UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-K
September 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2016 or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ________.

Commission file number: 001-31747

UNIVERSAL SECURITY INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	52-0898545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11407 Cronhill Drive, Suite A, Owings Mills, Maryland	21117
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (410) 363-3000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	NYSE MKT LLC

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

None
Title
of
Class

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Act). Yes ¨ No **x**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No **x**

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 **x** No ¨

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

Yes **x** 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 other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **x**

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No **x**

The aggregate market value of Common Stock, $.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock on the New York Stock Exchange (NYSE MKT LLC) on September 30, 2015, was $11,278,438.

The number of shares of common stock outstanding as of August 31, 2016 was 2,312,887.

documents incorporated by reference

To the extent specified, Part III of this Form 10-K incorporates information by reference to the Registrant’s definitive proxy statement for its 2016 Annual Meeting of Shareholders.

UNIVERSAL SECURITY INSTRUMENTS, INC.

2016 ANNUAL REPORT ON FORM 10-K

Table of Contents

		Page
PART I		
Item 1.	Business	3
Item 1B.	Unresolved Staff Comments	5
Item 2.	Properties	5
Item 3.	Legal Proceedings	6
	Executive Officers of the Registrant	6
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	7
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 8.	Financial Statements and Supplementary Data	12
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	12
Item 9A.	Controls and Procedures	12
Item 9B.	Other Information	13
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	14
Item 11.	Executive Compensation	14
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	14
Item 13.	Certain Relationships and Related Transactions, and Director Independence	14
Item 14.	Principal Accountant Fees and Services	14
PART IV		
Item 15.	Exhibits	15
Signatures		17

PART I

ITEM 1. BUSINESS

General

Universal Security Instruments, Inc. ("we" or "the Company") designs and markets a variety of popularly-priced safety products consisting primarily of smoke alarms, carbon monoxide alarms and related products. Most of our products require minimal installation and are designed for easy installation by the consumer without professional assistance, and are sold through retail stores. We also market products to the electrical distribution trade through our wholly-owned subsidiary, USI Electric, Inc. ("USI Electric"). The electrical distribution trade includes electrical and lighting distributors as well as manufactured housing companies. Products sold by USI Electric usually require professional installation.

In 1989 we formed Eyston Company Limited, a limited liability company under the laws of Hong Kong, as a joint venture with a Hong Kong-based partner, to manufacture various products in the Peoples Republic of China (the "Hong Kong Joint Venture"). We currently own a 50% interest in the Hong Kong Joint Venture and are a significant customer of the Hong Kong Joint Venture (52.0% and 41.8% of its sales during fiscal 2016 and 2015 respectively), with the balance of its sales made to unrelated customers worldwide. We import all of our products from foreign suppliers. For the fiscal year ended March 31, 2016, approximately 97.0% of our purchases were imported from the Hong Kong Joint Venture.

Our sales for the year ended March 31, 2016 were $13,740,840 compared to $9,891,554 for the year ended March 31, 2015. We reported a net loss of $2,137,792 in fiscal 2016 compared to a net loss of $3,704,985 in fiscal 2015, a decrease in net loss of $1,567,193 (42.3%). The decrease in the net loss is primarily due to increased sales and the increased gross profit obtained on sales of the Company's new line of sealed battery smoke, carbon monoxide, and combination alarms. Sales of these products have increased as the new line of products achieved independent certification and began selling throughout the fiscal year. The improvement in the net loss of the Company also reflects a $386,713 decrease in our loss from investment in the Hong Kong Joint Venture. Increased purchases by the Company of our new sealed battery alarms from the Hong Kong Joint Venture, as mentioned above, was a primary contributor to reducing the net loss of the Hong Kong Joint Venture.

The Company was incorporated in Maryland in 1969. Our principal executive office is located at 11407 Cronhill Drive, Suite A, Owings Mills, Maryland 21117, and our telephone number is 410-363-3000. Information about us may be obtained from our website www.universalsecurity.com. Copies of our Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, are available free of charge on our website as soon as they are

filed with the Securities and Exchange Commission (SEC) through a link to the SEC's EDGAR reporting system. Simply select the "Investor Relations" menu item, and then click on the "SEC Filings" link. The SEC's EDGAR reporting system can also be accessed directly at www.sec.gov.

