ 1.76      | \$ 1.70      | \$ 1.62      | \$ 1.57      |
| <b>Balance Sheet Data</b>                                |               |              |              |              |              |
| Real estate investments, net of accumulated depreciation | \$ 1,695,355  | \$ 1,745,981 | \$ 1,812,909 | \$ 1,674,341 | \$ 1,702,353 |
| Total assets   | 1,855,776     | 1,919,288    | 1,960,203    | 1,821,103    | 1,825,276    |
| Total indebtedness                                       | 867,659       | 1,004,729    | 1,009,165    | 866,202      | 839,634      |
| Total liabilities  | 950,431       | 1,097,793    | 1,108,213    | 923,961      | 895,083      |
| Minority interest  | 133,488       | 135,052      | 143,834      | 144,974      | 145,941      |
| Beneficiaries' equity                                    | 771,857       | 686,443      | 708,156      | 752,168      | 784,252      |
| <b>Other Data</b>  |               |              |              |              |              |
| Cash flows from:   |               |              |              |              |              |
| Operating activities                                     | 118,793       | 128,836      | 152,040      | 103,123      | 81,495       |
| Investing activities                                     | (34,068)      | 5,038        | (123,682)    | (32,372)     | 69,195       |
| Financing activities                                     | (102,974)     | (120,532)    | (30,939)     | (60,403)     | (158,073)    |
| <b>Property Data</b>                                     |               |              |              |              |              |
| Number of properties owned at year end                   | 234           | 238          | 270          | 250          | 251          |
| Net rentable square feet owned at year end               | 15,733        | 16,052       | 17,312       | 16,471       | 16,607       |

(A) In 2000, the Operating Partnership held a 95% economic interest in Brandywine Realty Services Corporation (the "Management Company") through its ownership of 100% of the Management Company's non-voting preferred stock and 5% of its voting common stock. Effective January 1, 2001, the Company converted its non-voting equity interest in the Management Company to a voting interest. Accordingly, the Company owns 95% of the equity of and has voting control over the Management Company. Therefore, the 2003, 2002 and 2001 financial results of the Management Company have been consolidated. For purposes of the Selected Financial Data, the 2000 and 1999 results of operations presented above have been restated to reflect this presentation.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the financial statements appearing elsewhere herein. The results of operations and cash flows of the Company include the historical results of operations of the Properties held by the Company during the years ended December 31, 2003, 2002 and 2001. This Annual Report on Form 10-K contains forward-looking statements for purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, there can be no assurance that these expectations will be realized. See Item 1. Business Risk Factors.

**OVERVIEW**

The Company currently manages its portfolio within three geographic segments: (1) Pennsylvania, (2) New Jersey and (3) Virginia. The Company believes it has established an effective platform in these office and industrial

markets that provides a foundation for achieving its goals of maximizing market penetration and optimizing operating economies of scale.

During 2003, the Company sold eight office properties containing an aggregate of approximately 343,000 net rentable square feet, two industrial properties containing an aggregate of approximately 131,000 net rentable square feet and four parcels of land containing an aggregate of approximately 24.1 acres for an

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aggregate of \$45.6 million. In December 2003, the Company sold two office properties containing an aggregate of approximately 633,000 net rentable square feet for an aggregate of \$112.8 million, of which \$52.9 million of proceeds were used to pay off existing mortgage notes payable secured by the two properties. The Company retained a 20% interest in a venture that purchased the properties. The Company recognized a gain on the partial sale of approximately \$18.5 million for the piece sold and deferred the gain on the piece retained. The Company also purchased five office properties containing approximately 360,000 net rentable square feet and one parcel of land containing approximately 10.0 acres for an aggregate of \$67.8 million.

The Company receives income primarily from rental revenue (including tenant reimbursements) from the Properties and, to a lesser extent, from the management of properties owned by third parties and from investments in the Real Estate Ventures.

The Company's financial performance is dependent upon the demand for office and other commercial space in its markets. Current economic conditions, including recessionary pressures and capital market volatility, have enhanced the challenges facing the Company.

In the current economic climate, the Company continues to seek revenue growth through an increase in occupancy of its portfolio (90.7% at December 31, 2003). However, with a downturn in general leasing activity, owners of commercial real estate, including the Company, are experiencing longer periods in which to lease unoccupied space, and may face higher capital costs and leasing commissions to achieve targeted tenancies.

As the Company seeks to increase revenue, management also focuses on strategies to minimize operating risks, including (i) tenant rollover risk, (ii) tenant credit risk and (iii) development risk.

**Tenant Rollover Risk:**

The Company is subject to the risk that, upon expiration, leases may not be renewed, the space may not be relet, or the terms of renewal or reletting (including the cost of renovations) may be less favorable than the current lease terms. Leases accounting for approximately 10.8% of the aggregate annualized base rents from the Properties as of December 31, 2003 (representing approximately 11.6% of the net rentable square feet of the Properties) expire without penalty in 2004. The Company maintains an active dialogue with its tenants in an effort to achieve a high level of lease renewals. The Company's retention rate for leases that were scheduled to expire in the year ended December 31, 2003 was 80.2%. If the Company is unable to renew leases for a substantial portion of the space under expiring leases, or to promptly relet this space, at anticipated rental rates, the Company's cash flow could be adversely impacted.

**Tenant Credit Risk:**

In the event of a tenant default, the Company may experience delays in enforcing its rights as a landlord and may incur substantial costs in protecting its investment. Management regularly evaluates its accounts receivable reserve policy in light of its tenant base and general and local economic conditions. The accounts receivable allowance was \$4.0 million or 11.2% of total receivables (including accrued rent receivable) as of December 31, 2003 compared to \$4.6 million or 12.5% of total receivables (including accrued rent receivable) as of December 31, 2002.

**Development Risk:**

The Company currently has in development or redevelopment seven sites aggregating approximately 1.1 million square feet. The total cost of these projects is estimated to be \$225.5 million, of which \$17.9 million was incurred as of December 31, 2003. While the Company is actively marketing space at these projects to prospective tenants, management cannot provide assurance as to the timing or terms of any leases of such space. As of December 31, 2003, the Company owned approximately 445 acres of undeveloped land and held options to purchase approximately 61 additional acres. Risks associated with development of this land include construction cost overruns and construction delays, insufficient occupancy rates and inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals.

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### **CRITICAL ACCOUNTING POLICIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements 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 revenues and expenses during the reporting period.

The Company's significant accounting policies are described in Note 2 to the consolidated financial statements included this Annual Report on Form 10-K. While the estimates and judgments associated with the application of these accounting policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate in the circumstances. The following identifies critical accounting policies that are used in preparing the Company's consolidated financial statements, including those policies which require significant judgment and estimates:

#### Revenue Recognition

Rental revenue is recognized on a straight-line basis over the lease term regardless of when payments are due. Certain lease agreements contain provisions that require tenants to reimburse a pro rata share of real estate taxes and common area maintenance costs.

#### Real Estate Investments

Real estate investments are carried at cost. The Company records acquisition of real estate investments under the purchase method of accounting and allocates the purchase price to land, buildings and intangible assets on a relative fair value basis. Depreciation is computed using the straight-line method over the useful lives of buildings and capital improvements (25 to 40 years) and over the shorter of the lease term or the life of the asset for tenant improvements. Direct construction costs related to the development of Properties and land holdings are capitalized as incurred. The Company expenses routine repair and maintenance expenditures.

#### Impairment of Long-Lived Assets

Management reviews investments in real estate and real estate ventures for impairment if facts and circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of any impairment loss will be based on the fair value of the asset, determined using customary valuation techniques, such as the present value of expected future cash flows.

In accordance with SFAS No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities relating to assets classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

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### Income Taxes

The Company may elect to treat one or more of its corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its corporate subsidiaries as a TRS. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

### Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts that represents an estimate of losses that may be incurred from the inability of tenants to make required payments. The allowance is an estimate based on two calculations that are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has been determined that a tenant may have an inability to meet its financial obligations. In these situations, the Company uses its judgment, based on the facts and circumstances, and records a specific reserve for that tenant against amounts due to reduce the receivable to the amount that the Company expects to collect. These reserves are reevaluated and adjusted as additional information becomes available. Second, a reserve is established for all tenants based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If the financial condition of the Company's tenants were to deteriorate, additional allowances may be required.

### Deferred Costs

The Company incurs direct costs related to the financing, development and leasing of the Properties. Management exercises judgment in determining whether such costs meet the criteria for capitalization or must be expensed. Capitalized financing fees are amortized over the related loan term and capitalized leasing costs are amortized over the related lease term. Management re-evaluates the remaining useful lives of leasing costs as the creditworthiness of the Company's tenants and economic and market conditions change.

### 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-cancellable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancellable terms of the respective leases. Capitalized below-market lease values amortized as an increase of rental income over the remaining non-cancellable terms of the respective leases, including any fixed-rate renewal periods.

The aggregate value of other intangibles acquired is measured based on the difference between (i) the property valued with in-place leases adjusted to market rental rates and (ii) the property valued as if it was vacant. The Company estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, include 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. Factors considered by the Company in their analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. 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. 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.



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The total amount of these other intangible assets is further allocated to 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. 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 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-cancellable 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 market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

## RESULTS OF OPERATIONS

### Comparison of the Year Ended December 31, 2003 to the Year Ended December 31, 2002

|   | Year Ended December<br>31, |                | Dollar<br>Change | Percent<br>Change |
|---|----------------------------|----------------|------------------|-------------------|
|   | 2003                       | 2002           |                  |                   |
|   | (as<br>restated)           |                |                  |                   |
|   | (amounts in thousands)     |                |                  |                   |
| <b>Revenue:</b>                                       |                            |                |                  |                   |
| Rents   | \$ 256,945                 | \$ 248,075     | \$ 8,870         | 3.6%              |
| Tenant reimbursements                                 | 37,755                     | 33,263         | 4,492            | 13.5%             |
| Other   | 10,959                     | 9,702          | 1,257            | 13.0%             |
|   | <u>305,659</u>             | <u>291,040</u> | <u>14,619</u>    | <u>5.0%</u>       |
| <b>Operating Expenses:</b>                            |                            |                |                  |                   |
| Property operating expenses                           | 80,817                     | 74,967         | 5,850            | 7.8%              |
| Real estate taxes                                     | 27,919                     | 25,196         | 2,723            | 10.8%             |
| Interest  | 57,835                     | 63,522         | (5,687)          | -9.0%             |
| Depreciation and amortization                         | 60,592                     | 56,431         | 4,161            | 7.4%              |
| Administrative expenses                               | 14,464                     | 14,804         | (340)            | -2.3%             |
|   | <u>241,627</u>             | <u>234,920</u> | <u>6,707</u>     | <u>2.9%</u>       |
| Income from continuing operations before equity<br>in |                            |                |                  |                   |
| income of real estate ventures, net gain on<br>sales  |                            |                |                  |                   |
| and minority interest                                 | 64,032                     | 56,120         | 7,912            | 14.1%             |
| Equity in income of real estate ventures              | 52                         | 987            | (935)            | -94.7%            |
|   | <u>64,084</u>              | <u>57,107</u>  | <u>6,977</u>     | <u>12.2%</u>      |
| Income from continuing operations before net<br>gain  |                            |                |                  |                   |
| on sales and minority interest                        | 64,084                     | 57,107         | 6,977            | 12.2%             |

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|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Net gain on sales of interest in real estate                     | 20,537            | □                 | 20,537            | □                 |
| Minority interest  | (9,272)           | (9,265)           | (7)               | □                 |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income from continuing operations                                | 75,349            | 47,842            | 27,507            | 57.5%             |
| Income from discontinued operations, net of<br>minority interest | 11,329            | 15,142            | (3,813)           | -25.2%            |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income   | \$ 86,678         | \$ 62,984         | \$ 23,694         | 37.6%             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

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The results of operations for the years ended December 31, 2003 and 2002 include the respective operations of the Properties. Of the 234 Properties owned by the Company as of December 31, 2003, a total of 211 Properties containing an aggregate of approximately 13.6 million net rentable square feet ("Same Store Properties") were owned for the entire twelve-month periods ended December 31, 2003 and 2002.

Revenue increased to \$305.7 million for 2003 as compared to \$291.0 million for 2002, primarily due to increased rental rates and additional properties in 2003, offset by decreased occupancy. The straight-line rent adjustment increased revenues by \$5.9 million in 2003 and \$5.8 million in 2002. Revenue for Same Store Properties increased to \$247.0 million in 2003 from \$242.3 million in 2002. This increase was the result of increased occupancy as well as increased tenant reimbursements from higher operating expenses in 2003 as compared to 2002. Average occupancy for the Same Store Properties increased to 91.0% in 2003 from 90.9% in 2002. Other revenue represents lease termination fees, bankruptcy settlement proceeds, leasing commissions, third-party management fees and interest income. Other revenue increased to \$11.0 million in 2003 from \$9.7 million in 2002 primarily due to bankruptcy settlement proceeds received in 2003.

Property operating expenses increased to \$80.8 million in 2003 as compared to \$75.0 million in 2002, primarily due to increased snow removal costs and additional properties in 2003. Property operating expenses included a provision for doubtful accounts of \$.2 million in 2003 and \$.9 million in 2002 to provide for increased tenant credit risk. Property operating expenses for the Same Store Properties increased to \$75.3 million in 2003 as compared to \$69.7 million in 2002 as a result of increased snow removal costs in 2003 as compared to 2002.

Real estate taxes increased to \$27.9 million in 2003 as compared to \$25.2 million in 2002, primarily due to increased real estate tax assessments in 2003 and additional properties in 2003. Real estate taxes for the Same Store Properties increased to \$22.9 million in 2003 as compared to \$21.6 million in 2002 as a result of higher tax rates and property assessments.

Interest expense decreased to \$57.8 million in 2003 as compared to \$63.5 million in 2002, primarily due to decreased interest rates and decreased average borrowings during 2003. Average outstanding debt balances for 2003 were \$948.7 million as compared to \$1.0 billion for 2002. The Company's weighted-average interest rate from its unsecured credit facilities after giving effect to hedging activities on the unsecured credit facilities decreased to 4.60% in 2003 from 5.41% in 2002 and on mortgage notes payable decreased to 7.09% in 2003 from 7.27% in 2002.

Depreciation increased to \$53.5 million in 2003 as compared to \$50.8 million in 2002 primarily due to additional properties in 2003 and additional depreciation from increased tenant improvements during 2003. Amortization, related to deferred leasing costs, increased to \$7.1 million in 2003 as compared to \$5.6 million in 2002, primarily due to increased leasing activity and additional properties in 2003.

Administrative expenses decreased to \$14.5 million in 2003 as compared to \$14.8 million in 2002, primarily due to decreased amortization of restricted stock.

Equity in income of Real Estate Ventures decreased to \$52,000 in 2003 as compared to \$1.0 million in 2002. During 2003, the Company recorded an impairment charge of \$861,000 associated with the write-down its investment in a non-operating joint venture.

During 2003, the Company sold four parcels of land containing an aggregate of 24.1 acres for an aggregate of \$4.2 million, realizing an aggregate gain of \$2.0 million. In addition, the Company sold two office properties containing an aggregate of approximately 633,000 net rentable square feet for an aggregate of \$112.8 million, of which \$52.9 million of proceeds were used to pay off existing mortgage notes payable secured by the two properties. The Company recognized a gain on the sale of approximately \$18.5 million, which is recorded in net gain on sale of real estate interests due to a continuing 20% interest that the Company has maintained in the properties. During 2002, the Company sold two land parcels containing an aggregate of 12.8 acres for \$.7 million with no net gain realized.

Minority interest from continuing operations represents the equity in income attributable to the portion of the Operating Partnership not owned by the Company. Minority interest from continuing operations was \$9.3 million in 2003 and 2002.

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Discontinued operations decreased to \$11.3 million in 2003 as compared to \$15.1 million in 2002 primarily due to net gain on sales of real estate investments of \$8.6 million in 2002. During 2003, the Company sold eight office properties containing an aggregate of 343,000 net rentable square feet and two industrial properties containing an aggregate of 131,000 net rentable square feet for an aggregate of \$41.4 million, realizing an aggregate gain of \$9.7 million. During 2002, the Company sold 23 office properties containing an aggregate of 1.4 million net rentable square feet and 20 industrial properties containing an aggregate of .9 million net rentable square feet for an aggregate of \$190.1 million, realizing a net gain of \$8.6 million. The Company also recorded an impairment loss in 2002 of \$665,000 related to one property held-for-sale for which the anticipated net sales price is less than the book value of the asset.

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|  | <u>Year Ended December 31,</u> |                  | <u>Dollar<br/>Change</u> | <u>Percent<br/>Change</u> |
|--|--------------------------------|------------------|--------------------------|---------------------------|
|  | <u>2002</u>                    | <u>2001</u>      |                          |                           |
| <u>(amounts in thousands)</u>  |                                |                  |                          |                           |
| <b>Revenue:</b>  |                                |                  |                          |                           |
| Rents  | \$ 248,075                     | \$ 228,149       | \$ 19,926                | 8.7%                      |
| Tenant reimbursements  | 33,263                         | 31,993           | 1,270                    | 4.0%                      |
| Other  | 9,702                          | 10,346           | (644)                    | -6.2%                     |
|  | <u>291,040</u>                 | <u>270,488</u>   | <u>20,552</u>            | <u>7.6%</u>               |
| <b>Operating Expenses:</b>   |                                |                  |                          |                           |
| Property operating expenses  | 74,967                         | 70,604           | 4,363                    | 6.2%                      |
| Real estate taxes  | 25,196                         | 22,435           | 2,761                    | 12.3%                     |
| Interest   | 63,522                         | 67,496           | (3,974)                  | -5.9%                     |
| Depreciation and amortization  | 56,431                         | 67,224           | (10,793)                 | -16.1%                    |
| Administrative expenses  | 14,804                         | 15,177           | (373)                    | -2.5%                     |
| Non-recurring charges  | □                              | 6,600            | (6,600)                  | □                         |
|  | <u>234,920</u>                 | <u>249,536</u>   | <u>(14,616)</u>          | <u>-5.9%</u>              |
| Income from continuing operations before equity in                               |                                |                  |                          |                           |
| income of real estate ventures, net gain on sales and minority interest          | 56,120                         | 20,952           | 35,168                   | 167.9%                    |
| Equity in income of real estate ventures   | 987                            | 2,768            | (1,781)                  | -64.3%                    |
| Income from continuing operations before net gain on sales and minority interest | 57,107                         | 23,720           | 33,387                   | 140.8%                    |
| Net gain on sales of interest in real estate                                     | □                              | 4,524            | (4,524)                  | -100.0%                   |
| Minority interest  | (9,265)                        | (7,818)          | (1,447)                  | -18.5%                    |
| Income from continuing operations  | 47,842                         | 20,426           | 27,416                   | 134.2%                    |
| Income from discontinued operations, net of minority interest                    | 15,142                         | 13,296           | 1,846                    | 13.9%                     |
| Net income   | <u>\$ 62,984</u>               | <u>\$ 33,722</u> | <u>\$ 29,262</u>         | <u>86.8%</u>              |

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The results of operations for the years ended December 31, 2002 and 2001 include the respective operations of the Properties. Of the 238 Properties owned by the Company as of December 31, 2002, a total of 194 Properties containing an aggregate of 13.2 million net rentable square feet ("Same Store Properties") were owned for the entire twelve-month periods ended December 31, 2002 and 2001.

Revenue increased to \$291.0 million for 2002 as compared to \$270.5 million for 2001, primarily due to increased rental rates and additional properties in 2002, offset by decreased occupancy. The straight-line rent adjustment increased revenues by \$5.8 million in 2002 and \$5.4 million in 2001. Revenue for Same Store Properties decreased to \$233.3 million in 2002 from \$236.6 million in 2001. This decrease was the result of decreased occupancy in 2002 as compared to 2001. Average occupancy for the Same Store Properties decreased to 90.4% in 2002 from 94.5% in 2001. Other revenue represents lease termination fees, leasing commissions, third-party management fees and interest income. Other revenue decreased to \$9.7 million in 2002 from \$10.3 million in 2001 primarily due to reduced interest income earned in 2002 as compared to 2001.

Property operating expenses increased to \$75.0 million in 2002 as compared to \$70.6 million in 2001, primarily due to increased insurance and security costs and additional properties in 2002. Property operating expenses included a provision for doubtful accounts of \$.9 million in 2002 and \$2.9 million in 2001 to provide for increased tenant credit risk. Property operating expenses for the Same Store Properties increased to \$71.2 million in 2002 as compared to \$69.9 million in 2002 as a result of higher insurance and security costs.

Real estate taxes increased to \$25.2 million in 2002 as compared to \$22.4 million in 2001, primarily due to increased real estate tax assessments in 2002 and additional properties in 2002. Real estate taxes for the Same Store Properties increased to \$21.9 million in 2002 as compared to \$20.8 million in 2001 as a result of higher tax rates and property assessments.

Interest expense decreased to \$63.5 million in 2002 as compared to \$67.5 million in 2001, primarily due to decreased interest rates, partially offset by increased average borrowings during 2002. Average outstanding debt balances for 2002 were \$1.0 billion as compared to \$949.5 million for 2001. The Company's weighted-average interest rate on its unsecured credit facilities after giving effect to hedging activities on the unsecured credit facilities decreased to 5.41% in 2002 from 6.48% in 2001 and on its mortgage notes payable decreased to 7.27% in 2002 from 7.39% in 2001.

Depreciation decreased to \$50.8 million in 2002 as compared to \$62.9 million in 2001 primarily due to a change made by the Company in the estimated useful lives of buildings from 25 to 40 years. The impact of this change in useful lives was \$19.0 million or \$.53 per share for the year ended December 31, 2002. Management determined that the longer period better reflected the useful lives of the buildings. Amortization, related to deferred leasing costs, increased to \$5.6 million in 2002 as compared to \$4.3 million in 2001, primarily due to increased leasing activity and additional properties in 2002.

Administrative expenses decreased to \$14.8 million in 2002 as compared to \$15.2 million in 2001, primarily due to decreased amortization of restricted stock.

Equity in income of Real Estate Ventures decreased to \$1.0 million in 2002 as compared to \$2.8 million in 2001. The 2001 results include a \$785,000 gain on the sale of the Company's interests in a Real Estate Venture. In addition, the Company acquired the remaining partnership interests in three Real Estate Ventures, and, accordingly, the results attributable to these properties are now consolidated from the date of acquisition.

During 2002, the Company sold two land parcels containing an aggregate of 12.8 acres for \$.7 million with no net gain realized. During 2001, the Company sold three office properties, eight industrial properties and four land parcels for \$31.3 million, realizing a net gain of \$4.5 million.

Minority interest from continuing operations represents the equity in income attributable to the portion of the Operating Partnership not owned by the Company. Minority interest from continuing operations increased to \$9.3 million in 2002 as compared to \$7.9 million in 2001, primarily due to increased results of continuing operations in 2002 as compared to 2001.

Discontinued operations increased to \$15.1 million in 2002 from \$13.3 million in 2001 primarily due to net gain on sales of real estate investments of \$8.6 million in 2002. During 2002, the Company sold 23 office properties

containing an aggregate of 1.4 million net rentable square feet and 20 industrial properties containing an aggregate of .9 million net rentable square feet for an aggregate of \$190.1 million, realizing a net gain of \$8.6 million. The Company also recorded an impairment loss in 2002 of \$665,000 related to one property held-for-sale for which the anticipated net sales price was less than the book value of the asset.

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## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

During 2003, the Company generated \$118.8 million in cash flow from operating activities. Other sources of cash in-flows consisted of: (i) \$220.0 million of proceeds from the Term Loan and draws on the Credit Facility, (ii) \$159.1 million in net proceeds from share issuances, (iii) \$87.5 million of net proceeds from property sales, (iv) \$3.3 million of cash distributions from Real Estate Ventures, (v) \$2.5 million from payments on employee loans and (vi) \$1.9 million of escrowed cash. During 2003, cash out-flows consisted of: (i) \$222.0 million of Credit Facility repayments, (ii) \$91.4 million of Preferred Share redemptions, including \$1.2 million of related warrant repurchases, (iii) \$82.1 million of mortgage note repayments, (iv) \$78.8 million of distributions to shareholders, (v) \$67.5 million for property acquisitions, (vi) \$50.9 million to fund capital expenditures, (vii) \$10.2 million of distributions to minority interest holders, (viii) \$7.8 million of leasing costs, (ix) \$.5 million of additional investment in Real Estate Ventures and (x) \$.1 million of debt costs.

During 2002, the Company generated \$128.8 million in cash flow from operating activities. Other sources of cash in-flows consisted of: (i) \$115.0 million of proceeds from the Term Loan and draws on the Credit Facility, (ii) \$78.0 million of net proceeds from property sales, (iii) proceeds from \$20.2 million of additional mortgage notes payable, (iv) \$2.6 million of escrowed cash, (v) \$2.0 million of cash distributions from Real Estate Ventures and (vi) \$1.7 million from payments on employee loans. During 2002, cash out-flows consisted of: (i) \$102.3 million of Credit Facility repayments, (ii) \$75.0 million of distributions to shareholders, (iii) \$48.6 million of mortgage note repayments, (iv) \$38.8 million to fund capital expenditures, (v) \$25.1 million for property acquisitions, (vi) \$20.2 million to repurchase Common Shares and minority interest units in the Operating Partnership, (vii) \$13.1 million of leasing costs, (viii) \$10.6 million of distributions to minority interest holders, (ix) \$.7 million of debt costs and (x) \$.4 million of additional investment in Real Estate Ventures.

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During 2001, the Company generated \$152.0 million in cash flow from operating activities. Other sources of cash in-flows consisted of: (i) proceeds from \$135.2 million of additional mortgage notes payable, (ii) \$91.0 million of proceeds from draws on the Credit Facility, (iii) \$31.3 million of net proceeds from property sales, (iv) \$5.5 million of cash distributions from Real Estate Ventures and (v) \$1.0 million from payments on employee loans. During 2001, cash out-flows consisted of: (i) \$127.9 million of mortgage note repayments, (ii) \$107.4 million to fund capital expenditures, (iii) \$72.5 million of distributions to shareholders, (iv) \$40.4 million for property acquisitions, (v) \$35.0 million to repay borrowings under the Credit Facility, (vi) \$10.7 million of distributions to minority interest holders, (vii) \$9.2 million of leasing costs, (viii) \$6.5 million to repurchase Common Shares and minority interest units in the Operating Partnership, (ix) \$5.6 million of debt costs, (x) \$2.5 million of additional investment in Real Estate Ventures and (xi) \$1.0 million of escrowed cash.

### Capitalization

At December 31, 2003, the Company maintained a \$500 million Credit Facility. (See Item 1. Business-Credit Facility)

As of December 31, 2003, the Company had approximately \$867.7 million of debt outstanding, consisting of \$305.0 million of borrowings under the Credit Facility, \$100 million of borrowings under the Term Loan and \$462.7 million of mortgage notes payable. The mortgage notes payable consists of \$402.3 million of fixed rate loans and \$60.4 million of variable rate loans. Additionally, the Company has entered into interest rate swap agreements to fix the interest rate on \$175 million of the Credit Facility. The mortgage loans mature between March 2004 and July 2027. As of December 31, 2003, the Company also had \$10.7 million of letters of credit outstanding under the Credit Facility and \$184.3 million of unused availability under the Credit Facility. For the year ended December 31, 2003, the weighted-average interest rate under the Credit Facility and the related swap agreements was 4.60%, the weighted-average interest rate for the Term Loan was 2.95% and the weighted-average interest rate for borrowings under mortgage notes payable and the related cap agreements was 7.09%.

The following table outlines the timing of payment requirements related to the Company's commitments as of December 31, 2003:

#### Payments by Period (in thousands)

|                           | Total      | Less than<br>1 Year | 1-3 Years  | 3-5 Years | More than<br>5 Years |
|---------------------------|------------|---------------------|------------|-----------|----------------------|
| Mortgage notes payable:   |            |                     |            |           |                      |
| Fixed rate                | \$ 402,321 | \$ 10,277           | \$ 24,759  | \$ 40,259 | \$ 327,026           |
| Variable rate             | 24,815     | 172                 | 407        | 552       | 23,684               |
| Construction loans        | 35,523     | 35,523              | □          | □         | □                    |
|                           | 462,659    | 45,972              | 25,166     | 40,811    | 350,710              |
| Revolving credit facility | 305,000    | 305,000             | □          | □         | □                    |
| Unsecured debt            | 100,000    | □                   | 100,000    | □         | □                    |
| Other liabilities         | 11,027     | 10,279              | 748        | □         | □                    |
|                           | \$ 878,686 | \$ 361,251          | \$ 125,914 | \$ 40,811 | \$ 350,710           |

The Company intends to refinance its mortgage notes payable as they become due or repay those that are secured by properties being sold. In May 2004, we obtained a \$450 million unsecured credit facility. The credit facility will mature in 2007. We have the option to increase the credit facility to a maximum of \$600 million. The credit facility bears interest at LIBOR plus a spread over LIBOR ranging from .65% to 1.35% based on our leverage and unsecured debt ratings.

On January 12, 2004, we sold 2,645,000 Common Shares for net proceeds of approximately \$69.3 million. We used the net proceeds to reduce the outstanding balance under our revolving credit facility.

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On February 3, 2004, we entered into an agreement with Commonwealth Atlantic Operating Properties, Inc., the holder of 1,950,000 then outstanding Series B Preferred Units (the "Series B Preferred Units") in the Operating Partnership. The Series B Preferred Units had an aggregate stated value of \$97.5 million and accrued distributions at 7.25% per annum. During February 2004, we redeemed all of the Series B Preferred Units for an aggregate price of \$93.0 million, together with accrued but unpaid distributions from January 1, 2004.

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On February 27, 2004, we sold 2,300,000 7.375% Series D Cumulative Redeemable Preferred Shares for net proceeds of approximately \$55.5 million. We used the net proceeds to reduce the outstanding balance under our revolving credit facility, including amounts advanced under our revolving credit facility to fund the redemption of Series B Preferred Units.

On March 3, 2004, we sold 1,840,000 Common Shares for net proceeds of approximately \$50.7 million. We used the net proceeds to reduce the outstanding balance under our revolving credit facility.

As of December 31, 2003, the Company's debt-to-market capitalization ratio was 40.5%. As a general policy, the Company intends, but is not obligated, to adhere to a policy of maintaining a long-term average debt-to-market capitalization ratio of no more than 50%.

The Company's Board of Trustees approved a share repurchase program authorizing the Company to repurchase up to 4,000,000 of its outstanding Common Shares. Through December 31, 2003, the Company had repurchased 3.2 million of its Common Shares at an average price of \$17.75 per share. Under the share repurchase program, the Company has the authority to repurchase an additional 762,000 shares. No time limit has been placed on the duration of the share repurchase program. The following table summarizes the share repurchases during the three years ended December 31, 2003:

|                                       | Years Ended December 31, |           |          |
|---------------------------------------|--------------------------|-----------|----------|
|                                       | 2003                     | 2002      | 2001     |
| Repurchased amount (shares)           | □                        | 491,074   | 373,713  |
| Repurchased amount (\$, in thousands) | \$ □                     | \$ 11,053 | \$ 7,294 |
| Average price per share               | \$ □                     | \$ 22.51  | \$ 19.52 |

The following table summarized the Class A Units tendered for redemption during the three years ended December 31, 2003:

|                                       | Years Ended December 31, |          |          |
|---------------------------------------|--------------------------|----------|----------|
|                                       | 2003                     | 2002     | 2001     |
| Repurchased amount (units)            | □                        | 364,222  | 3,247    |
| Repurchased amount (\$, in thousands) | \$ □                     | \$ 8,536 | \$ 64    |
| Average price per unit                | \$ □                     | \$ 23.44 | \$ 19.72 |

### **Short- and Long-Term Liquidity**

The Company believes that cash flow from operations and current financing alternatives are adequate to fund its short-term liquidity requirements for 2004. Cash flow from operations is generated primarily from rental revenues, operating expense reimbursements from tenants, and by providing management services to third parties. The Company intends to use these funds to meet its principal short-term liquidity needs, which are to fund operating expenses, debt service requirements, recurring capital expenditures, tenant allowances, leasing commissions and the minimum distributions required to maintain the Company's REIT qualifications under the Internal Revenue Code.

On December 18, 2003, the Board of Trustees declared a quarterly dividend distribution of \$0.44 per share, paid on January 15, 2004 to common shareholders of record as of December 31, 2003. Distributions of \$1.76 per share were declared in 2003 and 2002.

Future distributions by us will be declared at the discretion of the Board of Trustees and will depend on our actual cash flow, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986 and such other factors as our Board of Trustees deems relevant.

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The Company 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 borrowings under its Credit Facility, long-term secured and unsecured indebtedness, the issuance of equity securities and the disposition of certain properties.

### **Off-Balance Sheet Arrangements**

The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. The Company's off-balance sheet arrangements are discussed in Note 6 to the financial statements: "Investment in Unconsolidated Real Estate Ventures". Additional information about the debt of the Company's unconsolidated Real Estate Ventures is included in "Item 2 - Properties".

### **Inflation**

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

### **Interest Rate Risk and Sensitivity Analysis**

The analysis below presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates. The range of changes chosen reflects the Company's 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 Company's financial instruments consist of both fixed and variable rate debt. As of December 31, 2003, the Company's consolidated debt consisted of \$402.3 million in fixed rate mortgages and \$60.4 million in variable rate mortgage notes, \$305.0 million borrowings under its Credit Facility and \$100.0 million under its Term Loan. 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 the Company's 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.

The Company has entered into interest rate swap and rate cap agreements designed to reduce the impact of interest rate changes on its variable rate debt. At December 31, 2003, the Company had interest rate swap agreements for notional principal amounts aggregating \$175 million. The swap agreements effectively fix the LIBOR interest rate on \$100 million of Credit Facility borrowings at 4.230% and on \$75 million of Credit Facility borrowings at 4.215%, in each case until June 2004. The interest rate cap agreement effectively limits the interest rate on a mortgage with a notional value of \$28 million at 8.7% until July 2004. The impact of the cap agreement is recorded as a component of interest expense.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$3.8 million. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately \$3.8 million. If market rates of interest increase by 1%, the fair value of our total outstanding debt would decrease by approximately \$24.5 million. If market rates of interest decrease by 1%, the fair value of our total outstanding debt would increase by approximately \$27.1 million.

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### **Item 8. Financial Statements and Supplementary Data**

The financial statements and supplementary financial data are listed under Item 15(a) and filed as part of this Annual Report on Form 10-K/A. See Item 15.

PricewaterhouseCoopers LLP (PWC) is the Company's independent registered public accounting firm. KPMG LLP (KPMG) provides the Company with tax compliance and advisory services. The Audit Committee of the Board of Trustees of the Company has approved the provision of services by PWC and KPMG to the Company.

### **Report of Management**

The management of the Company is responsible for the preparation of the financial statements and related financial information included in this annual report. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on informed estimates and judgments.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and accurately recorded. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the costs of such systems should not exceed the benefits expected to be derived. The Company continually reviews and modifies these systems, where appropriate, to maintain such assurance. The system of internal controls includes careful selection, training and development of operating and financial personnel, well-defined organizational responsibilities and communication of Company policies and procedures throughout the organization.

The selection of the Company's independent auditors, PWC, has been approved by the Audit Committee of the Board of Trustees. The Audit Committee of the Board of Trustees, comprised solely of non-employee Trustees, meets periodically with the Company's independent auditors and management to review the financial statements and related information and to confirm that they are properly discharging their responsibilities. In addition, the independent auditors meet with the Audit Committee, without the presence of management, to discuss their findings and their observations on other relevant matters. Recommendations made by PWC are considered and appropriate action is taken to respond to these recommendations.

Gerard H. Sweeney, President and Chief Executive Officer  
Christopher P. Marr, Senior Vice President and Chief Financial Officer  
Timothy M. Martin, Vice-President and Chief Accounting Officer

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

On May 23, 2002, the Company dismissed Arthur Andersen LLP ("Arthur Andersen") as its independent public accountants and appointed KPMG LLP ("KPMG") as its independent public accountants. The decision to dismiss Arthur Andersen and to retain KPMG was approved by the Audit Committee. Arthur Andersen's reports on the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Company's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through May 30, 2002, there were no disagreements between the Company and Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their reports.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within the Company's fiscal years ended December 31, 2001 and 2000 and the subsequent interim period through May 30, 2002.

A copy of Arthur Andersen's letter dated May 30, 2002 with respect to certain of the above statements is attached as Exhibit 16 to the Company's Form 8-K filed with the Securities and Exchange Commission on May 30, 2002.

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During the Company's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through May 30, 2002, neither the Company nor anyone acting on behalf of the Company consulted with KPMG regarding any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

On June 19, 2003, the Company informed KPMG that they would be dismissed effective as of June 19, 2003.

The audit report of KPMG on the Company's consolidated financial statements for the years ended December 31, 2002 and 2001 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles, except that effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. During its audit for the fiscal years ended December 31, 2002 and 2001, and for the subsequent interim period through June 25, 2003, (i) there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to KPMG's satisfaction, would have caused KPMG to make reference to the subject matter of such disagreements in their reports, and (ii) there have been no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The Audit Committee authorized the dismissal of KPMG and appointment of PWC. The Company retained PWC as its independent accountants effective June 19, 2003.

During the Company's fiscal years ended December 31, 2002 and 2001, and for the subsequent interim period through June 25, 2003, neither the Company nor anyone acting on behalf of the Company engaged PWC regarding any of the items described in Item 304(a)(2) of Regulation S-K.

A copy of KPMG's letter dated June 25, 2003 with respect to certain of the above statements is attached as Exhibit 16.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on June 25, 2003.

In April 2004, the Company engaged PWC to reaudit its consolidated financial statements as of and for the years ended December 31, 2002 and 2001.

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**Item 15. Exhibits, Financial Statements, Schedules and Reports on Form 8-K**

(a) 1. and 2. *Financial Statements and Schedules*

The financial statements and schedules listed below are filed as part of this annual report on the pages indicated.

**Index to Financial Statements and Schedules**

|  | <b><u>Page</u></b> |
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| Report of Independent Registered Public Accounting Firm  | F-1                |
| Consolidated Balance Sheets as of December 31, 2003 and December 31, 2002  | F-2                |
| Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001                                     | F-3                |
| Consolidated Statements of Beneficiaries' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | F-4                |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001                                     | F-5                |
| Notes to Consolidated Financial Statements   | F-6                |
| Schedule II □ Valuation and Qualifying Accounts  | F-29               |
| Schedule III □ Real Estate and Accumulated Depreciation  | F-30               |

3. *Exhibits*

| <u>Exhibits No.</u> | <u>Description</u>   |
|---------------------|--|
| (1) 3.1.1           | Amended and Restated Declaration of Trust of the Company (amended and restated as of May 12, 1997) |
| (2) 3.1.2           | Articles of Amendment to Declaration of Trust of the Company (September 4, 1997)                   |
| (3) 3.1.3           | Articles of Amendment to Declaration of Trust of the Company                                       |
| (4) 3.1.4           | Articles Supplementary to Declaration of Trust of the Company (September 28, 1998)                 |

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| <u>Exhibits No.</u> | <u>Description</u>  |
|---------------------|---|
| (5)                 | 3.1.5 Articles of Amendment to Declaration of Trust of the Company (March 19, 1999)   |
| (6)                 | 3.1.6 Articles Supplementary to Declaration of Trust of the Company (April 19, 1999)  |
| (7)                 | 3.1.7 Articles Supplementary to Declaration of Trust of the Company (December 30, 2003)   |
| (8)                 | 3.1.8 Articles Supplementary to Declaration of Trust of the Company (February 5, 2004)  |
| (9)                 | 3.2 Amended and Restated Bylaws of the Company  |
| (10)                | 10.1 Second Amended and Restated Partnership Agreement of Brandywine Realty Services Partnership  |
| (11)                | 10.2 Amended and Restated Articles of Incorporation of Brandywine Realty Services Corporation   |
| (12)                | 10.3 Amended and Restated Agreement of Limited Partnership of Brandywine Operating Partnership, L.P. (the "Operating Partnership")              |
| (12)                | 10.4 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                      |
| (12)                | 10.5 First Amendment to Amended and Restated Agreement of the Operating Partnership   |
| (13)                | 10.6 Second Amendment to the Amended and Restated Agreement of Limited Partnership Agreement of the Operating Partnership                       |
| (14)                | 10.7 Third Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                  |
| (14)                | 10.8 Tax Indemnification Agreement dated May 8, 1998, by and between the Operating Partnership and the parties identified on the signature page |
| (15)                | 10.9 Contribution Agreement dated as of July 10, 1998 (Axinn)   |
| (15)                | 10.10 Form of Donald E. Axinn Options **  |
| (4)                 | 10.11 Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                |
| (4)                 | 10.12 Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                 |
| (4)                 | 10.13 Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                 |
| (26)                | 10.14 Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                               |
| (26)                | 10.15 Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                |
| (26)                | 10.16 Ninth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                 |
| (26)                | 10.17 Tenth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                                 |
| (26)                | 10.18 Eleventh Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                              |
| (26)                | 10.19 Twelfth Amendment to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership                               |
| (4)                 | 10.20 First Amendment to Contribution Agreement (Axinn)   |
| (16)                | 10.21 Form of Board of Trustees Designation Letter (Lazard)   |
| (9)                 | 10.22 Agreement dated as of December 31, 2001 with Anthony A. Nichols, Sr. **   |
| (10)                | 10.23 Amended and Restated Employment Agreement dated as of May 7, 2002 of Gerard H. Sweeney**  |
| (5)                 | 10.24 Amended and Restated Non-Qualified Stock Option Award to Anthony A. Nichols, Sr. **   |
| (5)                 | 10.25 Amended and Restated Non-Qualified Stock Option Award to Gerard H. Sweeney **   |
| (5)                 | 10.26 Severance Agreement (Anthony S. Rimikis) **   |
| (5)                 | 10.27 Third Amendment to Restricted Share Award to Gerard H. Sweeney.**   |
| (5)                 | 10.28 Restricted Share Award to Anthony S. Rimikis.**   |
| (17)                | 10.29 Restricted Share Award to Gerard H. Sweeney **  |
| (18)                | 10.30 Fourth Amendment to Restricted Share Award to Gerard H. Sweeney**   |
| (18)                | 10.31 Severance Agreement (Barbara L. Yamarick)**   |
| (18)                | 10.32 Severance Agreement (Anthony A. Nichols, Jr.)**   |

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| <u>Exhibits No.</u> | <u>Description</u>  |
|---------------------|---|
| (18)                | 10.33 Severance Agreement (H. Jeffrey De Vuono)**                                       |
| (18)                | 10.34 Severance Agreement (George Sowa)**   |
| (18)                | 10.35 Severance Agreement (Bradley W. Harris)**   |
| (18)                | 10.36 Restricted Share Award to Gerard H. Sweeney**                                     |
| (18)                | 10.37 Restricted Share Award to Anthony S. Rimikis**                                    |
| (18)                | 10.38 Restricted Share Award to Barbara L. Yamarick**                                   |
| (18)                | 10.39 Restricted Share Award to Anthony A. Nichols, Jr.**                               |
| (18)                | 10.40 Restricted Share Award to H. Jeffrey De Vuono**                                   |
| (18)                | 10.41 Restricted Share Award to George Sowa**   |
| (18)                | 10.42 Restricted Share Award to Bradley W. Harris**                                     |
| (19)                | 10.43 2002 Restricted Share Award for Gerard H. Sweeney**                               |
| (19)                | 10.44 2002 Form of Restricted Share Award for Executive Officers**                      |
| (20)                | 10.45 Third Amended and Restated Credit Agreement                                       |
| (21)                | 10.46 Term Credit Agreement   |
| (21)                | 10.47 Consent and First Amendment to Third Amended and Restated Credit Agreement        |
| (21)                | 10.48 Second Amendment to Third Amended and Restated Credit Agreement                   |
| (22)                | 10.49 2002 Restricted Share Award to Christopher P. Marr**                              |
| (22)                | 10.50 Severance Agreement to Christopher P. Marr**                                      |
| (23)                | 10.51 2002 Non-Qualified Option to Gerard H. Sweeney**                                  |
| (11)                | 10.52 Executive Deferred Compensation Plan**  |
| (11)                | 10.53 2003 Restricted Share Award to Gerard H. Sweeney**                                |
| (11)                | 10.54 2003 Restricted Share Award to Anthony S. Rimikis**                               |
| (11)                | 10.55 2003 Restricted Share Award to Barbara L. Yamarick**                              |
| (11)                | 10.56 2003 Restricted Share Award to Anthony A. Nichols, Jr.**                          |
| (11)                | 10.57 2003 Restricted Share Award to H. Jeffrey DeVuono**                               |
| (11)                | 10.58 2003 Restricted Share Award to George D. Sowa**                                   |
| (11)                | 10.59 2003 Restricted Share Award to Bradley W. Harris**                                |
| (11)                | 10.60 2003 Restricted Share Award to Brad A. Molotsky**                                 |
| (11)                | 10.61 2003 Restricted Share Award to Christopher P. Marr**                              |
| (24)                | 10.62 Letter to Cohen & Steers Capital Management, Inc.                                 |
| (7)                 | 10.63 Redemption and Conversion Agreement with Five Arrows Realty Securities III L.L.C. |
| (25)                | 10.64 Purchase Agreement with Commonwealth Atlantic Operating Properties Inc.           |
| (26)                | 12.1 Statement re Computation of Ratios   |
| (26)                | 14.1 Code of Business Conduct and Ethics  |
| (26)                | 21.1 List of Subsidiaries of the Company  |
|                     | 23.1 Consent of PricewaterhouseCoopers LLP  |
|                     | 31.1 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934    |
|                     | 31.2 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934    |
|                     | 32.1 Certification Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934    |
|                     | 32.2 Certification Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934    |

1. Previously filed as an exhibit to the Company's Form 8-K dated June 9, 1997 and incorporated herein by reference.
2. Previously filed as an exhibit to the Company's Form 8-K dated September 10, 1997 and incorporated herein by reference.
3. Previously filed as an exhibit to the Company's Form 8-K dated June 3, 1998 and incorporated herein by reference.
4. Previously filed as an exhibit to the Company's Form 8-K dated October 13, 1998 and incorporated herein by reference.

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5. Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 1999 and incorporated herein by reference.
6. Previously filed as an exhibit to the Company's Form 8-K dated April 26, 1999 and incorporated herein by reference.
7. Previously filed as an exhibit to the Company's Form 8-A dated December 29, 2003 and incorporated herein by reference.
8. Previously filed as an exhibit to the Company's Form 8-A dated February 5, 2004 and incorporated herein by reference.
9. Previously filed as an exhibit to the Company's Form 8-K dated October 14, 2003 and incorporated herein by reference.
10. Previously filed as an exhibit to the Company's Registration statement of Form S-11 (File No. 33-4175) and incorporated herein by reference.
11. Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.
12. Previously filed as an exhibit to the Company's Form 8-K dated December 17, 1997 and incorporated herein by reference.
13. Previously filed as an exhibit to the Company's Form 8-K dated August 13, 1998 and incorporated herein by reference.
14. Previously filed as an exhibit to the Company's Form 8-K dated May 14, 1998 and incorporated herein by reference.
15. Previously filed as an exhibit to the Company's Form 8-K dated July 30, 1998 and incorporated herein by reference.
16. Previously filed as an exhibit to the Company's Form 8-K dated August 13, 1998 and incorporated herein by reference.
17. Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference.
18. Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
19. Previously filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference.
20. Previously filed as an exhibit to the Company's Form 8-K dated July 12, 2001 and incorporated herein by reference.
21. Previously filed as an exhibit to the Company's Form 8-K dated July 16, 2002 and incorporated herein by reference.
22. Previously filed as an exhibit to the Company's Form 8-K dated August 27, 2002 and incorporated herein by reference.
23. Previously filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference.