Safety Products

We market a line of residential smoke and carbon monoxide alarms under the trade names "UNIVERSAL" and "USI Electric" both of which are manufactured by the Hong Kong Joint Venture.

Our line of safety alarms consists of units powered by replaceable batteries, ten year sealed batteries, and electrical with battery backup alarms. Our replaceable battery products contain different types of batteries with different battery lives, and some with alarm silencers. The smoke alarms marketed to the electrical distribution trade also include hearing impaired and heat alarms with a variety of features. We also market door chimes and ventilation products.

Over the past several fiscal years we have added significantly to our intellectual property portfolio. Since 2010 the United States Patent and Trademark Office has awarded eight patents to the Company, many being applied to our "Smart Alarm Technology" developed to significantly reduce nuisance alarms. This "Smart Alarm Technology" is being incorporated into our new sealed battery alarms. In addition, certain of our detector designs have also been awarded patents. We consider these patented enhancements to form a core part of the Company's "next generation" safety product line. The Company has also been awarded foreign patents for its technology. The Company has actively pursued development of an array of unique packaging and source identifiers with the intent of promoting consumer association with our Company's "next generation" product line. These efforts have resulted in eight new Trademark registrations being granted by the United States Patent and Trademark Office.

We also submitted each of our new products for independent testing agency approval, and have introduced products into the marketplace as approvals were received. This process began during the fourth quarter of our 2010 fiscal year and continues with the development and testing of our sealed battery alarms. Currently, we have received independent testing agency approvals on certain sealed battery products and we are awaiting approval of additional models of our sealed battery products before our entire line of new products will have been introduced to the market by the end of our fiscal year ending March 31, 2017.

Our wholly-owned subsidiary, USI Electric, Inc., focuses its sales and marketing efforts to maximize safety product sales, especially smoke alarms and carbon monoxide alarms manufactured by our Hong Kong Joint Venture, to the electrical distribution trade and to foreign customers.

Import Matters

We import all of our products. As an importer, we are subject to numerous tariffs which vary depending on types of products and country of origin, changes in economic and political conditions in the country of manufacture, potential trade restrictions, and currency fluctuations. We have attempted to protect ourselves from fluctuations in currency exchange rates to the extent possible by negotiating commitments in U.S. dollars.

Our inventory purchases are also subject to delays in delivery due to problems with shipping and docking facilities, as well as other problems associated with purchasing products abroad. Substantially all of our safety products, including products we purchase from our Hong Kong Joint Venture, are imported from the People's Republic of China.

Sales and Marketing; Customers

We sell our products to various customers, and our total sales market can be divided generally into two categories; sales by the Company to retailers, including wholesale distributors, chain, discount, television retailers and home center stores, catalog and mail order companies and other distributors ("retailers"), and sales by our USI Electric subsidiary to the electrical distribution trade (primarily electrical and lighting distributors and manufactured housing companies) and foreign customers. Products marketed by the Company have historically been retailed to "do-it-yourself" consumers by these retailers. Products marketed by our USI Electric subsidiary to the electrical distribution trade typically require professional installation. We do not currently market a significant portion of our products directly to end users.

A significant portion of our sales are made by approximately 36 independent sales organizations, compensated by commission, which represents approximately 230 sales representatives, some of which have warehouses where USI Electric products are maintained for sale. In addition, the Company has established a national distribution system with eight regional stocking warehouses throughout the United States which generally enables customers to receive their orders the next day without paying for overnight freight charges. Our agreements with these sales organizations are generally cancelable by either party upon 30 days' notice. We do not believe that the loss of any one of these organizations would have a material adverse effect upon our business. Sales are also made directly by the officers and full-time employees of the Company and our USI Electric subsidiary, seven of whom have other responsibilities for the Company. Sales outside the United States are made by our officers and through exporters, and amounted to approximately 4.8% in fiscal 2016 and 9.9% of total net sales in fiscal 2015.

We also market our products through our website and through our own sales catalogs and brochures, which are mailed directly to trade customers. Our customers, in turn, may advertise our products in their own catalogs and brochures and in their ads in newspapers and other media. We also exhibit and sell our products at various trade shows, including the annual National Hardware Show.

Our backlog of orders as of March 31, 2016 was approximately $631,000. Our backlog as of March 31, 2015 was approximately $231,000. This increase in backlog is primarily due to the timing of orders of our safety products.

Hong Kong Joint Venture

We have a 50% interest in Eyston Company Limited, the Hong Kong Joint Venture, which has manufacturing facilities in the People's Republic of China, for the manufacturing of certain of our electronic and electrical products.

We believe that the Hong Kong Joint Venture arrangement will ensure a continuing source of supply for a majority of our safety products at competitive prices. During fiscal years 2016 and 2015, 97.0% and 87.3%, respectively, of our total inventory purchases were made from the Hong Kong Joint Venture. The products produced by the Hong Kong Joint Venture include smoke alarms and carbon monoxide alarms. Negative changes in economic and political conditions in China or any other adversity to the Hong Kong Joint Venture will unfavorably affect the value of our investment in the Hong Kong Joint Venture and would have a material adverse effect on the Company's ability to purchase products for distribution.

Our purchases from the Hong Kong Joint Venture represented approximately 52.0% of the Hong Kong Joint Venture's total sales during fiscal 2016 and 41.8% of total sales during fiscal 2015, with the balance of the Hong Kong Joint Venture's sales being primarily made in Europe and Australia, to unrelated customers. The Hong Kong Joint Venture's sales to unrelated customers were $8,502,710 in fiscal 2016 and $9,162,424 in fiscal 2015. Please see Note C of the consolidated financial statements, and management's discussion and analysis of financial condition and results of operations, for a comparison of annual sales and earnings of the Hong Kong Joint Venture.

Other Suppliers

Certain private label products not manufactured for us by the Hong Kong Joint Venture are manufactured by other foreign suppliers. We believe that our relationships with our suppliers are good. We believe that the loss of our ability to purchase products from the Hong Kong Joint Venture would have a material adverse effect on the Company. The loss of any of our other suppliers would have a short-term adverse effect on our operations, but replacement sources for these other suppliers could be developed.

Competition

In fiscal years 2016 and 2015, sales of safety products accounted for substantially all of our total sales. In the sale of smoke alarms and carbon monoxide alarms, we compete in all of our markets with First Alert and Walter Kidde Portable Equipment, Inc. These companies have greater financial resources and financial strength than we have. We believe that our safety products compete favorably in the market primarily on the basis of styling, features and pricing.

The safety industry in general involves changing technology. The success of our products may depend on our ability to improve and update our products in a timely manner and to adapt to new technological advances.

Employees

As of March 31, 2016, we had 15 employees, 10 of whom are engaged in administration and sales, and the balance of whom are engaged in product development. Our employees are not unionized, and we believe that our relations with our employees are satisfactory.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Effective January 2009, we entered into a ten year operating lease for a 12,000 square foot office and warehouse located in Baltimore County, Maryland. In June 2009, we amended this lease to include an additional 3,000 square feet of warehouse space contiguous to our existing warehouse in Baltimore County, Maryland. Monthly rental expense, with common area maintenance, currently approximates $13,000 and increases 3% per year.

Effective March 2003, we entered into an operating lease for an approximately 1,800 square foot office in Naperville, Illinois. This lease was renewed in March 2015 and increased to approximately 3,400 square feet and extends through February 2017. The monthly rental, with common area maintenance, approximated $5,000 per month during the current fiscal year and is subject to increasing rentals of 3% per year.

The Hong Kong Joint Venture currently operates an approximately 100,000 square foot manufacturing facility in the Guangdong province of Southern China and two manufacturing facilities in the Fujian province of Southern China totaling approximately 300,000 square feet. The Hong Kong Joint Venture’s offices and warehouses are leased pursuant to two-five year leases with rental payments of approximately $22,000 per month.