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24. Previously filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference.
25. Previously filed as an exhibit to the Company's Form 8-K dated February 3, 2004 and incorporated herein by reference.
26. Previously filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2003.  
\*\* Management contract or compensatory plan or arrangement.

*(b) Reports on Form 8-K*

During the three months ended December 31, 2003 and through March 12, 2004, the Company filed or furnished the following:

- (i) Current Report on Form 8-K filed October 14, 2003 (reporting under Items 5 and 7).
- (ii) Current Report on Form 8-K filed October 15, 2003 (reporting under Items 5 and 7).
- (iii) Current Report on Form 8-K furnished October 24, 2003 (reporting under Items 7, 9 and 12).
- (iv) Current Report on Form 8-K filed December 9, 2003 (reporting under Items 5 and 7).
- (v) Current Report on Form 8-K filed December 24, 2003 (reporting under Item 5).
- (vi) Current Report on Form 8-K filed December 29, 2003 (reporting under Items 5 and 7).
- (vii) Current Report on Form 8-K filed January 7, 2004 (reporting under Items 5 and 7).
- (viii) Current Report on Form 8-K filed February 3, 2004 (reporting under Items 5 and 7).
- (ix) Current Report on Form 8-K filed February 5, 2004 (reporting under Items 5 and 7).
- (x) Current Report on Form 8-K furnished February 12, 2004 (reporting under Items 7 and 12).
- (xi) Current Report on Form 8-K filed February 27, 2004 (reporting under Items 5 and 7).

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Plymouth Meeting, Pennsylvania on June 22, 2004.

BRANDYWINE REALTY TRUST

By: /s/ Gerard H. Sweeney

Gerard H. Sweeney

President and Chief Executive Officer

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**Report of Independent Registered Public Accounting Firm**

To the Board of Trustees and Shareholders  
of Brandywine Realty Trust:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) and (2) present fairly, in all material respects, the consolidated financial position of Brandywine Realty Trust and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the consolidated financial statements schedules listed in the index appearing under Item 15(a)(1) and (2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These consolidated financial statements and consolidated financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 20 to the consolidated financial statements, the Company has restated its consolidated financial statements as of December 31, 2003 and for the year then ended.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
June 18, 2004

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**BRANDYWINE REALTY TRUST**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except number of shares)

|  | December 31,  |              |
|--|---------------|--------------|
|  | 2003          | 2002         |
|  | (as restated) |              |
| <b>ASSETS</b>                                      |               |              |
| Real estate investments:                           |               |              |
| Operating properties                               | \$ 1,869,744  | \$ 1,890,009 |
| Accumulated depreciation                           | (268,091)     | (245,230)    |
|  | 1,601,653     | 1,644,779    |
| Construction-in-progress                           | 29,787        | 41,986       |
| Land held for development                          | 63,915        | 59,216       |
|  | 1,695,355     | 1,745,981    |
| Cash and cash equivalents                          | 8,552         | 26,801       |
| Escrowed cash                                      | 14,388        | 16,318       |
| Accounts receivable, net                           | 5,206         | 3,657        |
| Accrued rent receivable, net                       | 26,652        | 28,333       |
| Marketable securities                              | 12,052        | 11,872       |
| Assets held for sale                               | 5,317         | 7,666        |
| Investment in real estate ventures, at equity      | 15,853        | 14,842       |
| Deferred costs, net                                | 27,269        | 29,271       |
| Other assets                                       | 45,132        | 34,547       |
|  | \$ 1,855,776  | \$ 1,919,288 |
| <b>LIABILITIES AND BENEFICIARIES □ EQUITY</b>      |               |              |
| Mortgage notes payable                             | \$ 462,659    | \$ 597,729   |
| Borrowings under Credit Facility                   | 305,000       | 307,000      |
| Unsecured term loan                                | 100,000       | 100,000      |
| Accounts payable and accrued expenses              | 30,290        | 27,576       |
| Distributions payable                              | 20,947        | 21,186       |
| Tenant security deposits and deferred rents        | 16,123        | 22,276       |
| Other liabilities                                  | 15,360        | 22,006       |
| Liabilities related to assets held for sale        | 52            | 20           |
|  | 950,431       | 1,097,793    |
| Total liabilities                                  |               |              |
| Minority interest                                  | 133,488       | 135,052      |
| Commitments and contingencies                      | □             | □            |
| Beneficiaries □ equity:                            |               |              |
| Preferred Shares (shares authorized-10,000,000):   |               |              |
| 7.25% Series A Preferred Shares, \$0.01 par value; |               |              |
| issued and outstanding-750,000                     | 8             | 8            |
| in 2003 and 2002                                   |               |              |
| 8.75% Series B Preferred Shares, \$0.01 par value; |               |              |
| issued and outstanding- no shares                  |               |              |
| in 2003 and 4,375,000 in 2002                      | □             | 44           |
| 7.50% Series C Preferred Shares, \$0.01 par value; |               |              |
| issued and outstanding-2,000,000 in 2003           |               |              |

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|  |                     |                     |
|--|---------------------|---------------------|
| and no shares issued and outstanding in 2002   | 20                  | □                   |
| Common Shares of beneficial interest, \$0.01 par value;<br>shares authorized-100,000,000; issued and outstanding□<br>41,040,710 in 2003 and 35,226,315 in 2002 | 410                 | 352                 |
| Additional paid-in capital   | 936,730             | 841,659             |
| Share warrants   | 401                 | 401                 |
| Cumulative earnings  | 310,212             | 225,010             |
| Accumulated other comprehensive loss   | (2,158)             | (6,402)             |
| Cumulative distributions   | (473,766)           | (374,629)           |
|  | <u>771,857</u>      | <u>686,443</u>      |
| Total beneficiaries□ equity  |                     |                     |
|  | <u>\$ 1,855,776</u> | <u>\$ 1,919,288</u> |

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

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

|   | Year ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2003                    | 2002       | 2001       |
|   | (as restated)           |            |            |
| <b>Revenue:</b>   |                         |            |            |
| Rents   | \$ 256,945              | \$ 248,075 | \$ 228,149 |
| Tenant reimbursements   | 37,755                  | 33,263     | 31,993     |
| Other   | 10,959                  | 9,702      | 10,346     |
| Total revenue   | 305,659                 | 291,040    | 270,488    |
| <b>Operating Expenses:</b>  |                         |            |            |
| Property operating expenses   | 80,817                  | 74,967     | 70,604     |
| Real estate taxes   | 27,919                  | 25,196     | 22,435     |
| Interest  | 57,835                  | 63,522     | 67,496     |
| Depreciation and amortization   | 60,592                  | 56,431     | 67,224     |
| Administrative expenses   | 14,464                  | 14,804     | 15,177     |
| Non-recurring charges   | □                       | □          | 6,600      |
| Total operating expenses  | 241,627                 | 234,920    | 249,536    |
| Income from continuing operations before equity in income of real estate ventures, net gains on sales and minority interest | 64,032                  | 56,120     | 20,952     |
| Equity in income of real estate ventures  | 52                      | 987        | 2,768      |
| Income from continuing operations before net gains on sales and minority interest   | 64,084                  | 57,107     | 23,720     |
| Net gains on sales of interests in real estate  | 20,537                  | □          | 4,524      |
| Income before minority interest   | 84,621                  | 57,107     | 28,244     |
| Minority interest attributable to continuing operations   | (9,272)                 | (9,265)    | (7,818)    |
| Income from continuing operations   | 75,349                  | 47,842     | 20,426     |
| Discontinued operations:  |                         |            |            |
| Income from discontinued operations   | 2,156                   | 7,467      | 14,100     |
| Net gain on disposition of discontinued operations  | 9,690                   | 8,562      | □          |
| Minority interest   | (517)                   | (887)      | (804)      |
| Income from discontinued operations   | 11,329                  | 15,142     | 13,296     |
| Net income  | 86,678                  | 62,984     | 33,722     |
| Income allocated to Preferred Shares  | (11,906)                | (11,906)   | (11,906)   |
| Preferred Share redemption/conversion charge  | (20,598)                | □          | □          |
| Income allocated to Common Shares   | \$ 54,174               | \$ 51,078  | \$ 21,816  |
| Basic earnings per Common Share:  |                         |            |            |
| Continuing operations   | \$ 1.12                 | \$ 0.97    | \$ 0.20    |
| Discontinued operations   | 0.31                    | 0.43       | 0.37       |

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|                                    |    |                   |    |                   |    |                   |
|------------------------------------|----|-------------------|----|-------------------|----|-------------------|
|                                    | \$ | 1.43              | \$ | 1.40              | \$ | 0.57              |
|                                    |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |
| Diluted earnings per Common Share: |    |                   |    |                   |    |                   |
| Continuing operations              | \$ | 1.12              | \$ | 0.97              | \$ | 0.20              |
| Discontinued operations            |    | 0.31              |    | 0.42              |    | 0.37              |
|                                    |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |
|                                    | \$ | 1.43              | \$ | 1.39              | \$ | 0.57              |
|                                    |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |

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

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**BRANDYWINE REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY AND COMPREHENSIVE INCOME**  
**For the years ended December 31, 2003, 2002 and 2001**  
**(in thousands, except number of shares)**

|   | Par<br>Number<br>of<br>Preferred<br>A<br>Shares | Par<br>Value<br>of<br>Preferred<br>A<br>Shares | Par<br>Value<br>of<br>Preferred<br>B<br>Shares | Par<br>Value<br>of<br>Preferred<br>C<br>Shares | Par<br>Value<br>of<br>Common<br>Shares | Par<br>Value<br>of<br>Additional<br>Paid-in<br>Capital | Employee<br>Stock<br>Loans | Share<br>Warrants | Cumulative<br>Earnings<br>(as<br>restated) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Cumulative<br>Distributions | Total      |              |          |
|---|---|--|--|--|--|--|----------------------------|-------------------|--|---|-----------------------------|------------|--------------|----------|
| CE,<br>1, 2001<br>prehensive  | 750,000   | \$ 8   | 4,375,000                                      | \$ 44  | □                                      | □ 35,681,314   | \$ 357                     | \$ 854,375        | \$ (6,837)                                 | \$ 908  | \$ 131,256                  | \$ (1,731) | \$ (226,212) | \$ 7     |
| ome<br>prehensive   |   |  |  |  |  |  |                            |                   |  | 33,722  |                             |            |              |          |
| ative effect of<br>g SFAS 133<br>zied loss on<br>ve financial<br>ents   |   |  |  |  |  |  |                            |                   |  |   |                             | (1,300)    |              |          |
| zed gain on<br>e-for-sale<br>es   |   |  |  |  |  |  |                            |                   |  |   |                             | (3,371)    |              |          |
|   |   |  |  |  |  |  |                            |                   |  |   |                             | 1,815      |              |          |
| her<br>prehensive   |   |  |  |  |  |  |                            |                   |  |   |                             | (2,856)    |              |          |
| prehensive  |   |  |  |  |  |  |                            |                   |  |   |                             |            |              |          |
| of<br>ed Stock<br>nase of<br>n Shares<br>ee stock<br>sed to<br>e Common |   |  |  |  |  |  | 175,411                    | 2                 | 3,983                                      |   |                             |            |              |          |
|   |   |  |  |  |  |  | (373,713)                  | (4)               | (7,290)                                    |   |                             |            |              |          |
| t/forgiveness<br>oyee stock   |   |  |  |  |  |  | 71,276                     | 1                 | 1,385                                      | (1,386)   |                             |            |              |          |
|   |   |  |  |  |  |  |                            |                   |  | 2,524   |                             |            |              |          |
| on of<br>ed Share<br>t<br>e of<br>cs/options<br>ed Share<br>itions      |   |  |  |  |  |  |                            |                   | 1,476                                      |   | (1,476)                     |            |              |          |
| itions (\$1.70<br>re)   |   |  |  |  |  |  | 86,647                     |                   | (17)                                       | (507)   |                             |            |              | (11,906) |
|   |   |  |  |  |  |  |                            |                   |  |   |                             |            |              | (61,663) |
| CE,<br>er 31, 2001<br>prehensive  | 750,000   | 8  | 4,375,000                                      | 44   | □                                      | □ 35,640,935   | 356                        | 853,912           | (5,699)                                    | 401   | 163,502                     | (4,587)    | (299,781)    | 7        |
| ome<br>prehensive   |   |  |  |  |  |  |                            |                   |  |   | 62,984                      |            |              |          |

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|  |         |   |             |      |  |            |     |          |         |     |         |         |            |          |
|--|---------|---|-------------|------|--|------------|-----|----------|---------|-----|---------|---------|------------|----------|
| ized loss on<br>ve financial<br>ents   |         |   |             |      |  |            |     |          |         |     |         |         | (2,548)    |          |
| ized gain on<br>e-for-sale<br>es   |         |   |             |      |  |            |     |          |         |     |         |         | <u>733</u> |          |
| her<br>hensive   |         |   |             |      |  |            |     |          |         |     |         |         | (1,815)    |          |
| hensive  |         |   |             |      |  |            |     |          |         |     |         |         |            |          |
| of<br>ed Stock<br>ase of<br>n Shares<br>t/forgiveness<br>oyee stock  |         |   |             |      |  | 76,454     | 1   | 1,895    |         |     |         |         |            |          |
|  |         |   |             |      |  | (491,074)  | (5) | (11,048) |         |     |         |         |            |          |
|  |         |   |             |      |  |            |     |          |         |     |         |         | 1,658      |          |
| on of<br>ed Share<br>t   |         |   |             |      |  |            |     |          |         |     |         |         | 1,476      | (1,476)  |
| ation of<br>ptions<br>e of<br>ts/options<br>ed Share<br>tions<br>tions (\$1.76<br>re)  |         |   |             |      |  |            |     |          |         |     |         |         | 43         |          |
|  |         |   |             |      |  |            |     |          |         |     |         |         | (578)      |          |
|  |         |   |             |      |  |            |     |          |         |     |         |         |            | (11,906) |
|  |         |   |             |      |  |            |     |          |         |     |         |         |            | (62,942) |
| CE,<br>ber 31, 2002<br>hensive   | 750,000 | 8 | 4,375,000   | 44   |  | 35,226,315 | 352 | 845,700  | (4,041) | 401 | 225,010 | (6,402) | (374,629)  | 68       |
| ome<br>hensive   |         |   |             |      |  |            |     |          |         |     |         | 86,678  |            |          |
| ized loss on<br>ve financial<br>ents   |         |   |             |      |  |            |     |          |         |     |         |         | 4,194      |          |
| ized gain on<br>e-for-sale<br>es   |         |   |             |      |  |            |     |          |         |     |         |         | <u>50</u>  |          |
| her<br>hensive   |         |   |             |      |  |            |     |          |         |     |         |         | 4,244      |          |
| hensive  |         |   |             |      |  |            |     |          |         |     |         |         |            |          |
| of<br>ed Stock<br>e of<br>ed Shares<br>sion of<br>ed Shares<br>otion of<br>ed Shares,<br>minority<br>e of Common<br>net of<br>y interest |         |   |             |      |  | 82,912     | 1   | 1,767    |         |     |         |         |            |          |
|  |         |   | 2,000,000   | 20   |  |            |     | 47,892   |         |     |         |         |            |          |
|  |         |   | (1,093,750) | (11) |  | 1,093,750  | 11  | 3,828    |         |     |         |         | (3,828)    |          |
|  |         |   | (3,281,250) | (33) |  |            |     | (74,647) |         |     |         |         | (16,770)   |          |
|  |         |   |             |      |  | 4,587,500  | 45  | 110,937  |         |     |         |         |            |          |



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

|  | Year ended December 31, |                |                  |
|--|-------------------------|----------------|------------------|
|  | 2003                    | 2002           | 2001             |
|  | (as restated)           |                |                  |
| <b>Cash flows from operating activities:</b>                               |                         |                |                  |
| Net income   | \$ 86,678               | \$ 62,984      | \$ 33,722        |
| Adjustments to reconcile net income to net cash from operating activities: |                         |                |                  |
| Depreciation   | 54,353                  | 52,944         | 73,031           |
| Amortization:  |                         |                |                  |
| Deferred financing costs   | 2,304                   | 1,795          | 3,790            |
| Deferred leasing costs   | 7,032                   | 5,820          | 5,158            |
| Deferred compensation costs  | 2,869                   | 3,182          | 3,710            |
| Straight-line rental income  | (5,917)                 | (5,930)        | (6,206)          |
| Provision for doubtful accounts  | 189                     | 894            | 2,867            |
| Net gain on sales of interests in real estate                              | (30,227)                | (8,562)        | (4,524)          |
| Non-recurring charge   | □                       | □              | 6,600            |
| Impairment loss on assets held-for-sale                                    | □                       | 665            | □                |
| Minority interest  | 9,789                   | 10,152         | 8,622            |
| Changes in assets and liabilities:   |                         |                |                  |
| Accounts receivable  | (1,462)                 | 2,582          | (212)            |
| Other assets   | (4,232)                 | 11,029         | 17,464           |
| Accounts payable and accrued expenses                                      | 1,911                   | (6,040)        | 4,292            |
| Tenant security deposits and deferred rents                                | (2,432)                 | (521)          | 5,058            |
| Other liabilities  | (2,062)                 | (2,158)        | (1,332)          |
| <b>Net cash from operating activities</b>                                  | <b>118,793</b>          | <b>128,836</b> | <b>152,040</b>   |
| <b>Cash flows from investing activities:</b>                               |                         |                |                  |
| Acquisition of properties  | (67,490)                | (25,146)       | (40,359)         |
| Sales of properties, net   | 87,461                  | 78,019         | 31,335           |
| Capital expenditures   | (50,885)                | (38,787)       | (107,405)        |
| Investment in real estate ventures   | (521)                   | (446)          | (2,495)          |
| Increase in escrowed cash  | 1,930                   | 2,553          | (1,016)          |
| Cash distributions from real estate ventures in excess of income           | 3,258                   | 1,969          | 5,492            |
| Leasing costs  | (7,821)                 | (13,124)       | (9,234)          |
| <b>Net cash from investing activities</b>                                  | <b>(34,068)</b>         | <b>5,038</b>   | <b>(123,682)</b> |
| <b>Cash flows from financing activities:</b>                               |                         |                |                  |
| Proceeds from notes payable, Credit Facility                               | 220,000                 | 15,000         | 91,000           |
| Repayment of notes payable, Credit Facility                                | (222,000)               | (102,325)      | (35,000)         |
| Proceeds from Term Loan  | □                       | 100,000        | □                |
| Proceeds from mortgage notes payable                                       | □                       | 20,186         | 135,165          |
| Repayment of mortgage notes payable  | (82,131)                | (48,646)       | (127,876)        |
| Debt financing costs   | (112)                   | (658)          | (5,557)          |
| Repayments on employee stock loans   | 2,509                   | 1,658          | 1,024            |
| Proceeds from issuances of shares, net                                     | 159,107                 | □              | □                |
| Redemption of Preferred Shares   | (91,422)                | □              | □                |
| Repurchases of Common Shares and minority interest units                   | □                       | (20,165)       | (6,494)          |
| Distributions paid to shareholders   | (78,754)                | (75,022)       | (72,534)         |
| Distributions to minority interest holders                                 | (10,171)                | (10,560)       | (10,667)         |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Net cash from financing activities                  | (102,974) | (120,532) | (30,939)  |
| (Decrease) increase in cash and cash equivalents    | (18,249)  | 13,342    | (2,581)   |
| Cash and cash equivalents at beginning of year      | 26,801    | 13,459    | 16,040    |
| Cash and cash equivalents at end of year            | \$ 8,552  | \$ 26,801 | \$ 13,459 |
| Supplemental disclosure:                            |           |           |           |
| Cash paid for interest, net of capitalized interest | \$ 52,645 | \$ 61,814 | \$ 74,736 |

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

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**BRANDYWINE REALTY TRUST  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001**

**1. ORGANIZATION AND NATURE OF OPERATIONS**

Brandywine Realty Trust, a Maryland Real Estate Investment Trust (collectively with its subsidiaries, the "Company"), is a self-administered and self-managed real estate investment trust (a "REIT") active in acquiring, developing, redeveloping, leasing and managing office and industrial properties. As of December 31, 2003, the Company's portfolio included 208 office properties, 25 industrial facilities and one mixed-use property (collectively, the "Properties") that contained an aggregate of approximately 15.7 million net rentable square feet. The Properties are located in the office and industrial markets in and surrounding Philadelphia, Pennsylvania, New Jersey and Richmond, Virginia. As of December 31, 2003, the Company also held economic interests in ten unconsolidated real estate ventures (the "Real Estate Ventures") formed with third parties to develop or own commercial properties.

The Company's interest in its assets is held through Brandywine Operating Partnership, L.P., a Delaware limited partnership (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership and, as of December 31, 2003, was entitled to approximately 95.8% of the Operating Partnership's distributions after distributions to holders of then outstanding Series B Preferred Units (as defined in Note 3 below). The Operating Partnership owns a 95% interest in a taxable REIT subsidiary, Brandywine Realty Services Corporation, a Pennsylvania corporation (the "Management Company"), that, as of December 31, 2003, was performing management and leasing services for properties containing an aggregate of approximately 19.3 million net rentable square feet, of which approximately 15.7 million net rentable square feet related to properties owned by the Company and approximately 3.6 million net rentable square feet related to properties owned by third parties. The remaining 5% of the Management Company is owned by a partnership comprised of two executives of the Company.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The accompanying consolidated financial statements include all accounts of the Company, its majority-owned and/or controlled subsidiaries, which consist principally of the Operating Partnership as well as the Management Company (consolidated subsequent to January 1, 2001, see below). The portion of these entities not owned by the Company is presented as minority interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

See Investments in Unconsolidated Real Estate Ventures in Note 6 for the Company's treatment of unconsolidated real estate venture interests. All significant intercompany accounts and transactions have been eliminated.

Management Company

The Management Company, a taxable REIT subsidiary, provides management, leasing, construction, development, redevelopment and other real estate related services for the Company's properties and for third parties. Prior to December 31, 2000, the Company owned 100% of the Management Company's non-voting preferred stock and 5% of its voting common stock and accounted for its investment using the equity method. Effective January 1, 2001, the Company converted its non-voting interest in the Management Company to a voting interest. As a result, the Company owns 95% of the Management Company's equity, has voting control and, therefore, has consolidated the Management Company since January 1, 2001.

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#### 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, 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-cancellable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancellable terms of the respective leases. Capitalized below-market lease values are amortized as an increase of rental income over the remaining non-cancellable terms of the respective leases, including any fixed-rate renewal periods.

The aggregate value of other intangibles acquired is measured based on the difference between (i) the property valued with in-place leases adjusted to market rental rates and (ii) the property valued as if it was vacant. The Company estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, include 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. Factors considered by the Company in their analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. 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. 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 total amount of these other intangible assets is further allocated to 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. 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 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-cancellable 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 market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

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As of December 31, 2003 and 2002, intangible assets and acquired lease liabilities consist of the following:

|  | <u>As of December 31,</u>     |                 |
|--|-------------------------------|-----------------|
|  | <u>2003</u>                   | <u>2002</u>     |
|  | <b>(amounts in thousands)</b> |                 |
| Intangible assets (included in Other Assets and Other Liabilities):                        |                               |                 |
| Acquired lease asset, net of accumulated amortization of \$345 and \$99, respectively      | \$ 1,866                      | \$ 607          |
| Value of In-Place leases, net of accumulated amortization of \$564 and \$256, respectively | 3,533                         | 959             |
| Value of tenant relationships, net of accumulated amortization of \$84 in 2003             | 2,033                         | □               |
| Net intangible assets  | <u>\$ 7,432</u>               | <u>\$ 1,566</u> |
| Acquired lease liability, net of accumulated amortization of \$869 and \$558, respectively | <u>\$ 1,305</u>               | <u>\$ 1,547</u> |

Depreciation and Amortization

The costs of buildings and improvements are depreciated using the straight-line method based on the following useful lives: buildings and improvements (five to 40 years) and tenant improvements (the shorter of the lease term or the life of the asset).