The Company believes that its current facilities, and those of the Hong Kong Joint Venture, are currently suitable and adequate.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is involved in various claims and routine litigation matters. In the opinion of management, after consultation with legal counsel, the outcomes of such matters are not anticipated to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows in future years.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company's executive officers.

NAME	AGE	POSITIONS
Harvey B. Grossblatt	69	President, Chief Operating Officer and Chief Executive Officer
James B. Huff	64	Chief Financial Officer, Secretary and Treasurer

HARVEY B. GROSSBLATT has been a director of the Company since 1996. He served as Chief Financial Officer from October 1983 through August 2004, Secretary and Treasurer of the Company from September 1988 through August 2004, and Chief Operating Officer from April 2003 through August 2004. Mr. Grossblatt was appointed Chief Executive Officer in August 2004.

JAMES B. HUFF was appointed Chief Financial Officer in August 2004 and Secretary and Treasurer in October 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

Our common stock, $.01 par value (the "Common Stock") trades on the NYSE MKT LLC exchange, under the symbol UUU. As of March 31, 2016, there were 160 record holders of the Common Stock. The closing price for the Common Stock on that date was $4.12. We have not paid any cash dividends on our common stock, and it is our present intention to retain all cash flow for use in future operations. The following table sets forth the high and low prices for the Common Stock for each full quarterly period during the fiscal years indicated.

Fiscal Year Ended March 31, 2016		
First Quarter	High	$6.81
	Low	$5.44
Second Quarter	High	$6.88
	Low	$5.01
Third Quarter	High	$6.02
	Low	$4.15
Fourth Quarter	High	$5.05
	Low	$3.11
Fiscal Year Ended March 31, 2015		
First Quarter	High	$4.65
	Low	$4.11
Second Quarter	High	$4.75
	Low	$3.58
Third Quarter	High	$6.45
	Low	$4.49
Fourth Quarter	High	$6.54
	Low	$4.95

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors, including Risk Factors discussed in earlier filings, and other risks could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected. We do not undertake and specifically disclaim any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

General

We are in the business of marketing and distributing safety and security products which are primarily manufactured through our 50% owned Hong Kong Joint Venture. Our consolidated financial statements detail our sales and other operational results, and report the financial results of the Hong Kong Joint Venture that is accounted for using the equity method of accounting. Accordingly, the following discussion and analysis of the fiscal years ended March 31, 2016 and 2015 relate to the operational results of the Company and its consolidated subsidiary only and includes the Company's equity share of earnings in the Hong Kong Joint Venture. A discussion and analysis of the Hong Kong Joint Venture's operational results for these periods is presented below under the heading "Hong Kong Joint Venture."

While we believe that our overall sales are likely affected by the current global economic situation, we believe that we are specifically negatively impacted by the severe downturn in the U.S. housing market that occurred in 2008. Although there has since been improvement in the industry, it has not returned to pre-2008 performance. As stated elsewhere in this report, our USI Electric subsidiary markets our products to the electrical distribution trade (primarily electrical and lighting distributors and manufactured housing companies); every downturn in new home construction and new home sales negatively impacts sales by our USI Electric subsidiary. Our operating results for the current fiscal years ended March 31, 2016 and 2015 continue to be significantly impacted by the economic conditions of the U.S. housing market. We anticipate that when and as the housing market continues to improve, sales by our USI Electric subsidiary will improve, as well.

We further believe that our fiscal 2016, and to a lesser extent our fiscal 2015, retail sales were positively impacted by the movement of the smoke and carbon monoxide alarm retail markets toward ten-year sealed alarms to comply with new laws passed in several states, including California and New York. In May 2014, the Company previewed eleven new sealed smoke and carbon monoxide alarms at the International Hardware Show in Las Vegas, and the Company's prospective customers' responses were very positive. As the Company continues its introduction of its new line of sealed battery units, the Company expects increased sales and higher gross profit margins. The complete line of sealed units is expected to be available for sale by the end of our fiscal year ending March 31, 2017.

Comparison of Results of Operations for the Years Ended March 31, 2016 and 2015

Sales. In fiscal year 2016, our net sales are $13,740,840 compared to sales in the prior year of $9,891,554, an increase of $3,849,286 (38.9%). The increase in sales is primarily attributable to the introduction during the current fiscal year of the Company's new sealed battery safety alarms.