Effective January 1, 2002, the Company changed the estimated useful lives of various buildings from 25 to 40 years. This change resulted in an increase of net income of \$19.0 million or \$.53 per share for the year ended December 31, 2002. Management determined the longer period to be a better estimate of the useful lives of the buildings.

Construction in Progress

Project costs directly associated with the development and construction of a real estate project are capitalized as construction in progress. In addition, interest, real estate taxes and general and administrative expenses that are directly associated with the Company's development activities are capitalized until completion of the building shell. Once the building shell of a real estate project is completed, the costs capitalized to construction in progress are transferred to land and buildings. Direct construction costs totaling \$1.7 million in 2003, \$2.2 million in 2002 and \$2.7 million in 2001 and interest totaling \$1.5 million in 2003, \$2.9 million in 2002 and \$5.2 million in 2001 were capitalized related to development of certain Properties and land holdings.

Impairment of Long-Lived Assets

Statement of Financial Accounting Standard No. 144 (□SFAS 144□), *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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 adopted SFAS 144 on January 1, 2002.

In accordance with SFAS 144, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The other assets and liabilities related to assets classified as held-for-sale are presented separately in the consolidated balance sheet. For the year ended December 31, 2002, the Company recorded an impairment charge associated with an asset held-for-sale (See Note 9). The Company recorded no impairment losses for the years ended December 31, 2003 and 2001.

Cash and Cash Equivalents

Cash and cash equivalents are highly-liquid investments with original maturities of three months or less. The Company maintains cash equivalents in financial institutions in excess of insured limits, but believes this risk is mitigated by only investing in or through major financial institutions.

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#### Escrowed Cash

Restricted cash consists of cash held as collateral to provide credit enhancement for the Company's mortgage debt, cash for property taxes, capital expenditures and tenant improvements.

#### Accounts Receivable

Leases with tenants are accounted for as operating leases. Minimum annual rentals under tenant leases are recognized on a straight-line basis over the term of the related lease. Accrued rent receivable represents the amount that straight-line rental income exceeds rents currently due under the lease agreements. Included in current tenant receivables are tenant reimbursements which are comprised of amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses that are recognized as revenue in the period in which the related expenses are incurred. As of December 31, 2003 and 2002, no tenant represents more than 10% of accounts receivable.

Tenant receivables and accrued rent receivables are carried net of the allowances for doubtful accounts of \$1.5 million and \$2.5 million in 2003 and \$2.3 million and \$2.3 million in 2002. Management's determination of the adequacy of these allowances is based primarily upon evaluations of historical loss experience, individual receivables and current economic conditions.

#### Marketable Securities

The Company accounts for its investments in equity securities according to the provisions of SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires securities classified as "available-for-sale" to be stated at fair value. Adjustments to fair value of available-for-sale securities are recorded as a component of other comprehensive income (loss). A decline in the market value of equity securities below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

As of December 31, 2003, the Company had no material exposure to market risk (including foreign currency exchange risk, commodity price risk or equity price risk).

#### Investments in Unconsolidated Real Estate Ventures

The Company accounts for its investments in unconsolidated Real Estate Ventures under the equity method of accounting as the Company exercises significant influence, but does not control these entities under the provisions of the entities' governing agreements. These investments are recorded initially at cost, as Investments in Real Estate Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions.

On a periodic basis, management assesses whether there are any indicators that the value of the Company's investments in unconsolidated Real Estate Ventures may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investment. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the value of the investment. During the year ended December 31, 2003, the Company recorded an impairment charge associated with an investment in a non-operating Real Estate Venture (see Note 9).

#### Deferred Costs

Costs incurred in connection with property leasing are capitalized as deferred leasing costs. Deferred leasing costs consist primarily of leasing commissions that are amortized on the straight-line method over the life of the respective lease which generally ranges from one to 15 years. Management re-evaluates the remaining useful lives of leasing costs as economic and market conditions change. Internal direct leasing costs deferred totaled \$3.9 million in 2003, \$3.6 million in 2002 and \$3.1 million in 2001.

Costs incurred in connection with debt financing are capitalized as deferred financing costs and charged to interest expense over the terms of the related debt agreements. Deferred financing costs consist

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primarily of loan fees which are amortized over the related loan term. Total accumulated amortization related to these costs was \$5.0 million in 2003 and \$3.5 million in 2002.

Other Assets

As of December 31, 2003, other assets included a direct financing lease of \$16.1 million, intangible assets related to property acquisitions of \$6.2 million, prepaid real estate taxes of \$5.4 million, deposits on properties to be purchased in 2004 totaling \$5.1 million, cash surrender value of life insurance of \$3.7 million, furniture, fixtures and equipment of \$2.1 million and \$6.5 million of other assets. As of December 31, 2002, other assets included a direct financing lease of \$16.0 million, prepaid real estate taxes of \$5.6 million, promissory notes of \$4.0 million, furniture, fixtures and equipment of \$2.1 million and \$6.8 million of other assets.

Fair Value of Financial Instruments

Carrying amounts reported in the balance sheet for cash, accounts receivable, other assets, accounts payable and accrued expenses, and borrowings under the Credit Facility approximate fair value. Accordingly, these items have been excluded from the fair value disclosures.

Revenue Recognition

Rental revenue is recognized on the straight-line basis from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as [accrued rent receivable] on the accompanying balance sheets. The straight-line rent adjustment increased revenue by approximately \$5.9 million in 2003, \$5.9 million in 2002 and \$6.2 million in 2001. The leases also typically provide for tenant reimbursement of common area maintenance and other operating expenses. Deferred rental revenue represents rental revenue received from tenants prior to their due dates.

No tenant represented greater than 10% of the Company's rental revenue in 2003, 2002 or 2001.

Income Taxes

The Company elects to be taxed as a real estate investment trust under Sections 856-860 of the Internal Revenue Code. In management's opinion, the requirements to maintain this election are being met. Accordingly, no provision for Federal income taxes has been reflected in the financial statements.

Earnings and profits, which determine the taxability of distributions to shareholders, differ from net income reported for financial reporting purposes due to differences in cost basis, the estimated useful lives used to compute depreciation, and the allocation of net income and loss for financial versus tax reporting purposes. The tax basis in the Company's assets was \$1.4 billion as of December 31, 2003 and \$1.3 billion as of December 31, 2002.

The Company is subject to a 4% Federal excise tax, if sufficient taxable income is not distributed within prescribed time limits. The excise tax equals 4% of the annual amount, if any, by which the sum of (a) 85% of the Company's ordinary income and (b) 95% of the Company's net capital gain exceeds cash distributions and certain taxes paid by the Company. No excise tax was incurred in 2003, 2002, or 2001.

The Management Company is subject to Federal and state income taxes. There was no provision required for income taxes in 2003, 2002 and 2001.

Earnings Per Share

Basic earnings per share is calculated by dividing income applicable to Common Shares by the weighted-average number of shares outstanding during the period. Diluted earnings per share includes the effect of common share equivalents outstanding during the period.

[Back to Contents](#)Stock-Based Compensation Plans

In December 2002, the Financial Accounting Standards Board issued SFAS 148 (□SFAS 148□), *Accounting for Stock-Based Compensation □ Transition and Disclosure*. SFAS 148 amends SFAS 123 (□SFAS 123□), *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily adopts the fair value recognition method of recording stock option expense. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock options on reported net income and earnings per share in annual and interim financial statements. The Company adopted SFAS 148 on a prospective basis for all grants subsequent to January 1, 2002.

Prior to 2002, the Company accounted for stock options issued under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees and Related Interpretations*. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts):

|  | <b>Year ended December 31,</b> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <b>2003</b>                    | <b>2002</b>      | <b>2001</b>      |
|  | <b>(as restated)</b>           |                  |                  |
| Net income available to Common Shares, as reported   | \$ 54,174                      | \$ 51,078        | \$ 21,816        |
| Add: Stock based compensation expense included in reported net income  | 2,740                          | 2,553            | 2,828            |
| Deduct: Total stock based compensation expense determined under fair value recognition method for all awards | (3,191)                        | (3,231)          | (3,506)          |
| Pro forma net income available to Common Shares  | <u>\$ 53,723</u>               | <u>\$ 50,400</u> | <u>\$ 21,138</u> |
| Earnings per Common Share  |                                |                  |                  |
| Basic □ as reported  | <u>\$ 1.43</u>                 | <u>\$ 1.40</u>   | <u>\$ 0.57</u>   |
| Basic □ pro forma  | <u>\$ 1.41</u>                 | <u>\$ 1.38</u>   | <u>\$ 0.55</u>   |
| Diluted □ as reported  | <u>\$ 1.43</u>                 | <u>\$ 1.39</u>   | <u>\$ 0.57</u>   |
| Diluted □ pro forma  | <u>\$ 1.41</u>                 | <u>\$ 1.37</u>   | <u>\$ 0.55</u>   |

Comprehensive Income

Comprehensive income or loss is recorded in accordance with the provisions of SFAS 130 (□SFAS 130□), *Reporting Comprehensive Income*. SFAS 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income includes unrealized gains and losses on available-for-sale securities and the effective portions of changes in the fair value of derivatives.

Accounting for Derivative Instruments and Hedging Activities

The Company accounts for its derivative instruments and hedging activities under SFAS No. 133 (□SFAS 133□), *Accounting for Derivative Instruments and Hedging Activities*, and its corresponding amendments under SFAS No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities □ An Amendment of SFAS 133*. SFAS 133 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. 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. Changes in fair value of derivative instruments and ineffective portions of hedges are recognized in earnings in

the current period. For the year ended December 31, 2003, the Company was not party to any derivative contract designated as a fair value hedge.

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. See Note 8.

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### New Pronouncements

As of January 1, 2003, the Company adopted SFAS No 145 (*SFAS 145*), *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. In adopting SFAS 145, the Company has reclassified an extraordinary item recorded during 2001 relating to the write-off of \$1.1 million of unamortized deferred financing costs as interest expense.

In January 2003, the FASB issued FASB Interpretation No. 46 (*FIN 46*), *Consolidation of Variable Interest Entities*, an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a *variable interest entity* or *VIE*), and how to determine when and which business enterprise should consolidate a VIE. This new models for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial interest from other parties. The provisions of this interpretation apply to the first fiscal year or interim period ending after December 15, 2003.

The Company was originally required to implement the consolidation guidance established in Interpretation No. 46 (*FIN 46*), *Consolidation of Variable Interest Entities*, immediately for new or modified transactions and by July 1, 2003 for the Variable Interest Entities (*VIEs*) with which the Company became involved prior to February 1, 2003. However, in October 2003 and December 2003, the FASB deferred application of FIN 46 twice from July 1, 2003 to December 31, 2003, and then to March 31, 2004 for VIEs entered into prior to February 1, 2003. The Company is in process of determining whether it will need to consolidate previously unconsolidated VIEs or to deconsolidate previously consolidated VIEs. Based upon its relationships with such entities, the Company believes that the implementation of the consolidation guidance will not have a material effect on the Company's consolidated financial position.

In May 2003, the FASB issued SFAS No. 150 (*SFAS 150*), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 generally applies to instruments that are mandatorily redeemable, that represent obligations that will be settled with a variable number of the Company's shares, or that represent an obligation to purchase a fixed number of the Company's shares. For instruments within its scope, the statement requires classification as a liability with initial measurement at fair value. Subsequent measurement depends upon the certainty of the terms of the settlement (amount, timing) and whether the obligation will be settled by a transfer of assets or by issuance of a variable number of equity shares. SFAS 150 is applicable now for instruments issued since SFAS 150 was issued, and as of July 1, 2003, for instruments that predate SFAS 150's issuance. On November 7, 2003, the FASB issued Financial Statement Position 150-3 which among other things deferred indefinitely certain portions of SFAS 150 affecting the accounting for minority interests representing non-controlling interests in finite life entities. The adoption of SFAS 150, as modified, did not have a significant effect at adoption nor is it expected to have a significant prospective impact on the Company's financial position, results of operations or comprehensive income.

Emerging Issue Task Force 00-21 (*EITF 00-21*), *Accounting for Revenue Arrangements with Multiple Deliverables*, issued during the fourth quarter of 2003, provides guidance on revenue recognition for revenues derived from a single contract that contains multiple products or services. EITF 00-21 also provides additional requirements to determine when these revenues may be recorded separately for accounting purposes. EITF 00-21 did not impact our consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 (*SAB 104*), *Revenue Recognition*, which supercedes SAB 101, *Revenue Recognition in Financial Statements*. SAB 104's primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21. SAB 104 did not impact our consolidated financial statements.

### **3. MINORITY INTEREST**

Minority interest is comprised of Class A Units of limited partnership interest (*Class A Units*) and Series B Preferred Units of limited partnership interest (*Series B Preferred Units*). The Operating Partnership issued these interests to persons that contributed assets to the Operating Partnership. The Operating Partnership is obligated to redeem, at the request of a holder, each Class A Unit for cash or one Common Share, at the option of the Company. Each Series B Preferred Unit has a stated value of \$50.00



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and is convertible, at the option of the holder, into Class A Units at a conversion price of \$28.00. The Series B Preferred Units bear a preferred distribution of 7.25% per annum, subject to an increase in the event quarterly distributions paid to holders of Common Shares exceed \$0.51 per share. Income allocated to minority interest includes the amount of the Series B Preferred Unit distribution and the prorata share of net income of the Operating Partnership allocated to the Class A Units. The Company declared distributions of \$7.1 million in 2003, 2002 and 2001 to the holders of Series B Preferred Units and \$3.1 million in 2003, \$3.3 million in 2002 and \$3.7 million in 2001 to holders of Class A Units. As of December 31, 2003 and 2002, the Company had the following Class A Units and Series B Preferred Units held by third party investors:

|                          | <b>As of December 31,</b> |             |
|--------------------------|---------------------------|-------------|
|                          | <b>2003</b>               | <b>2002</b> |
| Class A Units            | 1,737,203                 | 1,787,436   |
| Series B Preferred Units | 1,950,000                 | 1,950,000   |

Subsequent to December 31, 2003, the Company redeemed all of the Series B Preferred Units (see Note 21).

#### **4. REAL ESTATE INVESTMENTS**

As of December 31, 2003 and 2002, the carrying value of the Company's Properties is as follows:

|                           | <b>December 31,</b>           |                     |
|---------------------------|-------------------------------|---------------------|
|                           | <b>2003</b>                   | <b>2002</b>         |
|                           | <b>(amounts in thousands)</b> |                     |
| Land                      | \$ 342,424                    | \$ 353,111          |
| Building and improvements | 1,426,925                     | 1,442,819           |
| Tenant improvements       | 100,395                       | 94,079              |
|                           | <b>\$ 1,869,744</b>           | <b>\$ 1,890,009</b> |

#### **5. ACQUISITIONS AND DISPOSITIONS OF REAL ESTATE INVESTMENTS**

The Company's acquisitions were accounted for by the purchase method. The results of each acquired property are included in the Company's results of operations from their respective purchase dates.

##### **2003**

During 2003, the Company sold eight office properties containing an aggregate of approximately 343,000 net rentable square feet, two industrial properties containing an aggregate of approximately 131,000 net rentable square feet and four parcels of land containing an aggregate of approximately 24.1 acres for an aggregate of \$45.6 million. In December 2003, the Company sold two office properties containing an aggregate of approximately 633,000 net rentable square feet for an aggregate of \$112.8 million, of which \$52.9 million of proceeds were used to pay off existing mortgage notes payable secured by the two properties. The Company retained a 20% interest in the venture that purchased the properties. The Company recognized a gain on the partial sale of approximately \$18.5 million, which is recorded in net gain on sale of real estate interests due to a continuing 20% interest that the Company has maintained in the properties for the portion sold and deferred the gain on the piece retained. The gain on sale and historical results for these properties have not been reflected as discontinued operations because of the Company's continuing involvement. The Company also purchased five office properties containing approximately 360,000 net rentable square feet and one parcel of land containing approximately 10.0 acres for an aggregate of \$67.8 million.

##### **2002**

During 2002, the Company sold 23 office properties containing an aggregate of 1.4 million net rentable square feet, 20 industrial properties containing an aggregate of .9 million net rentable square feet and two parcels of land containing an aggregate of 12.8 acres for an aggregate of \$190.8 million, realizing a net gain of \$8.6 million before minority interest. The Company also purchased seven office properties containing 617,000 net rentable square feet and one parcel of land containing 9.0 acres for an aggregate of \$99.1 million.



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### 2001

During 2001, the Company sold three office and eight industrial properties, containing 440,000 net rentable square feet, and four parcels of land, containing 15.8 acres, for \$31.3 million, realizing a net gain of \$4.5 million. Seven of the properties were sold for \$21.6 million realizing an aggregate gain of \$4.3 million, four of the properties were sold for \$7.1 million, realizing an aggregate loss of \$.7 million and four land parcels were sold for \$2.6 million realizing an aggregate gain of \$.9 million. The Company also acquired two office properties, containing 146,000 net rentable square feet, and three parcels of land, containing 36.0 acres, for \$31.5 million, of which \$4.2 million was satisfied with an exchange of property.

In addition to the sales and acquisitions above, the Company consummated an exchange of properties with Prentiss Properties Acquisition Partners, L.P. (□Prentiss□) during 2001. The Company acquired from Prentiss 30 properties (29 office and 1 industrial) containing 1.6 million net rentable square feet and 6.9 acres of developable land for total consideration of \$215.2 million. The Company conveyed to Prentiss four office properties located in Northern Virginia that contain an aggregate of 657,000 net rentable square feet, assumed \$79.7 million of mortgage debt secured by certain of the Prentiss properties, issued a \$7.8 million promissory note, paid \$15.9 million at closing and agreed to make additional payments totaling \$7.0 million (including \$5.4 million of payments discounted at 7.5%) over a three-year period subsequent to closing. The Company also contributed to Prentiss its interest in a real estate venture that owns two additional office properties that contain an aggregate of 452,000 net rentable square feet and received a combination of preferred and common units of limited partnership interest in Prentiss having a value of \$10.7 million, as of the closing. In addition as part of the Prentiss transaction in June 2001, the Company purchased a 103,000 square foot building then under construction for \$4.2 million and six acres of related developable land for \$5.7 million.

### **6. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES**

As of December 31, 2003, the Company had an aggregate investment of approximately \$15.9 million in ten Real Estate Ventures (net of returns of investment received by the Company). The Company formed these ventures with unaffiliated third parties to develop office properties or to acquire land in anticipation of possible development of office properties. Nine of the Real Estate Ventures own ten office buildings that contain an aggregate of approximately 1.8 million net rentable square feet and one Real Estate Venture developed a hotel property that contains 137 rooms.

The Company accounts for its non-controlling interests in the Real Estate Ventures using the equity method. Non-controlling ownership interests generally range from 6% to 65%. Ownership percentages represent the Company's entitlement to residual distributions after payments of priority returns. The Company's investments, initially recorded at cost, are subsequently adjusted for the Company's net equity in the ventures' income or loss and cash contributions and distributions.

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The Company's investment in Real Estate Ventures as of December 31, 2003 is as follows (in thousands):

|                               | <b>Ownership<br/>Percentage<br/>(1)</b> | <b>Carrying<br/>Amount</b> | <b>Real<br/>Estate<br/>Venture<br/>Debt at<br/>100%</b> | <b>Company's<br/>Share<br/>of Real<br/>Estate<br/>Venture<br/>Income<br/>(Loss)</b> | <b>Current<br/>Interest<br/>Rate</b> | <b>Debt<br/>Maturity</b> |
|-------------------------------|---|----------------------------|---|---|--------------------------------------|--------------------------|
| Two Tower Bridge Associates   | 35%                                     | \$ 2,409                   | \$ 10,501   | \$ 290  | 6.82%                                | May-08                   |
| Four Tower Bridge Associates  | 65%                                     | 2,454                      | 11,000  | (21)  | 6.62%                                | Feb-11                   |
| Five Tower Bridge Associates  | 15%                                     | □                          | 30,600  | □   | 6.77%                                | Feb-09                   |
| Six Tower Bridge Associates   | 65%                                     | 113                        | 15,683  | (46)  | 7.79%                                | Aug-12                   |
| Eight Tower Bridge Associates | 6%                                      | 1,147                      | 38,219  | (189)   | 3.34%                                | Feb-05                   |
| Tower Bridge Inn Associates   | 50%                                     | 2,291                      | 11,547  | (235)   | 8.50%                                | Apr-07                   |
| 1000 Chesterbrook Boulevard   | 50%                                     | 3,373                      | 27,860  | 456   | 6.88%                                | Nov-11                   |
| PJP Building Two, LC          | 30%                                     | 15                         | 5,738   | 30  | 6.12%                                | Nov-23                   |
| PJP Building Five, LC         | 25%                                     | 238                        | 5,753   | 94  | 2.69%                                | Oct-05                   |
| Macquarie                     | 20%                                     | 3,813                      | 74,500  | 64  | 4.62%                                | Jan-09                   |
| Florig, LP (2)                | 30%                                     | □                          | □   | (861)   | N/A                                  | N/A                      |
| Invesco Partnership, L.P. (3) | 35%                                     | □                          | □   | 470   | N/A                                  | N/A                      |
|                               |   |                            |   |   |                                      |                          |
|                               |   | <b>\$ 15,853</b>           | <b>\$ 231,401</b>                                       | <b>\$ 52</b>  |                                      |                          |

(1) Ownership percentage represents the Company's entitlement to residual distributions after payments of priority returns.

(2) During 2003, the Company recorded an impairment charge of \$861,000 associated with this non-operating real estate venture. This amount consisted primarily of legal and acquisition costs related to a parcel of land that ultimately was not acquired.

(3) Company's interest consists solely of a residual profits interest.