Gross Profit. Gross profit percentage is calculated as net sales less cost of goods sold expressed as a percentage of net sales. Our gross profit percentage for the fiscal year ended March 31, 2016 was 27.5% compared to 23.5% in fiscal 2015. The increase in 2016 gross margin is attributed to the mix of products sold that includes a higher percentage of the Company's new sealed battery safety alarms that generally have higher margins.

Selling, General and Administrative Expense. Selling, general and administrative expenses increased to $4,480,330 in fiscal 2016 from $4,175,584 in fiscal 2015. As a percentage of net sales, these expenses were 32.6% for the fiscal year ended March 31, 2016 and 42.2% for the fiscal year ended March 31, 2015. The increase in dollars primarily reflects higher audit costs, an increase in rebates and commissions, and increased insurance expense incurred during the fiscal year ended March 31, 2016, and the decrease as a percentage is due to a comparison to higher sales in fiscal 2016.

Research and Development. Research and development expense for the fiscal year ended March 31, 2016 was $665,278, of which approximately $500,000 was for new product development. Research and development expense for the fiscal year ended March 31, 2015 was $776,778, of which approximately $600,000 was for new product development. The decrease in overall research and development expense for the 2016 period compared to the 2015 period was due to the completion of independent testing of certain new products in development.

Interest Expense. For the fiscal year ended March 31, 2016, the Company incurred interest expense of $29,768 related to borrowing costs principally associated with amounts incurred on extended trade payables due to the Hong Kong Joint Venture. Amounts borrowed from the Hong Kong Joint Venture are restricted to the purchase of the Company's new sealed battery alarms and bear interest at 3.25%, are for a term of ninety (90) days, and are unsecured.

Interest Income. Interest income for the fiscal year ended March 31, 2015 consisted of interest earned on cash deposits with our factor. During the fiscal years ended March 31, 2015, we earned interest of $22,826 from these deposits.

Income Taxes. For the fiscal years ended March 31, 2016 and 2015, our statutory Federal tax rate was 34.0%. The income tax rate indicated by the provision for income tax expense as shown on the Consolidated Statements of Operations for the fiscal years ended March 31, 2016 and 2015 varies from the expected statutory rate. Footnote H to the financial statements provides a reconciliation of the amount of tax that would be expected at statutory rates and the amount of tax expense or benefit provided at the effective rate of tax for each fiscal period.

Net Loss. We reported a net loss of $2,137,792 for the fiscal year 2016, compared to a net loss of $3,704,985 for fiscal 2015, a $1,567,193 (42.3%) improvement in net loss. The improvement in the net loss is primarily due to increased sales of the Company's new line of sealed battery safety alarms and generally higher gross profit associated with the sale of those products.

Our loss from investment in the Hong Kong Joint Venture decreased to $741,846 in fiscal 2016 from a loss of $1,128,559 in fiscal 2015, a $386,713 (34.3%) improvement in the loss. See "Hong Kong Joint Venture" below for further discussion regarding the operations of the Hong Kong Joint Venture.

Financial Condition, Liquidity and Capital Resources

The Company had net losses of $2,137,792 and $3,704,985 for the years ended March 31, 2016 and 2015, respectively. Furthermore, as of March 31, 2016, working capital (computed as the excess of current assets over current liabilities) decreased by $1,147,951 from $5,611,552 on March 31, 2015, to $4,463,601 on March 31, 2016.

Our operating activities used cash of $822,957 for the year ended March 31, 2016 principally as a result of a net loss of $2,137,792. The net loss was partially offset by the non-cash loss of the Hong Kong Joint Venture of $741,846, and an increase in accounts payable and accrued expenses of $659,222. Our operating activities used cash of $1,369,660 for the year ended March 31, 2015 principally as a result of a net loss of $3,704,985. The net loss was partially offset by the non-cash loss of the Hong Kong Joint Venture of $1,128,559, decreases in accounts receivable and amounts due from factor of $554,699, decreases in inventories of $288,131, and an increase in accounts payable and accrued expenses of $363,468.

Our investing activities provided cash of $822,367 during the fiscal year ended March 31, 2016 resulting from the withdrawal of funds held by the factor of $631,906 and dividends received from the Hong Kong Joint Venture of $190,461. Our investing activities used cash of $631,906 during the fiscal year ended March 31, 2015 resulting from the deposit of funds held by the factor.

Financing activities provided cash of $313,891 during the fiscal year ended March 31, 2016 as a result of cash advances against factored trade accounts receivable with our factor. There were no financing activities during the year ended March 31, 2015.

Management believes that sales by the Company and by our USI Electric subsidiary have been negatively impacted by the ongoing downturn in the U.S. housing market and delays in commencing sales of the Company’s new line of sealed smoke and carbon monoxide (CO) alarms. The new line of sealed smoke and carbon monoxide alarms began selling during the current fiscal year and management has noted an improvement in sales related to these items. Management believes that with an improved housing market and sales of our new sealed products, the Company will improve profitability. The Company has completed and received approval of its complete line of sealed ionization models, and is continuing to develop its line of sealed photoelectric products that it expects to be completed during the fiscal year ending March 31, 2017.

Our sealed products will compete on price and functionality as we continue to introduce them to the market with similar products offered by our larger competitors. While we believe there will be market acceptance of our new products we cannot be assured of this. Should our products not achieve the level of acceptance we anticipate, this will have a significant impact on our future operations, and our sales may decline, potentially impacting our ability to continue operating in our current fashion.

Our short-term borrowings to finance operating losses, trade accounts receivable, and foreign inventory purchases are provided pursuant to the terms of our Factoring Agreement with Merchant. Advances from the Company’s factor, are at the sole discretion of Merchant based on their assessment of the Company’s receivables, inventory and financial condition at the time of each request for an advance. In addition, we have secured extended payment terms for purchases up to $2,000,000 from our Hong Kong Joint Venture for the purchase of the new sealed battery products. These amounts are unsecured, bear interest at 3.25%, and provide for repayment terms of ninety days for each advance thereunder. The combined unused availability of these facilities totaled approximately $3,338,000 at March 31, 2016.

The Company has a history of sales that are insufficient to generate profitable operations, and has limited sources of financing. Management's plan in response to these conditions includes increasing sales of the Company's new line of sealed battery safety alarms, decreasing payroll expenses, and seeking additional financing on our existing credit facility. The Company has seen positive results on this plan during the fiscal year ended March 31, 2016 due to the release of certain of its sealed battery products and management expects this growth to continue going forward. Though no assurances can be given, if management's plan continues to be successful over the next twelve months, the Company anticipates that it should be able to meet its cash needs. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of this report.

Hong Kong Joint Venture

In fiscal year 2016, sales of the Hong Kong Joint Venture were $17,581,195 compared to $15,753,815 in fiscal 2015. During the fiscal year ended March 31, 2016, sales to the Company increased compared to the prior year by approximately $2,493,000 principally due to sales of the new sealed battery product line.

Gross margins of the Hong Kong Joint Venture for fiscal year 2016 decreased to 13.3% from 15.3% in the prior fiscal year. The primary reason for the decrease is the decrease in margins realized on sales to unaffiliated customers and product mix.

Selling, general and administrative expenses of the Hong Kong Joint Venture for fiscal 2016 were $4,338,438, compared to $5,245,720 in the prior fiscal year. The reasons for the decrease were due to lower labor costs, gains on investment sales, lower depreciation and classification of production costs in the current year to more accurately reflect their contribution as production costs. As a percentage of sales, these expenses were 24.7% and 33.3%, respectively, for the fiscal years ended March 31, 2016 and 2015.

Investment income and interest income, net of interest expense, was $537,048 for fiscal year 2016, compared to $674,961 for fiscal year 2015.

Net loss was $1,584,012 for fiscal year 2016 compared to a net loss of $2,418,189 for the fiscal year ended March 31, 2015. The improvement in the net loss for fiscal 2016 was primarily due to increased sales to the Company of new sealed battery safety alarms.