The following is a summary of the financial position of the unconsolidated Real Estate Ventures in which the Company had investment interests as of December 31, 2003 and 2002 (in thousands):

|                           | <b>December 31,</b> |             |
|---------------------------|---------------------|-------------|
|                           | <b>2003</b>         | <b>2002</b> |
| Net property              | \$ 322,196          | \$ 193,552  |
| Other assets              | 29,982              | 20,163      |
| Liabilities               | 27,900              | 3,186       |
| Debt                      | 231,401             | 149,129     |
| Equity                    | 92,877              | 61,400      |
| Company's share of equity | 15,853              | 14,842      |

The following is a summary of results of operations of the unconsolidated Real Estate Ventures in which the Company had interests as of December 31, 2003, 2002 and 2001 (in thousands):

|                               | <b>Year ended December 31,</b> |             |             |
|-------------------------------|--------------------------------|-------------|-------------|
|                               | <b>2003</b>                    | <b>2002</b> | <b>2001</b> |
| Revenue                       | \$ 29,703                      | \$ 27,219   | \$ 24,117   |
| Operating expenses            | 11,576                         | 10,406      | 8,237       |
| Interest expense, net         | 9,585                          | 9,212       | 7,495       |
| Depreciation and amortization | 8,085                          | 5,531       | 3,211       |
| Net (loss) income             | 457                            | 2,070       | 5,174       |



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|                                     | 1000<br>Chesterbrook<br>Partnership | Two<br>Tower<br>Associates | Four<br>Tower<br>Associates | Five<br>Tower<br>Associates | Six<br>Tower<br>Associates | Eight<br>Tower<br>Associates | Tower<br>Bridge<br>Inn<br>Associates | PJP<br>Building<br>Two,<br>LC | PJP<br>Building<br>Five,<br>LC | BDN/<br>Macquire<br>LLC | Total             |
|-------------------------------------|-------------------------------------|----------------------------|-----------------------------|-----------------------------|----------------------------|------------------------------|--------------------------------------|-------------------------------|--------------------------------|-------------------------|-------------------|
| <b>Assets</b>                       |                                     |                            |                             |                             |                            |                              |                                      |                               |                                |                         |                   |
| Net Property                        | \$ 30,885                           | \$ 12,488                  | \$ 13,038                   | \$ 39,026                   | \$ 15,143                  | \$ 57,270                    | \$ 15,149                            | \$ 5,642                      | \$ 6,684                       | \$ 126,871              | \$ 322,196        |
| Other Assets                        | 3,238                               | 740                        | 613                         | 4,429                       | 1,151                      | 2,063                        | 947                                  | 747                           | 678                            | 15,376                  | 29,982            |
| <b>Total Assets</b>                 | <b>\$ 34,123</b>                    | <b>\$ 13,228</b>           | <b>\$ 13,651</b>            | <b>\$ 43,455</b>            | <b>\$ 16,294</b>           | <b>\$ 59,333</b>             | <b>\$ 16,096</b>                     | <b>\$ 6,389</b>               | <b>\$ 7,362</b>                | <b>\$ 142,247</b>       | <b>\$ 352,178</b> |
| <b>Liabilities and Equity</b>       |                                     |                            |                             |                             |                            |                              |                                      |                               |                                |                         |                   |
| Other Liabilities                   | \$ 244                              | \$ 378                     | \$ 240                      | \$ 967                      | \$ 487                     | \$ 556                       | \$ 342                               | \$ 220                        | \$ 47                          | \$ 24,419               | \$ 27,900         |
| Debt                                | 27,860                              | 10,501                     | 11,000                      | 30,600                      | 15,683                     | 38,219                       | 11,547                               | 5,738                         | 5,753                          | 74,500                  | 231,401           |
| <b>Total Liabilities</b>            | <b>28,104</b>                       | <b>10,879</b>              | <b>11,240</b>               | <b>31,567</b>               | <b>16,170</b>              | <b>38,775</b>                | <b>11,889</b>                        | <b>5,958</b>                  | <b>5,800</b>                   | <b>98,919</b>           | <b>259,301</b>    |
| Equity                              | 6,019                               | 2,349                      | 2,411                       | 11,888                      | 124                        | 20,558                       | 4,207                                | 431                           | 1,562                          | 43,328                  | 92,877            |
| <b>Total Liabilities and Equity</b> | <b>\$ 34,123</b>                    | <b>\$ 13,228</b>           | <b>\$ 13,651</b>            | <b>\$ 43,455</b>            | <b>\$ 16,294</b>           | <b>\$ 59,333</b>             | <b>\$ 16,096</b>                     | <b>\$ 6,389</b>               | <b>\$ 7,362</b>                | <b>\$ 142,247</b>       | <b>\$ 352,178</b> |
| <b>Revenues</b>                     |                                     |                            |                             |                             |                            |                              |                                      |                               |                                |                         |                   |
| Revenues                            | \$ 5,079                            | \$ 2,057                   | \$ 2,255                    | \$ 5,976                    | \$ 2,966                   | \$ 1,507                     | \$ 4,245                             | \$ 915                        | \$ 855                         | \$ 788                  | \$ 26,643         |
| Tenant reimbursements and other     | 526                                 | 376                        | 397                         | 466                         | 518                        | 109                          | □                                    | 12                            | 308                            | 348                     | 3,060             |
| <b>Total Revenue</b>                | <b>5,605</b>                        | <b>2,433</b>               | <b>2,652</b>                | <b>6,442</b>                | <b>3,484</b>               | <b>1,616</b>                 | <b>4,245</b>                         | <b>927</b>                    | <b>1,163</b>                   | <b>1,136</b>            | <b>29,703</b>     |
| <b>Operating Expenses</b>           |                                     |                            |                             |                             |                            |                              |                                      |                               |                                |                         |                   |
| Property Operating Expenses         | 743                                 | 744                        | 843                         | 1,545                       | 907                        | 1,214                        | 2,483                                | 357                           | 327                            | 219                     | 9,382             |
| Real Estate Taxes                   | 430                                 | 148                        | 148                         | 382                         | 233                        | 363                          | 265                                  | 49                            | 60                             | 112                     | 2,190             |
| Depreciation and Amortization       | 1,239                               | 367                        | 676                         | 2,009                       | 807                        | 1,567                        | 711                                  | 210                           | 236                            | 263                     | 8,085             |
| Interest                            | 1,929                               | 479                        | 728                         | 2,004                       | 1,231                      | 1,635                        | 990                                  | 205                           | 164                            | 220                     | 9,585             |
| Administrative Expenses             | 4                                   | □                          | □                           | □                           | □                          | □                            | □                                    | □                             | □                              | □                       | 4                 |
| <b>Total Operating Expenses</b>     | <b>4,345</b>                        | <b>1,738</b>               | <b>2,395</b>                | <b>5,940</b>                | <b>3,178</b>               | <b>4,779</b>                 | <b>4,449</b>                         | <b>821</b>                    | <b>787</b>                     | <b>814</b>              | <b>29,246</b>     |
| <b>Net Income</b>                   | <b>\$ 1,260</b>                     | <b>\$ 695</b>              | <b>\$ 257</b>               | <b>\$ 502</b>               | <b>\$ 306</b>              | <b>\$ (3,163)</b>            | <b>\$ (204)</b>                      | <b>\$ 106</b>                 | <b>\$ 376</b>                  | <b>\$ 322</b>           | <b>\$ 457</b>     |

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As of December 31, 2003, the aggregate principal payments of non-recourse debt payable to third-parties is as follows (in thousands):

|                     |            |
|---------------------|------------|
| 2004                | \$ 1,644   |
| 2005                | 45,542     |
| 2006                | 1,823      |
| 2007                | 12,411     |
| 2008 and thereafter | 169,981    |
|                     | \$ 231,401 |

As of December 31, 2003, the Company had guaranteed repayment of approximately \$17.4 million of loans on behalf of the Real Estate Ventures, including a \$16.2 million guaranty that terminated in January 2004. See Item 2. Properties of 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.

## 7. **INDEBTEDNESS**

### Credit Facility

The Company utilizes credit facility borrowings for general business purposes, including the acquisition of properties and the repayment of other debt. The Company maintains a \$500 million unsecured credit facility (the Credit Facility) that matures in June 2004. Borrowings under the Credit Facility bear interest at 30-day LIBOR (LIBOR was 1.12% at December 31, 2003) plus 1.5% per annum, with the spread over LIBOR subject to reductions from .10% to .25% or increases of .25% based on the Company's leverage. As of December 31, 2003, the Company had \$305.0 million of borrowings and \$10.7 million of letters of credit outstanding under the Credit Facility, leaving \$184.3 million of unused availability. The weighted-average interest rate on the Company's unsecured credit facilities was 4.60% in 2003, 5.41% in 2002, and 6.48% in 2001.

### Unsecured Term Loan

The Company also maintains a \$100 million term loan. The term loan is unsecured and matures on July 15, 2005, subject to two extensions of one year each upon payment of an extension fee and the absence of any defaults at the time of each extension. There are no scheduled principal payments prior to maturity. The term loan bears interest at a spread over the one, two, three or six month LIBOR that varies between 1.05% and 1.90% per annum (1.12% as of December 31, 2003), based on the Company's leverage ratio. The weighted-average interest rate on the Company's term loan was 3.0% in 2003 and 3.0% in 2002.

### Mortgage Notes Payable

As of December 31, 2003, the Company had \$462.7 million of mortgage notes payable, secured by 93 of the Properties and certain land holdings. Fixed rate mortgages, totaling \$402.3 million, require payments of principal and/or interest (or imputed interest) at rates ranging from 7.00% to 9.25% per annum and mature on dates from November 2004 through July 2027. Variable rate mortgages, totaling \$60.4 million, require payments of principal and/or interest at rates ranging from 30-day LIBOR plus .76% to 1.60% per annum or 75% of prime (prime rate was 4.00% at December 31, 2003) and mature on dates from March 2004 through July 2027. The weighted-average interest rate on the Company's mortgages was 7.09% in 2003, 7.27% in 2002, and 7.39% in 2001.

### Debt Covenants

The Credit Facility and Term Loan require the maintenance of certain ratios related to minimum net worth, debt-to-total capitalization and fixed charge coverage and various non-financial covenants. As of December 31, 2003, the Company was in compliance with all debt covenants. As of December 31, 2003, the carrying value of the Company's debt was below fair market value by approximately \$85.7 million, as determined by using year-end interest rates and market conditions.

### Principal Payments

The following table outlines the timing of payment requirements related to the Company's indebtedness as of December 31, 2003:

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|                           | <b>Total</b> | <b>Less than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More than<br/>5 Years</b> |
|---------------------------|--------------|-----------------------------|------------------|------------------|------------------------------|
| Mortgage notes payable:   |              |                             |                  |                  |                              |
| Fixed rate                | \$ 402,321   | \$ 10,277                   | \$ 24,759        | \$ 40,259        | \$ 327,026                   |
| Variable rate             | 24,815       | 172                         | 407              | 552              | 23,684                       |
| Construction loans        | 35,523       | 35,523                      | □                | □                | □                            |
|                           | 462,659      | 45,972                      | 25,166           | 40,811           | 350,710                      |
| Revolving credit facility | 305,000      | 305,000                     | □                | □                | □                            |
| Unsecured debt            | 100,000      | □                           | 100,000          | □                | □                            |
|                           | \$ 867,659   | \$ 350,972                  | \$ 125,166       | \$ 40,811        | \$ 350,710                   |

**8. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS**Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of inability or unwillingness of tenants to make contractually required payments. Market risk is the risk of declines in the value of properties due to changes in rental rates, interest rates or other market factors affecting the valuation of properties held by the Company.

Use of Derivative Financial Instruments

The Company's use of derivative instruments is limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of the high credit ratings of the counterparties, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company does not hedge credit or property value market risks.

The Company formally assesses, both at inception of the hedge and on an on-going basis, whether each derivative is highly-effective in offsetting changes in cash flows of the hedged item. If management determines that a derivative is not highly-effective as a hedge or if a derivative ceases to be a highly-effective hedge, the Company will discontinue hedge accounting prospectively.

The following table summarizes the terms and fair values of the Company's derivative financial instruments at December 31, 2003 (in thousands).

| <b>Hedge Product</b> | <b>Hedge Type</b> | <b>Notional Amount</b> | <b>Strike</b> | <b>Maturity</b> | <b>Fair Value (Liability)</b> |
|----------------------|-------------------|------------------------|---------------|-----------------|-------------------------------|
| Cap                  | Cash flow         | \$ 28,000              | 8.700%        | 7/12/2004       | \$ □                          |
| Swap                 | Cash flow         | 100,000                | 4.230%        | 6/29/2004       | (1,733)                       |
| Swap                 | Cash flow         | 50,000                 | 4.215%        | 6/29/2004       | (863)                         |
| Swap                 | Cash flow         | 25,000                 | 4.215%        | 6/29/2004       | (431)                         |



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Facility, including the effect of cash flow hedges, was 4.60% in 2003, 5.41% in 2002 and 6.48% in 2001. The interest rate cap agreement effectively limits the interest rate on a mortgage with a notional value of \$28 million at 8.7% per annum until July 2004. The notional amount at December 31, 2003 provides an indication of the extent of the Company's involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks.

As of December 31, 2003, the maximum length of time until which the Company was hedging its exposure to the variability in future cash flows was through June 2004. There was no gain or loss reclassified from accumulated other comprehensive loss into earnings during 2003, 2002 and 2001 as a result of the discontinuance of a cash flow hedge due to the probability of the original forecasted transaction not occurring.

Over time, the unrealized gains and losses held in Other Comprehensive Income ("OCI") will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. The current balance held in OCI is expected to be reclassified to earnings over the lives of the current hedging instruments, or for realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable. The Company expects that \$3.0 million of net hedging losses will be reclassified into earnings over the next twelve months.

**Concentration of Credit Risk**

Concentrations of credit risk arise when a number of tenants related to the Company's investments or rental operations are engaged in similar business activities, or are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No tenant accounted for 10% or more of the Company's rents during 2003, 2002 and 2001. See Note 12 for geographic segment information.

**9. DISCONTINUED OPERATIONS**

For the years ended December 31, 2003, 2002 and 2001, income from discontinued operations relates to 53 properties containing approximately 2.7 million net rentable square feet that the Company sold between January 1, 2002 and December 31, 2003 and two properties containing approximately 82,000 net rentable square feet that the Company has designated as "held-for-sale" as of December 31, 2003. The following table summarizes information for two properties designated as held-for-sale as of December 31, 2003 and December 31, 2002:

|   | <b>December 31,</b>           |                 |
|---|-------------------------------|-----------------|
|   | <b>2003</b>                   | <b>2002</b>     |
|   | <b>(amounts in thousands)</b> |                 |
| Real Estate Investments:                    |                               |                 |
| Operating Properties                        | \$ 6,143                      | \$ 8,729        |
| Accumulated depreciation                    | (906)                         | (1,235)         |
|   | <u>5,237</u>                  | <u>7,494</u>    |
| Construction-in-progress                    | □                             | 55              |
|   | <u>5,237</u>                  | <u>7,549</u>    |
| Accrued rent receivable                     | 65                            | 87              |
| Deferred costs, net                         | 15                            | 2               |
| Other assets                                | □                             | 28              |
|   | <u>\$ 5,317</u>               | <u>\$ 7,666</u> |
| Tenant security deposits and deferred rents | <u>\$ 52</u>                  | <u>\$ 20</u>    |

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The following table summarizes revenue and expense information for the 53 properties sold since January 1, 2002 and the two properties designated as held-for-sale as of December 31, 2003 (in thousands):

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|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2003                    | 2002      | 2001      |
| <b>Revenue:</b>  |                         |           |           |
| Rents  | \$ 5,089                | \$ 14,566 | \$ 34,631 |
| Tenant reimbursements  | 781                     | 2,144     | 5,258     |
| Other  | 34                      | 663       | 448       |
| Total revenue  | 5,904                   | 17,373    | 40,337    |
| <b>Expenses:</b>   |                         |           |           |
| Property operating expenses  | 2,095                   | 4,665     | 9,939     |
| Real estate taxes  | 860                     | 2,243     | 5,333     |
| Depreciation and amortization  | 793                     | 2,333     | 10,965    |
| Impairment loss on assets held-for-sale  | □                       | 665       | □         |
| Total operating expenses   | 3,748                   | 9,906     | 26,237    |
| Income from discontinued operations before net gain on sale<br>of interests in real estate and minority interest | 2,156                   | 7,467     | 14,100    |
| Net gain on sales of interest in real estate   | 9,690                   | 8,562     | □         |
| Minority interest  | (517)                   | (887)     | (804)     |
| Income from discontinued operations  | \$ 11,329               | \$ 15,142 | \$ 13,296 |

In 2002, the Company recorded an impairment charge of \$665,000 in its consolidated statements of operations related to one of the assets held-for-sale.

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.

#### **10. PREFERRED SHARES AND BENEFICIARIES □ EQUITY**

In 1998, the Company issued \$37.5 million of convertible preferred shares with a 7.25% coupon rate (the Series A Preferred Shares). Each Series A Preferred Share has a stated value of \$50.00 and is convertible into Common Shares, at the option of the holder, at a conversion price of \$28.00. The Series A Preferred Shares distribution is subject to an increase, if quarterly distributions paid to Common Share holders exceeds \$0.51 per share. The Series A Preferred Shares are perpetual and may be redeemed, at the Company's option, at par beginning in January 2004.

In 1999, the Company issued \$105.0 million of convertible preferred shares with an 8.75% coupon rate (the Series B Preferred Shares) for net proceeds of \$94.8 million. Each Series B Preferred Share was convertible into one Common Shares and was entitled to quarterly dividends equal to the greater of \$0.525 per share or the quarterly dividend on a Common Share. As part of the transaction in which the Company issued Series B Preferred Shares, the Company issued the holder of the Series B Preferred Shares seven-year warrants exercisable for 500,000 Common Shares at an exercise price of \$24.00 per share.

On December 30, 2003, the holder converted 1,093,750 shares of the Series B Preferred Shares into 1,093,750 Common Shares, and the Company redeemed the remaining 3,281,250 Series B Preferred Shares at \$27.50 per share for approximately \$90.2 million (plus accrued distributions thereon for the period from October 1, 2003 through the redemption date) and purchased 250,000 warrants with an exercise price of \$24.00 per share for approximately \$1.2 million. The Company incurred a charge of \$20.6 million associated with the redemption/conversion of the Series B Preferred Shares.

On December 30, 2003, the Company also issued 2,000,000 shares of 7.50% Series C Cumulative Redeemable Preferred Shares for net proceeds of \$48.1 million. The Series C Preferred Shares are perpetual. The Company may not redeem Series C Preferred Shares before December 30, 2008 except to preserve its REIT status. On or

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after December 30, 2008, the Company, at its option, may redeem Series C Preferred Shares, in whole or in part, by paying \$25.00 per share plus accrued but unpaid dividends.

The Company's Board of Trustees has approved a share repurchase program authorizing the Company to repurchase up to 4,000,000 of its outstanding Common Shares. Through December 31, 2003, the

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Company had repurchased 3.2 million of its Common Shares at an average price of \$17.75 per share. Under the share repurchase program, the Company has the authority to repurchase an additional 762,000 shares. No time limit has been placed on the duration of the share repurchase program. The following table summarizes the share repurchases during the three years ended December 31, 2003:

|                                       | Year ended December 31, |           |          |
|---------------------------------------|-------------------------|-----------|----------|
|                                       | 2003                    | 2002      | 2001     |
| Repurchased amount (shares)           | □                       | 491,074   | 373,713  |
| Repurchased amount (\$, in thousands) | \$ □                    | \$ 11,053 | \$ 7,294 |
| Average price per share               | \$ □                    | \$ 22.51  | \$ 19.52 |

The following table summarizes the Class A Units tendered for redemption in cash during the three years ended December 31, 2003:

|                                       | Year ended December 31, |          |          |
|---------------------------------------|-------------------------|----------|----------|
|                                       | 2003                    | 2002     | 2001     |
| Repurchased amount (units)            | □                       | 364,222  | 3,247    |
| Repurchased amount (\$, in thousands) | \$ □                    | \$ 8,536 | \$ 64    |
| Average price per unit                | \$ □                    | \$ 23.44 | \$ 19.72 |

At December 31, 2003, 362,321 unvested restricted Common Shares were held by employees of the Company. The restricted shares are amortized over their respective vesting periods of three to eight years from dates of the original award. Included in administrative expenses, the Company recorded compensation expense of \$2.6 million in 2003, \$2.5 million in 2002 and \$2.8 million in 2001 related to these shares.

As of December 31, 2003, there were warrants outstanding exercisable for 250,000 Common Shares at an exercise price of \$24.00.

## **11. STOCK BASED COMPENSATION AND EMPLOYEE BENEFITS**

The Company maintains a plan that authorizes the issuance of various equity-based awards including incentive stock options. The terms and conditions of option awards are determined by the Board of Trustees. Incentive stock options may not be granted at exercise prices less than fair value of the stock at the time of grant. Options granted by the Company generally vest over two to five years. All options awarded by the Company to date are non-qualified stock options. As of December 31, 2003, the Company is authorized to issue five million equity-based awards of which 1.3 million shares remain available for future issuance under the plan.

The following table summarizes option activity for the three years ended December 31, 2003:

|                              | Number<br>of Shares<br>Under<br>Option | Weighted-<br>Average<br>Exercise<br>Price | Grant Price Range |          |
|------------------------------|--|---|-------------------|----------|
|                              |  |   | From              | To       |
| Balance at January 1, 2001   | 2,623,714                              | \$ 26.36                                  | \$ 6.21           | \$ 29.04 |
| Exercised                    | (83,333)                               | 19.50                                     | 19.50             | 19.50    |
| Canceled                     | (61,582)                               | 27.53                                     | 25.25             | 29.04    |
| Balance at December 31, 2001 | 2,478,799                              | 26.56                                     | 6.21              | 29.04    |
| Granted                      | 100,000                                | 19.50                                     | 19.50             | 19.50    |
| Exercised                    | (55,000)                               | 19.50                                     | 19.50             | 19.50    |
| Canceled                     | (151,172)                              | 22.22                                     | 19.50             | 29.04    |

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|                                       |                  |       |      |       |
|---------------------------------------|------------------|-------|------|-------|
| Balance at December 31, 2002 and 2003 | <u>2,372,627</u> | 26.70 | 6.21 | 29.04 |
|---------------------------------------|------------------|-------|------|-------|

The following table summarizes stock options outstanding as of December 31, 2003:

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The following table summarizes stock options outstanding as of December 31, 2003:

| <b>Range of Exercise Prices</b> | <b>Number of Options Outstanding</b> | <b>Weighted-Average Remaining Contractual Life</b> | <b>Weighted-Average Exercise Price</b> | <b>Number of Options Exercisable</b> | <b>Weighted-Average Exercise Price</b> |
|---------------------------------|--------------------------------------|--|--|--------------------------------------|--|
| \$6.21 to \$14.31               | 46,667                               | .6 years   | \$ 12.00                               | 46,667                               | \$ 12.00                               |
| \$19.50                         | 100,000                              | 1.6  | 19.50                                  | 33,330                               | 19.50                                  |
| \$24.00 to \$29.04              | 2,225,960                            | 4.1  | 27.33                                  | 2,225,960                            | 27.33                                  |
| \$6.21 to \$29.04               | 2,372,627                            | 3.9  | 26.70                                  | 2,305,957                            | 26.91                                  |

Based on the Black-Scholes option pricing model, the estimated weighted-average fair value of stock options granted was \$2.51 in 2002. Assumptions made in determining estimates of fair value include: risk-free interest rate of 2.7% in 2002, a volatility factor of .280 in 2002, a dividend yield of 8.4% in 2002, and a weighted-average life expectancy of 3 years in 2002.

Effective January 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS 123, prospectively for all employee awards granted, modified, or settled after January 1, 2002 (see Note 2). Accordingly, the Company recorded compensation expense of \$104,000 in 2003 and \$43,000 in 2002. This compensation expense relates to the Company's grant of 100,000 stock options during 2002.

The Company sponsors a 401(k) defined contribution plan for its employees. Each employee may contribute up to 100% of annual compensation, subject to specific limitations under the Internal Revenue Code. At its discretion, the Company can make matching contributions equal to a percentage of the employee's elective contribution and profit sharing contributions. Employees vest in employer contributions over a three-year service period. The Company contributions were \$821,000 in 2003, \$816,000 in 2002 and \$669,000 in 2001.

[Back to Contents](#)**12. SEGMENT INFORMATION**

The Company currently manages its portfolio within three segments: (1) Pennsylvania, (2) New Jersey and (3) Virginia. Corporate is responsible for cash and investment management and certain other general support functions.

Segment information for the three years ended December 31, 2003, 2002 and 2001 is as follows (in thousands):

|   | <u>Pennsylvania</u> | <u>New<br/>Jersey</u> | <u>Virginia</u> | <u>Corporate</u> | <u>Total</u> |
|---|---------------------|-----------------------|-----------------|------------------|--------------|
| <b>2003:</b>                                      |                     |                       |                 |                  |              |
| Real estate investments, at cost:                 |                     |                       |                 |                  |              |
| Operating properties                              | \$ 1,146,350        | \$ 508,906            | \$ 214,488      | \$               | \$ 1,869,744 |
| Construction-in-progress                          | 25,162              | 4,043                 | 582             | □                | 29,787       |
| Land held for development                         | 38,723              | 15,352                | 9,840           | □                | 63,915       |
| Assets held for sale                              | □                   | 3,649                 | 1,668           | □                | 5,317        |
| Total revenue                                     | \$ 185,206          | \$ 88,453             | \$ 27,841       | \$ 4,159         | \$ 305,659   |
| Property operating expenses and real estate taxes | 64,307              | 34,278                | 10,151          | □                | 108,736      |
| Net operating income                              | \$ 120,899          | \$ 54,175             | \$ 17,690       | \$ 4,159         | \$ 196,923   |
| <b>2002:</b>                                      |                     |                       |                 |                  |              |
| Real estate investments, at cost:                 |                     |                       |                 |                  |              |
| Operating properties                              | \$ 1,169,919        | \$ 506,818            | \$ 213,272      | \$               | \$ 1,890,009 |
| Construction-in-progress                          | 51,469              | 3,619                 | 3,039           | □                | 58,127       |
| Land held for development                         | 25,051              | 10,023                | 8,001           | □                | 43,075       |
| Assets held for sale, at cost                     | □                   | 7,666                 | □               | □                | 7,666        |
| Total revenue                                     | \$ 178,145          | \$ 84,291             | \$ 26,652       | \$ 1,952         | \$ 291,040   |
| Property operating expenses and real estate taxes | 60,114              | 30,543                | 9,506           | □                | 100,163      |
| Net operating income                              | \$ 118,031          | \$ 53,748             | \$ 17,146       | \$ 1,952         | \$ 190,877   |
| <b>2001:</b>                                      |                     |                       |                 |                  |              |
| Total revenue                                     | \$ 159,662          | \$ 80,986             | \$ 27,309       | \$ 2,531         | \$ 270,488   |
| Property operating expenses and real estate taxes | 52,931              | 30,182                | 9,926           | □                | 93,039       |
| Net operating income                              | \$ 106,731          | \$ 50,804             | \$ 17,383       | \$ 2,531         | \$ 177,449   |

Net operating income is defined as total revenue less property operating expenses and real estate taxes. Below is a reconciliation of consolidated net operating income to consolidated income from continuing operations:

|                                   | <b>Year Ended December 31</b> |             |             |
|-----------------------------------|-------------------------------|-------------|-------------|
|                                   | <b>2003</b>                   | <b>2002</b> | <b>2001</b> |
|                                   | (as restated)                 |             |             |
|                                   | (amounts in thousands)        |             |             |
| Consolidated net operating income | \$ 196,923                    | \$ 190,877  | \$ 177,449  |
| Less:                             |                               |             |             |
| Interest expense                  | 57,835                        | 63,522      | 67,496      |
| Depreciation and amortization     | 60,592                        | 56,431      | 67,224      |
| Administrative expenses           | 14,464                        | 14,804      | 15,177      |
| Non-recurring charges             | □                             | □           | 6,600       |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Minority interest attributable to continuing operations | 9,272             | 9,265             | 7,818             |
| Plus:   |                   |                   |                   |
| Equity in income of real estate ventures                | 52                | 987               | 2,768             |
| Net gains on sales of interests in real estate          | 20,537            | □                 | 4,524             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Consolidated income from continuing operations          | \$ 75,349         | \$ 47,842         | \$ 20,426         |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

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[Back to Contents](#)**13. NET INCOME PER COMMON SHARE**

The following table details the number of shares and net income used to calculate basic and diluted earnings per share for the three years ended December 31, 2003 (in thousands, except per share amounts):

|   | For the year ended December 31, |                             |            |            |            |            |
|---|---------------------------------|-----------------------------|------------|------------|------------|------------|
|   | 2003                            |                             | 2002       |            | 2001       |            |
|   | Basic<br>(as<br>restated)       | Diluted<br>(as<br>restated) | Basic      | Diluted    | Basic      | Diluted    |
| Income from continuing operations               | \$ 75,349                       | \$ 75,349                   | \$ 47,842  | \$ 47,842  | \$ 20,426  | \$ 20,426  |
| Income from discontinued operations             | 11,329                          | 11,329                      | 15,142     | 15,142     | 13,296     | 13,296     |
| Income allocated to Preferred Shares            | (11,906)                        | (11,906)                    | (11,906)   | (11,906)   | (11,906)   | (11,906)   |
| Preferred Share redemption/conversion charge    | (20,598)                        | (20,598)                    | □          | □          | □          | □          |
|   | 54,174                          | 54,174                      | 51,078     | 51,078     | 21,816     | 21,816     |
| Preferred Share discount amortization           | (1,476)                         | (1,476)                     | (1,476)    | (1,476)    | (1,476)    | (1,476)    |
| Income available to common shareholders         | \$ 52,698                       | \$ 52,698                   | \$ 49,602  | \$ 49,602  | \$ 20,340  | \$ 20,340  |
| Weighted-average shares outstanding             | 36,937,467                      | 36,937,467                  | 35,513,813 | 35,513,813 | 35,646,842 | 35,646,842 |
| Options, warrants and unvested restricted stock | □                               | 150,402                     | □          | 131,997    | □          | 27,809     |
| Total weighted-average shares outstanding       | 36,937,467                      | 37,087,869                  | 35,513,813 | 35,645,810 | 35,646,842 | 35,674,651 |
| Earnings per Common Share:                      |                                 |                             |            |            |            |            |
| Continuing operations                           | \$ 1.12                         | \$ 1.12                     | \$ 0.97    | \$ 0.97    | \$ 0.20    | \$ 0.20    |
| Discontinued operations                         | 0.31                            | 0.31                        | 0.43       | 0.42       | 0.37       | 0.37       |
|   | \$ 1.43                         | \$ 1.43                     | \$ 1.40    | \$ 1.39    | \$ 0.57    | \$ 0.57    |

Securities totaling 6,558,632 in 2003, 11,256,776 in 2002 and 11,622,922 in 2001 were excluded from the earnings per share computations above as their effect would have been antidilutive. Certain preferred equity and preferred operating partnership units would participate in earnings at certain levels whether or not distributed. These thresholds have not been met in years presented and therefore, no additional participation has occurred.

**14. DISTRIBUTIONS (UNAUDITED):**

Year ended December 31

|  | 2003          | 2002          | 2001          |
|--|---------------|---------------|---------------|
| <b>(amounts in thousands)</b>            |               |               |               |
| <u>Common Share Distributions:</u>       |               |               |               |
| Ordinary income                          | \$ 1.43       | \$ 1.65       | \$ 1.60       |
| Capital gain                             | 0.33          | 0.11          | 0.10          |
| Total distributions per share            | \$ 1.76       | \$ 1.76       | \$ 1.70       |
| Percentage classified as ordinary income | 81.3%         | 93.8%         | 94.1%         |
| Percentage classified as capital gain    | 18.7%         | 6.2%          | 5.9%          |
| <u>Preferred Share Distributions:</u>    |               |               |               |
| Total distributions declared             | \$ 11,906,000 | \$ 11,906,000 | \$ 11,906,000 |

**15. RELATED-PARTY TRANSACTIONS**

In 1998, the Board authorized the Company to make loans totaling up to \$5.0 million to enable employees of the Company to purchase Common Shares at fair market value. The loans have five-year terms, are full recourse, and are secured by the Common Shares purchased. Interest, payable quarterly, accrues on the loans at the lower of the interest rate borne on borrowings under the Company's Credit Facility or a rate based on the dividend payments on the Common Shares. As of December 31, 2003, the interest rate was 2.62% per annum. The loans are payable at the earlier of the stated maturity date or 90 days following the employee's termination. As of December 31, 2003, the outstanding balance of these loans totaled \$1.5 million and were secured by an aggregate of 85,163 Common Shares.

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The Company owns 384,615 shares of US Realtel, Inc. (["USR"]) Common Stock and holds warrants exercisable for 600,000 additional shares. The warrants have an exercise price of \$8.00 per share and expire on December 31, 2004. In addition, the Company held warrants exercisable for 123,077 shares at an exercise price of \$3.25, and these warrants expire on August 15, 2005. As of December 31, 2003, the Company's recorded value for its investment in USR was \$1.1 million. An officer of the Company holds a position on USR's Board of Directors.

In February 2000, the Company loaned an aggregate of \$2.5 million to two executive officers to enable them to purchase Common Shares of the Company. One loan had a four-year term and bears interest at the lower of the Company's cost of funds or a rate based on the dividend payable on the Common Shares, but not to exceed 10% annum. This loan was subject to forgiveness over a three-year period, with the amount of forgiveness tied to the Company's total shareholder return compared to the total shareholder return of peer group companies. This loan was also subject to forgiveness in the event of a change of control of the Company. This loan was reflected as a reduction in beneficiaries equity. In 2001, the Company recorded a \$4.1 million charge in connection with the executive's transition to a non-executive, non-managerial status and to restructure the other loan. Principal and interest totaling \$1.0 million was forgiven related to these loans in 2003 and \$.9 million in 2002 and 2001.

In connection with the sale by the Company of a land parcel in 2003, the Company paid a \$42,000 commission to Kevin Nichols, son of Anthony A. Nichols, Sr., Chairman of the Board of the Company, for brokerage services relating to the sale.

Robert Larson, a Trustee of the Company, is a managing director of Lazard Freres & Co. LLC (["Lazard"]). The Company paid Lazard a fee of approximately \$909,000 for investment banking services related to the Company's sale of two office properties to a Real Estate Venture in the fourth quarter of 2003.

#### **16. OPERATING LEASES**

The Company leases properties to tenants under operating leases with various expiration dates extending to 2020. As of December 31, 2003, leases covering approximately 1.8 million square feet or 12.8% of the net rentable square footage are scheduled to expire during 2004. Minimum future rentals on non-cancelable leases at December 31, 2003 are as follows (in thousands):

| Year                | Minimum<br>Rent |
|---------------------|-----------------|
| 2004                | \$ 249,836      |
| 2005                | 216,862         |
| 2006                | 178,757         |
| 2007                | 148,915         |
| 2008                | 116,708         |
| 2009 and thereafter | 344,434         |
|                     | \$ 1,255,512    |

Total minimum future rentals presented above do not include amounts to be received as tenant reimbursements for increases in certain operating costs.

#### **17. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)**

The following is a summary of quarterly financial information as of and for the years ended December 31, 2003 and 2002 (in thousands, except per share data):

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|                                   | <u>1st<br/>Quarter</u> | <u>2nd<br/>Quarter</u> | <u>3rd<br/>Quarter</u> | <u>4th<br/>Quarter</u>   |
|-----------------------------------|------------------------|------------------------|------------------------|--------------------------|
|                                   |                        |                        |                        | <b>(as<br/>restated)</b> |
| <b>2003:</b>                      |                        |                        |                        |                          |
| Total revenue                     | \$ 75,241              | \$ 74,464              | \$ 77,178              | \$ 78,776                |
| Net income                        | 13,917                 | 13,524                 | 17,400                 | 41,837                   |
| Income allocated to Common Shares | 10,941                 | 10,548                 | 14,424                 | 18,261                   |
| Basic earnings per Common Share   | \$ 0.30                | \$ 0.29                | \$ 0.38                | \$ 0.46                  |
| Diluted earnings per Common Share | \$ 0.30                | \$ 0.29                | \$ 0.37                | \$ 0.46                  |
| <b>2002:</b>                      |                        |                        |                        |                          |
| Total revenue                     | \$ 69,021              | \$ 72,491              | \$ 74,390              | \$ 75,138                |
| Net income                        | 23,469                 | 12,800                 | 13,968                 | 12,747                   |
| Income allocated to Common Shares | 20,492                 | 9,823                  | 10,992                 | 9,771                    |
| Basic earnings per Common Share   | \$ 0.56                | \$ 0.26                | \$ 0.30                | \$ 0.27                  |
| Diluted earnings per Common Share | \$ 0.55                | \$ 0.26                | \$ 0.30                | \$ 0.27                  |

The summation of quarterly earnings per share amounts do not necessarily equal year to date amounts.

## **18. 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 is a defendant in a case in which the plaintiffs allege that the Company breached its obligation to purchase a portfolio of properties of approximately \$83.0 million. On July 9, 1999, the Superior Court of New Jersey, Camden County, dismissed the complaint against the Company with prejudice. Plaintiffs subsequently filed a motion for reconsideration, which motion the Superior Court denied. Plaintiffs then appealed to the Appellate Division, which is the intermediate appellate level court in New Jersey. In December 2000, the Appellate Division affirmed in part and reversed in part the Chancery Division's earlier dismissal of the entire action. The Appellate Division affirmed the dismissal of the non-contractual counts in the Complaint, but reversed the contract and reformation counts and remanded these to the lower court for further proceedings. The Company sought review of this decision by the Supreme Court of New Jersey, but that Court declined to consider the appeal. The case thereafter returned to the Chancery Division, where written and oral discovery were conducted in 2002 and in the first quarter of 2003. Discovery terminated on February 14, 2003. The Company filed a motion for summary judgment seeking dismissal of all counts against it, and judgment for the Company on our counterclaim. The Chancery Division granted the Company's summary judgment motion on March 25, 2003 and dismissed the case with prejudice. Plaintiffs appealed the judgment in our favor, and the Company does not know whether plaintiffs will be successful in their appeal.

There have been recent reports of lawsuits against owners and managers of multifamily and office properties asserting claims of personal injury and property damage caused by the presence of mold in residential units or office space. The Company has been named as a defendant in two lawsuits that allege personal injury as a result of the presence of mold. Unspecified damages are sought. The Company has referred these lawsuits to its environmental insurance carrier and, as of the date of this Form 10-K, the insurance carrier is tendering a defense to these claims.

### *Letters-of-Credit*

In connection with certain mortgages, the Company is required to maintain leasing and capital reserve accounts with the mortgage lenders through letters-of-credit which totaled \$11.5 million at December 31, 2003. The Company is also required to maintain escrow accounts for taxes, insurance and tenant security



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deposits that amounted to \$14.4 million at December 31, 2003. The related tenant rents are deposited into the loan servicer's depository accounts, which are used to fund debt service, operating expenses, capital expenditures and the escrow and reserve accounts, as necessary. Any excess cash is included in cash and cash equivalents.

#### *Other Commitments*

As of December 31, 2003, the Company owned 446 acres of land for future development and held options to purchase 61 additional acres.

### **19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table details the components of accumulated other comprehensive income (loss) as of and for the three years ended December 31, 2003 (in thousands):

|  | <b>Unrealized<br/>Gains<br/>(Losses)<br/>on<br/>Securities</b> | <b>Cash Flow<br/>Hedges</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> |
|--|--|-----------------------------|---|
| Balance at January 1, 2001   | \$ (1,731)   | \$ □                        | \$ (1,731)  |
| Change during year   | 1,816  | (7,921)                     | (6,105)   |
| Reclassification adjustments for losses reclassified into operations | □  | 3,249                       | 3,249   |
| Balance at December 31, 2001   | 85   | (4,672)                     | (4,587)   |
| Change during year   | 733  | (7,954)                     | (7,221)   |
| Reclassification adjustments for losses reclassified into operations | □  | 5,406                       | 5,406   |
| Balance at December 31, 2002   | \$ 818   | \$ (7,220)                  | \$ (6,402)  |
| Change during year   | 51   | (1,118)                     | (1,067)   |
| Reclassification adjustments for losses reclassified into operations | □  | 5,311                       | 5,311   |
| Balance at December 31, 2003   | \$ 869   | \$ (3,027)                  | \$ (2,158)  |

### **20. RESTATEMENT OF 2003 FINANCIAL STATEMENTS:**

In December 2003, the Company incurred a \$20.6 million charge in connection with the redemption/conversion of its Series B Preferred Shares. In accordance with EITF Topic D-42, this charge was recorded in retained earnings and presented as a reduction to net income in arriving at net income available for common shareholders. The Company has subsequently determined that a portion of this charge should have been allocated to the Operating Partnership's Class A Limited Partnership Unitholders as a corresponding charge was recorded at the Operating Partnership when the Operating Partnership redeemed its corresponding Series C Preferred Mirror Units held by the Company.

The following is a summary of the effects of the aforementioned adjustments on the Company's consolidated financial statements for 2003:

|                                 | <b>(in 000's except per share data)</b> |                    |                              |
|---------------------------------|---|--------------------|------------------------------|
|                                 | <b>As Previously<br/>Reported</b>       | <b>As Restated</b> | <b>Percentage<br/>Change</b> |
| 2003 Consolidated Balance Sheet |   |                    |                              |
| Minority Interest               | \$ 134,357                              | \$ 133,488         | -0.6%                        |
| Total Beneficiaries' Equity     | 770,988                                 | 771,857            | -0.1%                        |

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2003 Statement of Operations

|   |    |          |    |         |       |
|---|----|----------|----|---------|-------|
| Minority interest attributable to Continuing Operations | \$ | (10,141) | \$ | (9,272) | -8.6% |
| Income from Continuing Operations                       |    | 74,480   |    | 75,349  | 1.2%  |
| Net Income  |    | 85,809   |    | 86,678  | 1.0%  |
| Net Income available to Common Shares                   | \$ | 53,305   | \$ | 54,174  | 1.6%  |

Basic Earnings per Share

|                              |    |             |    |             |      |
|------------------------------|----|-------------|----|-------------|------|
| From Continuing Operations   | \$ | 1.09        | \$ | 1.12        |      |
| From Discontinued Operations | \$ | 0.31        | \$ | 0.31        |      |
|                              |    | <u>1.40</u> |    | <u>1.43</u> |      |
| Total                        | \$ | 1.40        | \$ | 1.43        | 2.1% |

Diluted Earnings per Share

|                              |    |             |    |             |      |
|------------------------------|----|-------------|----|-------------|------|
| From Continuing Operations   | \$ | 1.09        | \$ | 1.12        |      |
| From Discontinued Operations | \$ | 0.31        | \$ | 0.31        |      |
|                              |    | <u>1.40</u> |    | <u>1.43</u> |      |
| Total                        | \$ | 1.40        | \$ | 1.43        | 2.1% |

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## **21. SUBSEQUENT EVENTS**

On January 12, 2004, the Company sold 2,645,000 Common Shares in an underwritten public offering for net proceeds (net of transaction costs) of \$69.3 million.

On February 3, 2004, the Company entered into an agreement to redeem 1,950,000 Series B Preferred Units, with a stated aggregate value of \$97.5 million, on or before March 15, 2003 for an aggregate price of \$93.0 million plus accrued but unpaid dividends from January 1, 2004. The Company subsequently redeemed all of such Units.

On February 27, 2004, the Company sold 2,300,000 7.375% Series D Cumulative Redeemable Preferred Shares, each with a liquidation preference of \$25.00 per share in an underwritten public offering for net proceeds (net of transaction costs) of \$55.5 million.

On March 3, 2004, the Company sold 1,840,000 Common Shares in an underwritten public offering for net proceeds (net of transaction costs) of \$50.7 million.

In May 2004, the Company obtained a \$450 million unsecured credit facility. The credit facility will mature in May 2007. The Partnership has the option to increase the credit facility to a maximum of \$600 million. The credit facility bears interest at LIBOR plus a spread over LIBOR ranging from .65% to 1.35% based on the Company's leverage and unsecured debt ratings.

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**Brandywine Realty Trust**  
**Schedule II**  
**Valuation and Qualifying Accounts**  
**(in thousands)**

| <b>Description</b>               | <b>Balance at<br/>Beginning<br/>of Period</b> | <b>Additions</b>                  |                   | <b>Balance<br/>at End<br/>of Period</b> |
|----------------------------------|---|-----------------------------------|-------------------|---|
|                                  |   | <b>Charged<br/>to<br/>expense</b> | <b>Deductions</b> |   |
| Allowance for doubtful accounts: |   |                                   |                   |   |
| Year ended December 31, 2003     | \$ 4,576                                      | \$ 189                            | \$ 734            | \$ 4,031                                |
| Year ended December 31, 2002     | \$ 4,532                                      | \$ 894                            | \$ 850            | \$ 4,576                                |
| Year ended December 31, 2001     | \$ 2,427                                      | \$ 2,867                          | \$ 762            | \$ 4,532                                |

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**Brandywine Realty Trust  
Schedule III  
Real Estate and Accumulated Depreciation  
(in thousands)**

|                            | City                 | State    | Encumbrances at December 31, 2003 |              | Initial Cost |              |       | Gross Amount at Which Carried December 31, 2003 |        |       | Accumulated Depreciation at December 31, 2003 |      |      | Date of Construction | Useful Life |
|----------------------------|----------------------|----------|-----------------------------------|--------------|--------------|--------------|-------|---|--------|-------|---|------|------|----------------------|-------------|
|                            |                      |          | Land                              | Improvements | Land         | Improvements | Land  | Improvements                                    | Total  | (a)   | (b)   | (c)  |      |                      |             |
| One Greentree Centre       | Marlton              | NJ       | □                                 | 345          | 4,440        | 401          | 345   | 4,841   | 5,186  | 2,656 | 1982  | 1986 | 40   |                      |             |
| Three Greentree Centre     | Marlton              | NJ       | □                                 | 323          | 6,024        | 91           | 323   | 6,115   | 6,438  | 3,856 | 1984  | 1986 | 40   |                      |             |
| Two Greentree Centre       | Marlton              | NJ       | □                                 | 264          | 4,693        | 104          | 264   | 4,797   | 5,061  | 2,998 | 1983  | 1986 | 40   |                      |             |
| 110 Summit Drive           | Exton                | PA       | □                                 | 403          | 1,647        | 157          | 403   | 1,804   | 2,207  | 446   | 1985  | 1996 | 40   |                      |             |
| 1155 Business Center Drive | Horsham              | PA       | 2,468                             | 1,029        | 4,124        | (182)        | 1,029 | 3,942   | 4,971  | 1,291 | 1990  | 1996 | 40   |                      |             |
| 120 West Germantown Pike   | Plymouth Meeting     | PA       | □                                 | 685          | 2,773        | 400          | 685   | 3,173   | 3,858  | 812   | 1984  | 1996 | 40   |                      |             |
| 1336 Enterprise Drive      | West Goshen          | PA       | □                                 | 731          | 2,946        | 51           | 731   | 2,997   | 3,728  | 716   | 1990  | 1996 | 40   |                      |             |
| 140 West Germantown Pike   | Plymouth Meeting     | PA       | □                                 | 481          | 1,976        | 236          | 481   | 2,212   | 2,693  | 701   | 1984  | 1996 | 40   |                      |             |
| 18 Campus Boulevard        | Newtown Square       | PA       | 3,408                             | 787          | 3,312        | 22           | 787   | 3,334   | 4,121  | 1,003 | 1990  | 1996 | 40   |                      |             |
| 2240/50 Butler Pike        | Plymouth Meeting     | PA       | □                                 | 1,104        | 4,627        | 603          | 1,104 | 5,230   | 6,334  | 1,791 | 1984  | 1996 | 40   |                      |             |
| 2260 Butler Pike           | Plymouth Meeting     | PA       | □                                 | 661          | 2,727        | 157          | 661   | 2,884   | 3,545  | 813   | 1984  | 1996 | 40   |                      |             |
| 33 Street Road □           | Greenwood Square I   | Bensalem | PA                                | □            | 851          | 3,407        | 419   | 851   | 3,826  | 4,677 | 1,008   | 1985 | 1996 | 40                   |             |
| 33 Street Road □           | Greenwood Square II  | Bensalem | PA                                | □            | 1,126        | 4,511        | 924   | 1,126   | 5,435  | 6,561 | 1,593   | 1985 | 1996 | 40                   |             |
| 33 Street Road □           | Greenwood Square III | Bensalem | PA                                | □            | 350          | 1,401        | 101   | 350   | 1,502  | 1,852 | 367   | 1985 | 1996 | 40                   |             |
| 456 Creamery Way           | Exton                | PA       | □                                 | 635          | 2,548        | (47)         | 635   | 2,501   | 3,136  | 635   | 1987  | 1996 | 40   |                      |             |
| 457 Haddonfield Road       | Cherry Hill          | NJ       | 11,410                            | 2,142        | 9,120        | 2,536        | 2,142 | 11,656  | 13,798 | 4,072 | 1990  | 1996 | 40   |                      |             |
| 468 Creamery Way           | Exton                | PA       | □                                 | 526          | 2,112        | (37)         | 526   | 2,075   | 2,601  | 562   | 1990  | 1996 | 40   |                      |             |
| 486 Thomas Jones Way       | Exton                | PA       | □                                 | 806          | 3,256        | (92)         | 806   | 3,164   | 3,970  | 852   | 1990  | 1996 | 40   |                      |             |