Cash needs of the Hong Kong Joint Venture are currently met by cash on hand. Working capital increased to $6,144,962 as of March 31, 2016 from $5,387,534 as of March 31, 2015.

Related Party Transactions

Pursuant to its written charter, the Audit Committee of the Board of Directors of the Company reviews and approves all transactions with related persons that are required to be disclosed under applicable regulation. During the fiscal year ended March 31, 2016 and 2015, inventory purchases and other company expenses of approximately $493,000 and $385,000, were charged to credit card accounts of Harvey B. Grossblatt, the Company's Chief Executive Officer and certain of his immediate family members. The Company subsequently reimbursed these charges in full. Mr. Grossblatt received mileage benefits from these charges and the Company utilized some of these benefits. The maximum amount outstanding and due to Mr. Grossblatt at any point during the fiscal year ended March 31, 2016 and 2015 amounted to $66,884 and $65,420, respectively, and the amount outstanding at March 31, 2016 and 2015 is $66,884 and $20,206, respectively.

Critical Accounting Policies

Management's discussion and analysis of our consolidated financial statements and results of operations is based upon our consolidated financial statements included as part of this document. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to bad debts, inventories, income taxes, impairment of long-lived assets, and contingencies and litigation. We base these estimates on historical experiences and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect management's more significant judgments and estimates used in the preparation of its consolidated financial statements. For a detailed discussion on the application of these and other accounting policies, see Note A to the consolidated financial statements, included in this Annual Report. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and actual results could differ from these estimates. These judgments are based on our historical experience, terms of existing contracts, current economic trends in the industry, information provided by our customers, and information available from outside sources, as appropriate. Our critical accounting policies include:

Income Taxes: The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the consolidated financial statements. These temporary differences may result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are reviewed periodically for recoverability and a valuation allowance is provided whenever it is more likely than not that a deferred tax asset will not be realized. After a review of projected taxable income and the components of the deferred tax asset in accordance with applicable accounting guidance it was determined that it is more likely than not that the tax benefits associated with the remaining components of the deferred tax assets will not be realized. This determination was made based on the Company's recent history of losses from operations and the uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to their expiration. Accordingly, a valuation allowance was established to fully offset the value of the deferred tax assets. Our ability to realize the tax benefits associated with the deferred tax assets depends primarily upon the timing of future taxable income and the expiration dates of the components of the deferred tax assets. If sufficient future taxable income is generated, we may be able to offset a portion of future tax expenses.

The Company follows ASC 740-10 which provides guidance for tax positions related to the recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our consolidated financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, related to income tax matters are recorded as income tax expenses.

Revenue Recognition: We recognize sales upon shipment of products net of applicable provisions for any discounts or allowances. The shipping date from our warehouse is the appropriate point of revenue recognition since upon shipment we have substantially completed our obligations which entitle us to receive the benefits represented by the revenues, and the shipping date provides a consistent point within our control to measure revenue. Customers may not return, exchange or refuse acceptance of goods without our approval. However, the Company has entered into an agreement with a customer to grant pre-approved rights of return of up to fifty percent of products sold on certain invoices to provide for and gain acceptance within certain markets. When a pre-approved right of return is granted, revenue recognition is deferred until the right of return expires. We have established allowances to cover anticipated doubtful accounts based upon historical experience. The Company reflects the factored accounts receivable as Amount due from Factor with the corresponding advance from the Factor reflected separately as Line of Credit – Factor. The Company assigns trade receivables on a pre-approved non-recourse basis to the Factor under the Factoring

Agreement on an ongoing basis.

Inventories: Inventories are valued at the lower of cost or market. Cost is determined on the first in/first out method. We evaluate inventories on a quarterly basis and write down inventory that is deemed obsolete or unmarketable in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Off-Balance Sheet Arrangements. We have not created, and are not party to, any special-purpose or off balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our financial statements and do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources.

Recently Issued Accounting Pronouncements

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASU's) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASU's.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern, which is included in Accounting Standards Codification ("ASC") 205, Presentation of Financial Statements*. This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has elected to early adopt ASU 2014-15 which did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606.* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts.* In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, *Property, Plant, and Equipment,* and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other)* are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. This guidance is effective for annual periods beginning on or after December 15, 2017, including interim reporting periods within that reporting period and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently assessing the impact that adopting this new accounting standard will have on the consolidated financial statements and footnote disclosures.