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|                            |                 |    |         |        |        |       |        |        |        |       |      |      |    |
|----------------------------|-----------------|----|---------|--------|--------|-------|--------|--------|--------|-------|------|------|----|
| 500 Enterprise Road        | Horsham         | PA | □ 1,303 | 5,188  | (790)  | 1,303 | 4,398  | 5,701  | 1,245  | 1990  | 1996 | 40   |    |
| 500 North Gulph Road       | King of Prussia | PA | □ 1,303 | 5,201  | 785    | 1,303 | 5,986  | 7,289  | 1,630  | 1979  | 1996 | 40   |    |
| 650 Dresher Road           | Horsham         | PA | 1,713   | 636    | 2,501  | 314   | 636    | 2,815  | 3,451  | 733   | 1984 | 1996 | 40 |
| 6575 Snowdrift Road        | Horsham         | PA | □ 601   | 2,411  | 473    | 601   | 2,884  | 3,485  | 1,050  | 1988  | 1996 | 40   |    |
| 700 Business Center Drive  | Allentown       | PA | □ 601   | 2,411  | 473    | 601   | 2,884  | 3,485  | 1,050  | 1988  | 1996 | 40   |    |
| 7248 Center Drive          | Horsham         | PA | 1,478   | 550    | 2,201  | 226   | 550    | 2,427  | 2,977  | 611   | 1986 | 1996 | 40 |
| 7310 Tilghman Street       | Horsham         | PA | 1,478   | 550    | 2,201  | 226   | 550    | 2,427  | 2,977  | 611   | 1986 | 1996 | 40 |
| 7310 Tilghman Street       | Allentown       | PA | □ 731   | 2,969  | 70     | 731   | 3,039  | 3,770  | 839    | 1987  | 1996 | 40   |    |
| 800 Business Center Drive  | Allentown       | PA | □ 553   | 2,246  | 582    | 553   | 2,828  | 3,381  | 869    | 1985  | 1996 | 40   |    |
| 8000 Lincoln Drive         | Horsham         | PA | 2,234   | 896    | 3,585  | 19    | 896    | 3,604  | 4,500  | 899   | 1986 | 1996 | 40 |
| One Progress Avenue        | Marlton         | NJ | □ 606   | 2,887  | (194)  | 606   | 2,693  | 3,299  | 699    | 1983  | 1996 | 40   |    |
| One Righter Parkway        | Horsham         | PA | □ 1,399 | 5,629  | 144    | 1,399 | 5,773  | 7,172  | 1,507  | 1986  | 1996 | 40   |    |
| 1 Foster Avenue            | Talleyville     | DE | 10,680  | 2,545  | 10,195 | 282   | 2,545  | 10,477 | 13,022 | 2,633 | 1989 | 1996 | 40 |
| 10 Foster Avenue           | Gibbsboro       | NJ | □ 93    | 364    | 35     | 93    | 399    | 492    | 83     | 1972  | 1997 | 40   |    |
| 100 Berwyn Park            | Gibbsboro       | NJ | □ 244   | 971    | 72     | 244   | 1,043  | 1,287  | 224    | 1983  | 1997 | 40   |    |
| 100 Commerce Drive         | Berwyn          | PA | 7,135   | 1,180  | 7,290  | 158   | 1,180  | 7,448  | 8,628  | 1,717 | 1986 | 1997 | 40 |
| 100 Katchel Blvd           | Newark          | DE | □ 1,160 | 4,633  | 516    | 1,160 | 5,149  | 6,309  | 1,151  | 1989  | 1997 | 40   |    |
| 1000 Atrium Way            | Reading         | PA | □ 1,881 | 7,423  | 139    | 1,881 | 7,562  | 9,443  | 1,747  | 1970  | 1997 | 40   |    |
| 1000 Howard Boulevard      | Mt. Laurel      | NJ | □ 2,061 | 8,180  | 390    | 2,061 | 8,570  | 10,631 | 1,957  | 1989  | 1997 | 40   |    |
| 10000 Midlantic Drive      | Mt. Laurel      | NJ | 3,647   | 2,297  | 9,288  | 434   | 2,297  | 9,722  | 12,019 | 2,474 | 1988 | 1997 | 40 |
| 100-300 Gundy Drive        | Mt. Laurel      | NJ | □ 3,206 | 12,857 | 1,127  | 3,206 | 13,984 | 17,190 | 3,255  | 1990  | 1997 | 40   |    |
| 1007 Laurel Oak Road       | Reading         | PA | □ 6,495 | 25,180 | 5,829  | 6,495 | 31,009 | 37,504 | 6,931  | 1970  | 1997 | 40   |    |
| 105/140 Terry Drive        | Voorhees        | NJ | □ 1,563 | 6,241  | 17     | 1,563 | 6,258  | 7,821  | 1,314  | 1996  | 1997 | 40   |    |
| 111 Presidential Boulevard | Newtown         | PA | □ 2,299 | 8,238  | 2,256  | 2,299 | 10,494 | 12,793 | 2,575  | 1974  | 1997 | 40   |    |
| 1120 Executive Boulevard   | Bala Cynwyd     | PA | □ 5,419 | 21,612 | 850    | 5,419 | 22,462 | 27,881 | 4,711  | 1974  | 1997 | 40   |    |
| 15000 Midlantic Drive      | Mt. Laurel      | NJ | □ 2,074 | 8,415  | 762    | 2,074 | 9,177  | 11,251 | 2,166  | 1987  | 1997 | 40   |    |
| 2 Foster Avenue            | Mt. Laurel      | NJ | □ 3,061 | 12,254 | 8      | 3,061 | 12,262 | 15,323 | 2,813  | 1991  | 1997 | 40   |    |
| 20 East Clementon Road     | Gibbsboro       | NJ | □ 185   | 730    | 23     | 185   | 753    | 938    | 158    | 1974  | 1997 | 40   |    |
| 200 Berwyn Park            | Gibbsboro       | NJ | □ 769   | 3,055  | 248    | 769   | 3,303  | 4,072  | 760    | 1986  | 1997 | 40   |    |
| 2000 Midlantic Drive       | Berwyn          | PA | 9,592   | 1,533  | 9,460  | 606   | 1,533  | 10,066 | 11,599 | 2,308 | 1987 | 1997 | 40 |
|                            | Mt. Laurel      | NJ | 9,421   | 2,202  | 8,823  | 462   | 2,202  | 9,285  | 11,487 | 2,236 | 1989 | 1997 | 40 |
|                            |                 | PA | □ 1,086 | 4,338  | 536    | 1,086 | 4,874  | 5,960  | 1,099  | 1974  | 1997 | 40   |    |

220 Fort  
Commerce Washington  
Drive

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**Brandywine Realty Trust  
Schedule III  
Real Estate and Accumulated Depreciation  
(in thousands)**

|                                     | City           | State | Initial Cost                      |       | Net Improvements             |                                    | Gross Amount at Which Carried |           | Accumulated Depreciation at |       | Date of Construction | Date Acquired | Depreciable Life |
|-------------------------------------|----------------|-------|-----------------------------------|-------|------------------------------|------------------------------------|-------------------------------|-----------|-----------------------------|-------|----------------------|---------------|------------------|
|                                     |                |       | Encumbrances at December 31, 2003 | Land  | Improvements and Acquisition | Retirements Since Land Acquisition | Building and Improvements     | Total (a) | December 31, 2003 (b)       |       |                      |               |                  |
| 300 Berwyn Park                     | Berwyn         | PA    | 13,200                            | 2,206 | 13,422                       | 334                                | 2,206                         | 13,756    | 15,962                      | 3,093 | 1989                 | 1997          | 40               |
| 300 Welsh Road □ Building I         | Horsham        | PA    | 2,297                             | 894   | 3,572                        | 161                                | 894                           | 3,733     | 4,627                       | 862   | 1985                 | 1997          | 40               |
| 300 Welsh Road □ Building II        | Horsham        | PA    | 1,038                             | 396   | 1,585                        | 109                                | 396                           | 1,694     | 2,090                       | 371   | 1985                 | 1997          | 40               |
| 321 Norristown Road                 | Gwyned         | PA    | □ 1,290                           |       | 5,176                        | 1,292                              | 1,290                         | 6,468     | 7,758                       | 1,490 | 1972                 | 1997          | 40               |
| 323 Norristown Road                 | Gwyned         | PA    | □ 1,685                           |       | 6,751                        | 757                                | 1,685                         | 7,508     | 9,193                       | 1,669 | 1988                 | 1997          | 40               |
| 4 Foster Avenue                     | Gibbsboro      | NJ    | □ 183                             |       | 726                          | 76                                 | 183                           | 802       | 985                         | 163   | 1974                 | 1997          | 40               |
| 4000 Midlantic Drive                | Mt. Laurel     | NJ    | 3,158                             | 714   | 5,085                        | (1,948)                            | 714                           | 3,137     | 3,851                       | 716   | 1981                 | 1997          | 40               |
| 5 Foster Avenue                     | Gibbsboro      | NJ    | □ 9                               |       | 32                           | 25                                 | 9                             | 57        | 66                          | 9     | 1968                 | 1997          | 40               |
| 5 U.S. Avenue                       | Gibbsboro      | NJ    | □ 21                              |       | 81                           | 2                                  | 21                            | 83        | 104                         | 18    | 1987                 | 1997          | 40               |
| 50 East Clementon Road              | Gibbsboro      | NJ    | □ 114                             |       | 964                          | 4                                  | 114                           | 968       | 1,082                       | 203   | 1986                 | 1997          | 40               |
| 500 Office Center Drive             | Washington Ft. | PA    | □ 1,617                           |       | 6,480                        | 1,052                              | 1,617                         | 7,532     | 9,149                       | 2,079 | 1985                 | 1997          | 40               |
| 501 Office Center Drive             | Washington Ft. | PA    | □ 1,796                           |       | 7,192                        | 768                                | 1,796                         | 7,960     | 9,756                       | 1,943 | 1985                 | 1997          | 40               |
| 55 U.S. Avenue                      | Gibbsboro      | NJ    | □ 1,116                           |       | 4,435                        | 51                                 | 1,116                         | 4,486     | 5,602                       | 943   | 1982                 | 1997          | 40               |
| 6 East Clementon Road               | Gibbsboro      | NJ    | □ 1,345                           |       | 5,366                        | 340                                | 1,345                         | 5,706     | 7,051                       | 1,298 | 1980                 | 1997          | 40               |
| 655 Business Center Drive           | Horsham        | PA    | 1,810                             | 544   | 2,529                        | 572                                | 544                           | 3,101     | 3,645                       | 911   | 1997                 | 1997          | 40               |
| 7 Foster Avenue                     | Gibbsboro      | NJ    | □ 231                             |       | 921                          | 135                                | 231                           | 1,056     | 1,287                       | 238   | 1983                 | 1997          | 40               |
| 748 Springdale Drive                | Exton          | PA    | □ 236                             |       | 931                          | 142                                | 236                           | 1,073     | 1,309                       | 311   | 1986                 | 1997          | 40               |
| 855 Springdale Drive                | Exton          | PA    | □ 838                             |       | 3,370                        | 80                                 | 838                           | 3,450     | 4,288                       | 796   | 1986                 | 1997          | 40               |
| 9000 Midlantic Drive                | Mt. Laurel     | NJ    | 6,135                             | 1,472 | 5,895                        | 114                                | 1,472                         | 6,009     | 7,481                       | 1,367 | 1989                 | 1997          | 40               |
| Five Eves Drive                     | Marlton        | NJ    | □ 703                             |       | 2,819                        | 649                                | 703                           | 3,468     | 4,171                       | 1,061 | 1986                 | 1997          | 40               |
| Four A Eves Drive                   | Marlton        | NJ    | □ 539                             |       | 2,168                        | 167                                | 539                           | 2,335     | 2,874                       | 657   | 1987                 | 1997          | 40               |
| Four B Eves Drive                   | Marlton        | NJ    | □ 588                             |       | 2,369                        | 95                                 | 588                           | 2,464     | 3,052                       | 628   | 1987                 | 1997          | 40               |
| King & Harvard Main Street – Piazza | Cherry Hill    | NJ    | □ 1,726                           |       | 1,069                        | 2,193                              | 1,726                         | 3,262     | 4,988                       | 956   | 1979                 | 1997          | 40               |
|                                     | Voorhees       | NJ    | □ 696                             |       | 2,802                        | 88                                 | 696                           | 2,890     | 3,586                       | 693   | 1990                 | 1997          | 40               |

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|                              |                 |    |         |        |        |       |        |        |        |       |      |      |    |
|------------------------------|-----------------|----|---------|--------|--------|-------|--------|--------|--------|-------|------|------|----|
| Main Street – Plaza 1000     | Voorhees        | NJ | □ 2,729 | 10,931 | 2,522  | 2,729 | 13,453 | 16,182 | 3,220  | 1988  | 1997 | 40   |    |
| Main Street – Promenade      | Voorhees        | NJ | □ 531   | 2,052  | 207    | 531   | 2,259  | 2,790  | 597    | 1988  | 1997 | 40   |    |
| Main Street-CAM              | Voorhees        | NJ | □ 3     | 11     | 98     | 3     | 109    | 112    | 31     | 1997  |      | 40   |    |
| One South Union Place        | Cherry Hill     | NJ | □ 771   | 8,047  | 480    | 771   | 8,527  | 9,298  | 2,547  | 1980  | 1997 | 40   |    |
| Two Eves Drive               | Marlton         | NJ | □ 818   | 3,461  | 128    | 818   | 3,589  | 4,407  | 962    | 1987  | 1997 | 40   |    |
| 1000 First Avenue            | King of Prussia | PA | 4,516   | 2,772  | 10,936 | 277   | 2,772  | 11,213 | 13,985 | 1,991 | 1980 | 1998 | 40 |
| 1009 Lenox Drive             | Lawrenceville   | NJ | □ 4,876 | 19,284 | 3,304  | 4,876 | 22,588 | 27,464 | 4,932  | 1989  | 1998 | 40   |    |
| 1020 First Avenue            | King of Prussia | PA | 3,610   | 2,168  | 8,576  | 435   | 2,168  | 9,011  | 11,179 | 1,590 | 1984 | 1998 | 40 |
| 1040 First Avenue            | King of Prussia | PA | 4,940   | 2,860  | 11,282 | 1,156 | 2,860  | 12,438 | 15,298 | 2,675 | 1985 | 1998 | 40 |
| 1060 First Avenue            | King of Prussia | PA | 4,415   | 2,712  | 10,953 | 6     | 2,712  | 10,959 | 13,671 | 1,941 | 1987 | 1998 | 40 |
| 14 Campus Boulevard          | Newtown Square  | PA | 5,340   | 2,244  | 4,217  | (3)   | 2,244  | 4,214  | 6,458  | 992   | 1998 | 1998 | 40 |
| 150 Corporate Center Drive   | Camp Hill       | PA | □ 964   | 3,871  | 273    | 964   | 4,144  | 5,108  | 849    | 1987  | 1998 | 40   |    |
| 160-180 West Germantown Pike | East Norriton   | PA | 5,342   | 1,603  | 6,418  | 653   | 1,603  | 7,071  | 8,674  | 1,515 | 1982 | 1998 | 40 |
| 1957 Westmoreland Street     | Richmond        | VA | 2,773   | 1,061  | 4,241  | 284   | 1,061  | 4,525  | 5,586  | 911   | 1975 | 1998 | 40 |
| 200 Corporate Center Drive   | Camp Hill       | PA | □ 1,647 | 6,606  | 60     | 1,647 | 6,666  | 8,313  | 1,300  | 1989  | 1998 | 40   |    |
| 2100-2108 West Laburnum      | Richmond        | VA | 1,131   | 2,482  | 8,846  | 1,840 | 2,482  | 10,686 | 13,168 | 1,875 | 1976 | 1998 | 40 |
| 2120 Tomlynn Street          | Richmond        | VA | 771     | 281    | 1,125  | 147   | 281    | 1,272  | 1,553  | 248   | 1986 | 1998 | 40 |
| 2130-2146 Tomlynn Street     | Richmond        | VA | 1,022   | 353    | 1,416  | 289   | 353    | 1,705  | 2,058  | 280   | 1988 | 1998 | 40 |
| 2169-79 Tomlynn Street       | Richmond        | VA | 1,064   | 423    | 1,695  | 25    | 423    | 1,720  | 2,143  | 307   | 1985 | 1998 | 40 |
| 2201-2245 Tomlynn Street     | Richmond        | VA | 2,762   | 1,020  | 4,067  | 476   | 1,020  | 4,543  | 5,563  | 979   | 1989 | 1998 | 40 |
| 2212-2224 Tomlynn Street     | Richmond        | VA | 1,284   | 502    | 2,014  | 71    | 502    | 2,085  | 2,587  | 372   | 1985 | 1998 | 40 |
| 2221-2245 Dabney Road        | Richmond        | VA | 1,331   | 530    | 2,123  | 27    | 530    | 2,150  | 2,680  | 384   | 1994 | 1998 | 40 |
| 2240 Dabney Road             | Richmond        | VA | 661     | 264    | 1,059  | 8     | 264    | 1,067  | 1,331  | 193   | 1984 | 1998 | 40 |
| 2244 Dabney Road             | Richmond        | VA | 1,367   | 550    | 2,203  | 1     | 550    | 2,204  | 2,754  | 390   | 1993 | 1998 | 40 |

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**Brandywine Realty Trust  
Schedule III  
Real Estate and Accumulated Depreciation  
(in thousands)**

|                                | City            | State | Initial Cost                      |       |              |                       | Gross Amount at Which Carried December 31, 2003 |                       |        |   | Date of Construction | Useful Life | Depreciable |
|--------------------------------|-----------------|-------|-----------------------------------|-------|--------------|-----------------------|---|-----------------------|--------|---|----------------------|-------------|-------------|
|                                |                 |       | Encumbrances at December 31, 2003 | Land  | Improvements | Land and Improvements | Building  | Land and Improvements | Total  | Accumulated Depreciation at December 31, 2003 |                      |             |             |
| 2246 Dabney Road               | Richmond        | VA    | 1,131                             | 455   | 1,822        | 1                     | 455   | 1,823                 | 2,278  | 323   | 1987                 | 1998        | 40          |
| 2248 Dabney Road               | Richmond        | VA    | 1,359                             | 512   | 2,049        | 176                   | 512   | 2,225                 | 2,737  | 442   | 1989                 | 1998        | 40          |
| 2251 Dabney Road               | Richmond        | VA    | 1,023                             | 387   | 1,552        | 121                   | 387   | 1,673                 | 2,060  | 321   | 1983                 | 1998        | 40          |
| 2256 Dabney Road               | Richmond        | VA    | 907                               | 356   | 1,427        | 44                    | 356   | 1,471                 | 1,827  | 279   | 1982                 | 1998        | 40          |
| 2277 Dabney Road               | Richmond        | VA    | 1,262                             | 507   | 2,034        | 1                     | 507   | 2,035                 | 2,542  | 360   | 1986                 | 1998        | 40          |
| 2401 Park Drive                | Harrisburg      | PA    | □                                 | 182   | 728          | 18                    | 182   | 746                   | 928    | 145   | 1984                 | 1998        | 40          |
| 2404 Park Drive                | Harrisburg      | PA    | □                                 | 167   | 668          | 90                    | 167   | 758                   | 925    | 201   | 1983                 | 1998        | 40          |
| 2490 Boulevard of the Generals | King of Prussia | PA    | □                                 | 348   | 1,394        | 45                    | 348   | 1,439                 | 1,787  | 302   | 1975                 | 1998        | 40          |
| 2511 Brittons Hill Road        | Richmond        | VA    | 3,036                             | 1,202 | 4,820        | 93                    | 1,202   | 4,913                 | 6,115  | 898   | 1987                 | 1998        | 40          |
| 2812 Emerywood Parkway         | Henrico         | VA    | 3,286                             | 1,069 | 4,281        | 1,268                 | 1,069   | 5,549                 | 6,618  | 844   | 1980                 | 1998        | 40          |
| 300 Arboretum Place            | Richmond        | VA    | 14,872                            | 5,450 | 21,892       | 2,076                 | 5,450   | 23,968                | 29,418 | 4,968   | 1988                 | 1998        | 40          |
| 300 Corporate Center Drive     | Camp Hill       | PA    | □                                 | 4,823 | 19,301       | 317                   | 4,823   | 19,618                | 24,441 | 3,938   | 1989                 | 1998        | 40          |
| 305 Fellowship Drive           | Mt. Laurel      | NJ    | 2,591                             | 1,493 | 6,055        | 476                   | 1,493   | 6,531                 | 8,024  | 1,342   | 1979                 | 1998        | 40          |
| 304 Harper Drive               | Mt. Laurel      | NJ    | 1,220                             | 657   | 2,674        | 446                   | 657   | 3,120                 | 3,777  | 726   | 1975                 | 1998        | 40          |
| 305 Fellowship Drive           | Mt. Laurel      | NJ    | 2,576                             | 1,421 | 5,768        | 789                   | 1,421   | 6,557                 | 7,978  | 1,621   | 1980                 | 1998        | 40          |
| 305 Harper Drive               | Mt. Laurel      | NJ    | 367                               | 223   | 913          | 1                     | 223   | 914                   | 1,137  | 162   | 1979                 | 1998        | 40          |
| 307 Fellowship Drive           | Mt. Laurel      | NJ    | 2,643                             | 1,565 | 6,342        | 276                   | 1,565   | 6,618                 | 8,183  | 1,327   | 1981                 | 1998        | 40          |
| 308 Harper Drive               | Mt. Laurel      | NJ    | □                                 | 1,643 | 6,663        | 432                   | 1,643   | 7,095                 | 8,738  | 1,291   | 1976                 | 1998        | 40          |
| 309 Fellowship Drive           | Mt. Laurel      | NJ    | 2,783                             | 1,518 | 6,154        | 945                   | 1,518   | 7,099                 | 8,617  | 1,442   | 1982                 | 1998        | 40          |
| 33 West State Street           | Trenton         | NJ    | □                                 | 6,016 | 24,091       | 105                   | 6,016   | 24,196                | 30,212 | 4,825   | 1988                 | 1998        | 40          |
|                                | Devon           | PA    | □                                 | 1,689 | 6,756        | 15                    | 1,689   | 6,771                 | 8,460  | 1,399   | 1990                 | 1998        | 40          |

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|  |                    |    |         |        |         |       |        |        |        |       |      |      |    |
|--|--------------------|----|---------|--------|---------|-------|--------|--------|--------|-------|------|------|----|
| 426<br>Lancaster<br>Avenue<br>4364 South<br>Alston<br>Avenue | Durham             | NC | 2,846   | 1,622  | 6,419   | 771   | 1,622  | 7,190  | 8,812  | 1,292 | 1985 | 1998 | 40 |
| 4805 Lake<br>Brooke Drive                                    | Glen Allen         | VA | 4,134   | 1,640  | 6,567   | 121   | 1,640  | 6,688  | 8,328  | 1,192 | 1996 | 1998 | 40 |
| 50 East State<br>Street                                      | Trenton            | NJ | □ 8,926 | 35,735 | 546     | 8,926 | 36,281 | 45,207 | 7,239  | 1989  | 1998 | 40   |    |
| 50<br>Swedesford<br>Square                                   | Frazer             | PA | 6,304   | 3,902  | 15,254  | 365   | 3,902  | 15,619 | 19,521 | 2,769 | 1988 | 1998 | 40 |
| 500<br>Nationwide<br>Drive                                   | Harrisburg         | PA | □ 173   | 850    | 787     | 173   | 1,637  | 1,810  | 367    | 1977  | 1998 | 40   |    |
| 52<br>Swedesford<br>Square                                   | Frazer             | PA | 6,975   | 4,241  | 16,579  | 779   | 4,241  | 17,358 | 21,599 | 3,299 | 1986 | 1998 | 40 |
| 520 Virginia<br>Drive  | Ft.<br>Washington  | PA | □ 845   | 3,455  | 380     | 845   | 3,835  | 4,680  | 975    | 1987  | 1998 | 40   |    |
| 600<br>Corporate<br>Circle Drive                             | Harrisburg         | PA | □ 363   | 1,452  | 75      | 363   | 1,527  | 1,890  | 300    | 1978  | 1998 | 40   |    |
| 600 East<br>Main Street                                      | Richmond           | VA | 16,450  | 9,808  | 38,255  | 2,876 | 9,808  | 41,131 | 50,939 | 7,483 | 1986 | 1998 | 40 |
| 600 Park<br>Avenue   | King of<br>Prussia | PA | □ 1,012 | 4,048  | 3       | 1,012 | 4,051  | 5,063  | 810    | 1964  | 1998 | 40   |    |
| 610 Freedom<br>Business<br>Center                            | King of<br>Prussia | PA | 5,339   | 2,017  | 8,070   | 668   | 2,017  | 8,738  | 10,755 | 1,989 | 1985 | 1998 | 40 |
| 620 Allendale<br>Road  | King of<br>Prussia | PA | □ 1,020 | 3,839  | 980     | 1,020 | 4,819  | 5,839  | 1,034  | 1961  | 1998 | 40   |    |
| 620 Freedom<br>Business<br>Center                            | King of<br>Prussia | PA | 7,239   | 2,770  | 11,014  | 798   | 2,770  | 11,812 | 14,582 | 2,436 | 1986 | 1998 | 40 |
| 630 Clark<br>Avenue  | King of<br>Prussia | PA | □ 547   | 2,190  | 1       | 547   | 2,191  | 2,738  | 438    | 1960  | 1998 | 40   |    |
| 630 Freedom<br>Business<br>Center                            | King of<br>Prussia | PA | 7,138   | 2,773  | 11,144  | 460   | 2,773  | 11,604 | 14,377 | 2,566 | 1989 | 1998 | 40 |
| 640 Allendale<br>Road  | King of<br>Prussia | PA | □ 439   | 432    | 1,327   | 439   | 1,759  | 2,198  | 97     | 2001  | 1998 | 40   |    |
| 640 Freedom<br>Business<br>Center                            | King of<br>Prussia | PA | 11,203  | 4,222  | 16,891  | 1,453 | 4,222  | 18,344 | 22,566 | 3,769 | 1991 | 1998 | 40 |
| 650 Park<br>Avenue   | King of<br>Prussia | PA | □ 1,916 | 4,378  | 903     | 1,916 | 5,281  | 7,197  | 1,032  | 1968  | 1998 | 40   |    |
| 660 Allendale<br>Road  | King of<br>Prussia | PA | □ 396   | 3,343  | (1,636) | 396   | 1,707  | 2,103  | 592    | 1962  | 1998 | 40   |    |
| 680 Allendale<br>Road  | King of<br>Prussia | PA | □ 689   | 2,756  | 678     | 689   | 3,434  | 4,123  | 784    | 1962  | 1998 | 40   |    |
| 700 East<br>Gate Drive                                       | Mt. Laurel         | NJ | 6,048   | 3,569  | 14,436  | 723   | 3,569  | 15,159 | 18,728 | 2,884 | 1984 | 1998 | 40 |
| 701 East<br>Gate Drive                                       | Mt. Laurel         | NJ | 2,971   | 1,736  | 6,877   | 588   | 1,736  | 7,465  | 9,201  | 1,326 | 1986 | 1998 | 40 |
| 7010<br>Snowdrift<br>Way                                     | Allentown          | PA | 1,370   | 818    | 3,324   | 101   | 818    | 3,425  | 4,243  | 612   | 1991 | 1998 | 40 |
| 7150<br>Windsor<br>Drive                                     | Allentown          | PA | 1,751   | 1,035  | 4,219   | 168   | 1,035  | 4,387  | 5,422  | 882   | 1988 | 1998 | 40 |
| 7350<br>Tilghman<br>Street                                   | Allentown          | PA | □ 3,414 | 13,716 | 1,087   | 3,414 | 14,803 | 18,217 | 3,049  | 1987  | 1998 | 40   |    |
| 741 First<br>Avenue  | King of<br>Prussia | PA | □ 1,287 | 5,151  | 210     | 1,287 | 5,361  | 6,648  | 1,069  | 1966  | 1998 | 40   |    |
| 7450<br>Tilghman<br>Street                                   | Allentown          | PA | 5,090   | 2,867  | 11,631  | 1,265 | 2,867  | 12,896 | 15,763 | 2,741 | 1986 | 1998 | 40 |



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**Brandywine Realty Trust  
Schedule III  
Real Estate and Accumulated Depreciation  
(in thousands)**

| City   | State           | Encumbrances at December 31, 2003 | Initial Cost |              | Net Improvements (Retirements) Since Acquisition |              | Gross Amount at Which Carried December 31, 2003 |        | Total (a) | Accumulated Depreciation at December 31, 2003 (b) | Date Construction Completed | Date Depreciable Life |    |
|--|-----------------|-----------------------------------|--------------|--------------|--|--------------|---|--------|-----------|---|-----------------------------|-----------------------|----|
|  |                 |                                   | Land         | Improvements | Land   | Improvements | Building  | and    |           |   |                             |                       |    |
| 751-761 Fifth Avenue 7535 Windsor Drive              | King of Prussia | PA                                | □ 1,097      | 4,391        | 3  | 1,097        | 4,394   | 5,491  | 879       | 1967  | 1998                        | 40                    |    |
| 755 Business Center Drive 800 Corporate Circle Drive | Allentown       | PA                                | 5,659        | 3,376        | 13,400   | 747          | 3,376   | 14,147 | 17,523    | 2,609   | 1988                        | 1998                  | 40 |
| 815 East Gate Drive 817 East Gate Drive              | Horsham         | PA                                | 2,156        | 1,362        | 2,334  | 646          | 1,362   | 2,980  | 4,342     | 935   | 1998                        | 1998                  | 40 |
| 875 First Avenue 9011 Arboretum Parkway              | Harrisburg      | PA                                | □ 414        | 1,653        | 115  | 414          | 1,768   | 2,182  | 369       | 1979  | 1998                        | 40                    |    |
| 9100 Arboretum Parkway 920 Harvest Drive             | Mt. Laurel      | NJ                                | 1,078        | 636          | 2,584  | 119          | 636   | 2,703  | 3,339     | 569   | 1986                        | 1998                  | 40 |
| 9200 Arboretum Parkway 9210 Arboretum Parkway        | Mt. Laurel      | NJ                                | 1,005        | 611          | 2,426  | 74           | 611   | 2,500  | 3,111     | 441   | 1986                        | 1998                  | 40 |
| 9211 Arboretum Parkway 922 Swedesford Road           | King of Prussia | PA                                | □ 618        | 2,473        | 3,259  | 618          | 5,732   | 6,350  | 822       | 1966  | 1998                        | 40                    |    |
| 925 Harvest Drive 993 Lenox Drive                    | Richmond        | VA                                | 4,884        | 1,857        | 7,702  | 279          | 1,857   | 7,981  | 9,838     | 1,492   | 1991                        | 1998                  | 40 |
| 997 Lenox Drive Marine Center - Pier #12             | Richmond        | VA                                | 3,736        | 1,362        | 5,489  | 540          | 1,362   | 6,029  | 7,391     | 1,248   | 1988                        | 1998                  | 40 |
| Marine Center - Pier #24                             | Blue Bell       | PA                                | □ 2,433      | 9,738        | 502  | 2,433        | 10,240  | 12,673 | 2,126     | 1990  | 1998                        | 40                    |    |
|  | Richmond        | VA                                | 2,634        | 985          | 3,973  | 253          | 985   | 4,226  | 5,211     | 792   | 1988                        | 1998                  | 40 |
|  | Richmond        | VA                                | 2,867        | 1,110        | 4,474  | 87           | 1,110   | 4,561  | 5,671     | 812   | 1988                        | 1998                  | 40 |
|  | Richmond        | VA                                | 1,536        | 582          | 2,433  | 78           | 582   | 2,511  | 3,093     | 444   | 1991                        | 1998                  | 40 |
|  | Frazer          | PA                                | □ 218        | 1            | (1)  | 218          | □ 218   | □ 1986 | 1998      | 40  |                             |                       |    |
|  | Blue Bell       | PA                                | □ 1,671      | 6,606        | 252  | 1,671        | 6,858   | 8,529  | 1,354     | 1990  | 1998                        | 40                    |    |
|  | Lawrenceville   | NJ                                | 12,155       | 2,811        | 17,996   | (5,986)      | 2,811   | 12,010 | 14,821    | 2,361   | 1985                        | 1998                  | 40 |
|  | Lawrenceville   | NJ                                | 10,095       | 2,410        | 9,700  | 199          | 2,410   | 9,899  | 12,309    | 2,040   | 1987                        | 1998                  | 40 |
|  | Philadelphia    | PA                                | □            | □            | □  | 356          | □   | 356    | 356       | 48  | 1998                        | 40                    |    |
|  | Philadelphia    | PA                                | □            | □            | □  | 59           | □   | 59     | 59        | 7   | 1998                        | 40                    |    |
|  | Philadelphia    | PA                                | □            | □            | □  | 106          | □   | 106    | 106       | 76  | 1998                        | 40                    |    |

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|  |                 |    |   |        |        |        |        |       |        |        |       |      |      |      |    |
|--|-----------------|----|---|--------|--------|--------|--------|-------|--------|--------|-------|------|------|------|----|
| Marine Center Pier #13-15 Philadelphia Marine Center | Philadelphia    | PA | □ | 532    | 2,196  | 37     | 532    | 2,233 | 2,765  | 395    |       | 1998 | 40   |      |    |
| 11 Campus Boulevard                                  | Newtown Square  | PA |   | 4,775  | 1,112  | 4,067  | 595    | 1,112 | 4,662  | 5,774  | 720   | 1999 | 1999 | 40   |    |
| 2000 Lenox Drive                                     | Lawrenceville   | NJ |   | 14,349 | 2,291  | 12,221 | 2,984  | 2,291 | 15,205 | 17,496 | 2,518 | 1999 | 1999 | 40   |    |
| 630 Allendale Road                                   | King of Prussia | PA |   | 19,797 | 2,836  | 4,028  | 15,961 | 2,836 | 19,989 | 22,825 | 2,654 | 1999 | 1999 | 40   |    |
| 630 Dresher Road                                     | Horsham         | PA | □ | 771    | 3,083  |        | 796    | 771   | 3,879  | 4,650  | 558   | 1987 | 1999 | 40   |    |
| 7130 Ambassador Drive                                | Allentown       | PA | □ | 761    | 3,046  |        | 10     | 761   | 3,056  | 3,817  | 446   | 1991 | 1999 | 40   |    |
| 1050 Westlakes Drive                                 | Berwyn          | PA | □ | 2,611  | 10,445 |        | 1,762  | 2,611 | 12,207 | 14,818 | 1,765 | 1984 | 2000 | 40   |    |
| 1700 Paoli Pike                                      | East Goshen     | PA | □ | 458    | 559    |        | 2,923  | 458   | 3,482  | 3,940  | 233   | 2000 | 2000 | 40   |    |
| 10 Lake Center Drive                                 | Marlton         | NJ | □ | 1,880  | 7,521  |        | 366    | 1,880 | 7,887  | 9,767  | 577   | 1989 | 2001 | 40   |    |
| 100 Arrandale Boulevard                              | Exton           | PA | □ | 970    | 3,878  |        | 2      | 970   | 3,880  | 4,850  | 267   | 1997 | 2001 | 40   |    |
| 100 Gateway Centre Parkway                           | Richmond        | VA | □ | 391    | 5,410  |        | 1,256  | 391   | 6,666  | 7,057  | 724   | 2001 | 2001 | 40   |    |
| 100 Lindenwood Drive                                 | Malvern         | PA | □ | 473    | 1,892  |        | 527    | 473   | 2,419  | 2,892  | 178   | 1985 | 2001 | 40   |    |
| 101 Lindenwood Drive                                 | Malvern         | PA | □ | 4,152  | 16,606 |        | 171    | 4,152 | 16,777 | 20,929 | 1,171 | 1988 | 2001 | 40   |    |
| 1100 Cassett Road                                    | Berwyn          | PA | □ | 1,695  | 6,779  |        | 4      | 1,695 | 6,783  | 8,478  | 466   | 1997 | 2001 | 40   |    |
| 111 Arrandale Boulevard                              | Exton           | PA |   | 1,152  | 262    | 1,048  |        | 1     | 262    | 1,049  | 1,311 | 72   | 1996 | 2001 | 40 |
| 111/113 Pencader Drive                               | Newark          | DE | □ | 1,092  | 4,366  |        | 3      | 1,092 | 4,369  | 5,461  | 300   | 1990 | 2001 | 40   |    |
| 1160 Swedesford Road                                 | Berwyn          | PA | □ | 1,781  | 7,124  |        | 430    | 1,781 | 7,554  | 9,335  | 640   | 1986 | 2001 | 40   |    |
| 1180 Swedesford Road                                 | Berwyn          | PA | □ | 2,086  | 8,342  |        | 345    | 2,086 | 8,687  | 10,773 | 651   | 1987 | 2001 | 40   |    |
| 161 Gaither Drive                                    | Mt. Laurel      | NJ | □ | 1,016  | 4,064  |        | 342    | 1,016 | 4,406  | 5,422  | 351   | 1987 | 2001 | 40   |    |
| 17 Campus Boulevard                                  | Newtown Square  | PA |   | 5,197  | 1,108  | 5,155  |        | 22    | 1,108  | 5,177  | 6,285 | 625  | 2001 | 2001 | 40 |
| 200 Lake Drive East                                  | Cherry Hill     | NJ | □ | 2,069  | 8,275  |        | 168    | 2,069 | 8,443  | 10,512 | 597   | 1989 | 2001 | 40   |    |
| 200 Lindenwood Drive                                 | Malvern         | PA | □ | 324    | 1,295  |        | 2      | 324   | 1,297  | 1,621  | 89    | 1984 | 2001 | 40   |    |
| 210 Lake Drive East                                  | Cherry Hill     | NJ | □ | 1,645  | 6,579  |        | 164    | 1,645 | 6,743  | 8,388  | 475   | 1986 | 2001 | 40   |    |
| 220 Lake Drive East                                  | Cherry Hill     | NJ | □ | 2,144  | 8,798  |        | 514    | 2,144 | 9,312  | 11,456 | 781   | 1988 | 2001 | 40   |    |
| 30 Lake Center Drive                                 | Marlton         | NJ | □ | 1,043  | 4,171  |        | 145    | 1,043 | 4,316  | 5,359  | 303   | 1986 | 2001 | 40   |    |
| 300 Lindenwood Drive                                 | Malvern         | PA | □ | 848    | 3,394  |        | 237    | 848   | 3,631  | 4,479  | 233   | 1984 | 2001 | 40   |    |
| 301 Lindenwood                                       | Malvern         | PA | □ | 2,729  | 10,915 |        | 648    | 2,729 | 11,563 | 14,292 | 839   | 1986 | 2001 | 40   |    |

Drive

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**Brandywine Realty Trust  
Schedule III  
Real Estate and Accumulated Depreciation  
(in thousands)**

| City                     | State            | Encumbrances at December 31, 2003 | Initial Cost |              |             | Gross Amount at Which Carried December 31, 2003 |              |           | Accumulated Depreciation at December 31, 2003 | Date of Construction | Days in Progress |      |
|--------------------------|------------------|-----------------------------------|--------------|--------------|-------------|---|--------------|-----------|---|----------------------|------------------|------|
|                          |                  |                                   | Land         | Improvements | Acquisition | Land  | Improvements | Total (a) |   |                      |                  |      |
| 412 Creamery Way         | Exton            | PA                                | □            | 1,195        | 4,779       | 436   | 1,195        | 5,215     | 6,410   | 437                  | 1999             | 2002 |
| 429 Creamery Way         | Exton            | PA                                | 3,235        | 1,368        | 5,471       | 3   | 1,368        | 5,474     | 6,842   | 376                  | 1996             | 2002 |
| 436 Creamery Way         | Exton            | PA                                | □            | 994          | 3,978       | 14  | 994          | 3,992     | 4,986   | 279                  | 1991             | 2002 |
| 440 Creamery Way         | Exton            | PA                                | 3,093        | 982          | 3,927       | 87  | 982          | 4,014     | 4,996   | 296                  | 1991             | 2002 |
| 442 Creamery Way         | Exton            | PA                                | 2,769        | 894          | 3,576       | 2   | 894          | 3,578     | 4,472   | 246                  | 1991             | 2002 |
| 457 Creamery Way         | Exton            | PA                                | □            | 777          | 3,107       | 2   | 777          | 3,109     | 3,886   | 214                  | 1990             | 2002 |
| 467 Creamery Way         | Exton            | PA                                | □            | 906          | 3,623       | 2   | 906          | 3,625     | 4,531   | 249                  | 1988             | 2002 |
| 479 Thomas Jones Way     | Exton            | PA                                | □            | 1,075        | 4,299       | 260   | 1,075        | 4,559     | 5,634   | 346                  | 1988             | 2002 |
| 481 John Young Way       | Exton            | PA                                | 2,475        | 496          | 1,983       | 2   | 496          | 1,985     | 2,481   | 136                  | 1997             | 2002 |
| 555 Croton Road          | King of Prussia  | PA                                | 6,209        | 4,486        | 17,943      | 121   | 4,486        | 18,064    | 22,550  | 1,261                | 1999             | 2002 |
| 7360 Windsor Drive       | Allentown        | PA                                | □            | 1,451        | 3,618       | 2,039   | 1,451        | 5,657     | 7,108   | 708                  | 2001             | 2002 |
| Two Righter Parkway      | Wilmington       | DE                                | □            | 2,802        | 11,217      | 7   | 2,802        | 11,224    | 14,026  | 1,001                | 1987             | 2002 |
| 100 Brandywine Boulevard | Newtown          | PA                                | □            | 1,784        | 9,811       | 2,971   | 1,784        | 12,782    | 14,566  | 767                  | 2002             | 2002 |
| 1000 Lenox Drive         | Lawrenceville    | NJ                                | □            | 1,174        | 4,696       | 3   | 1,174        | 4,699     | 5,873   | 176                  | 1982             | 2002 |
| 15 Campus Boulevard      | West Goshen      | PA                                | 5,943        | 1,164        | 3,896       | 2,127   | 1,164        | 6,023     | 7,187   | 532                  | 2002             | 2002 |
| 200 Commerce Drive       | Newark           | DE                                | 6,165        | 911          | 4,414       | 1,552   | 911          | 5,966     | 6,877   | 877                  | 1998             | 2002 |
| 400 Berwyn Park          | Berwyn           | PA                                | 15,726       | 2,657        | 4,462       | 12,947  | 2,657        | 17,409    | 20,066  | 1,105                | 2002             | 2002 |
| 400 Commerce Drive       | Newark           | DE                                | 12,346       | 2,528        | 9,220       | 4,495   | 2,528        | 13,715    | 16,243  | 2,381                | 1997             | 2002 |
| 401 Plymouth Road        | Plymouth Meeting | PA                                | □            | 6,198        | 16,131      | 16,467  | 6,198        | 32,598    | 38,796  | 2,327                | 2002             | 2002 |
|                          |                  | PA                                | 12,439       | 3,652        | 15,288      | 266   | 3,652        | 15,554    | 19,206  | 726                  | 1986             | 2002 |

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|   |   |  |   |   |  |  |   |  |   |   |  |   |
|---|---|--|---|---|--|--|---|--|---|---|--|---|
| 600 Plymouth Mtg Exec Campus 980 Harvest Drive Four Plymouth Mtg Exec Campus Three Plymouth Mtg Exec Campus Two Paragon Place Two Plymouth Mtg Exec Campus 565 East Swedesford Road 575 East Swedesford Road 585 East Swedesford Road 595 East Swedesford Road 935 First Avenue 989 Lenox Drive | Plymouth Meeting<br>Blue Bell<br>Plymouth Meeting<br>Plymouth Meeting<br>Richmond<br>Plymouth Meeting<br>Wayne<br>Wayne<br>Wayne<br>Wayne<br>King of Prussia<br>Lawrenceville | PA<br>PA<br>PA<br>VA<br>PA<br>PA<br>PA<br>PA<br>PA<br>PA<br>NJ | □<br>11,791<br>12,078<br>□<br>11,991<br>□<br>□<br>□<br>□<br>□<br>□<br>□ | 2,079<br>3,572<br>3,558<br>2,917<br>3,651<br>1,872<br>2,178<br>1,350<br>2,729<br>3,255<br>3,701 | 7,821<br>14,435<br>14,743<br>11,454<br>14,514<br>7,489<br>8,712<br>5,401<br>10,917<br>11,693<br>14,802 | 27<br>198<br>348<br>760<br>349<br>5<br>6<br>3<br>7<br>7<br>8 | 2,079<br>3,572<br>3,558<br>2,917<br>3,651<br>1,872<br>2,178<br>1,350<br>2,729<br>3,255<br>3,701 | 7,848<br>14,633<br>15,091<br>12,214<br>14,863<br>7,494<br>8,718<br>5,404<br>10,924<br>11,700<br>14,810 | 9,927<br>18,205<br>18,649<br>15,131<br>18,514<br>9,366<br>10,896<br>6,754<br>13,653<br>14,955<br>18,511 | 266<br>691<br>713<br>548<br>786<br>31<br>36<br>23<br>45<br>156<br>□ | 1988<br>1990<br>1988<br>1989<br>1987<br>1984<br>1985<br>1998<br>1988<br>2001<br>1982 | 200<br>200<br>200<br>200<br>200<br>200<br>200<br>200<br>200<br>200<br>200 |
|   |   |  | <u>\$ 456,402</u>   | <u>\$ 345,022</u>   | <u>\$ 1,380,642</u>  | <u>\$ 144,080</u>  | <u>\$ 345,022</u>   | <u>\$ 1,524,722</u>  | <u>\$ 1,869,744</u>   | <u>\$ 268,091</u>   |  |   |

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(a) Reconciliation of Real Estate:

The following table reconciles the real estate investments from January 1, 2002 to December 31, 2003 (in thousands):

|                                     | <u>2003</u>         | <u>2002</u>         | <u>2001</u>         |
|-------------------------------------|---------------------|---------------------|---------------------|
| Balance at beginning of year        | \$ 1,890,009        | \$ 1,893,039        | \$ 1,754,895        |
| Additions:                          |                     |                     |                     |
| Acquisitions                        | 59,149              | 120,627             | 217,212             |
| Capital expenditures                | 57,721              | 94,086              | 65,210              |
| Less:                               |                     |                     |                     |
| Dispositions                        | (135,118)           | (209,014)           | (144,278)           |
| Assets transferred to held-for-sale | (2,017)             | (8,729)             | □                   |
| Balance at end of year              | <u>\$ 1,869,744</u> | <u>\$ 1,890,009</u> | <u>\$ 1,893,039</u> |

(b) Reconciliation of Accumulated Depreciation:

The following table reconciles the accumulated depreciation on real estate investments from January 1, 2003 to December 31, 2003 (in thousands):

|  | <u>2003</u>       | <u>2002</u>       | <u>2001</u>       |
|--|-------------------|-------------------|-------------------|
| Balance at beginning of year                   | \$ 245,230        | \$ 230,793        | \$ 179,558        |
| Additions:                                     |                   |                   |                   |
| Depreciation expense □ continued operations    | 51,191            | 46,190            | 59,348            |
| Depreciation expense □ discontinued operations | 695               | 2,511             | 10,147            |
| Acquisitions                                   | □                 | 1,175             | □                 |
| Less:  |                   |                   |                   |
| Dispositions                                   | (28,663)          | (34,204)          | (18,260)          |
| Assets transferred to held-for-sale            | (362)             | (1,235)           | □                 |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Balance at end of year                         | <u>\$ 268,091</u> | <u>\$ 245,230</u> | <u>\$ 230,793</u> |

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