Other recently issued ASU's were evaluated and determined to be either not applicable or are not expected to have a material impact on our consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item 8 are included in the Company's Consolidated Financial Statements and set forth in the pages indicated in Item 15(a) of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as such item is defined in Rules 13a – 15(e) and 15d – 15(e) of the Exchange Act) that is designed to provide reasonable assurance that information, which is required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. Our Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures in accordance with applicable Securities and Exchange Commission guidance as of the end of the period covered by this annual report, and have concluded that disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting as discussed below.

Material weaknesses arose in our oversight of the accounting function and disclosure controls and procedures of the Hong Kong Joint Venture (HKJV). The HKJV is a material component of the Company's consolidated financial statements. The Company has discussed this weakness with management of the HKJV and is monitoring implementation of suggested improvements.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with US GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our Chief Financial Officer, with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 1992 framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2016 for the reasons described above.

Changes in Internal Control over Financial Reporting.

During the current fiscal year management remediated material weaknesses related to our domestic operations noted in the prior year's evaluation of the effectiveness of our internal control over financial reporting. These weaknesses related to the reconciliation of account balances and period end cut-off procedures, as well as the application of period costs to the inventory as burden. The remediation involved additional procedures implemented to review reconciliations and cut-off procedures of account balances and modification to and the standardization of the application of period costs to the inventory as burden. Except for the remediation of the material weakness related to

our domestic operations, there have been no other changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended March 31, 2016.

ITEM 9B. OTHER INFORMATION

Not applicable.

- 13 -

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the identity and business experience of the directors of the Company and their remuneration set forth in the section captioned “Election of Directors” in the Company’s definitive Proxy Statement filed pursuant to Regulation 14A and issued in conjunction with the 2016 Annual Meeting of Shareholders (the “Proxy Statement”) is incorporated herein by reference. The information with respect to the identity and business experience of executive officers of the Company is set forth in Part I of this Form 10-K. The information with respect to the Company’s Audit Committee is incorporated herein by reference to the section captioned “Meetings and Committees of the Board of Directors” in the Proxy Statement. The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the section captioned “Compliance with Section 16(a) of the Exchange Act” in the Proxy Statement. The information with respect to the Company’s Code of Ethics is incorporated herein by reference to the section captioned “Code of Ethics” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections captioned “Director Compensation” and “Executive Compensation” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership is incorporated herein by reference to the sections captioned “Beneficial Ownership” and “Information Regarding Share Ownership of Management” in the Proxy Statement. Information required by this item regarding our equity compensation plans is incorporated herein by reference to the Section entitled “Executive Compensation” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections captioned “Transactions with Management”, if any, and “Election of Directors” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned "Independent Registered Public Accountants" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS

(a)1. Financial Statements.

	Page
Reports of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets as of March 31, 2016 and 2015	F-3
Consolidated Statements of Operations for the Years Ended March 31, 2016 and 2015	F-4
Consolidated Statements of Comprehensive Loss for the Years Ended March 31, 2016 and 2015	F-5
Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2016 and 2015	F-6
Consolidated Statements of Cash Flows for the Years Ended March 31, 2016 and 2015	F-7
Notes to Consolidated Financial Statements	F-8

(a)3. Exhibits required to be filed by Item 601 of Regulation S-K.

Exhibit No.	
3.1	Articles of Incorporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1988, File No. 1-31747)
3.2	Articles Supplementary, filed October 14, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 31, 2002, file No. 1-31747)
3.3	Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed July 13, 2011, File No. 1-31747)
10.1	2011 Non-Qualified Stock Option Plan (incorporated by reference to the Company's Proxy Statement with respect to the Company's 2011 Annual Meeting of Shareholders, filed July 26, 2011, File No. 1-31747)
10.2	Hong Kong Joint Venture Agreement, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)
10.3	Discount Factoring Agreement between the Registrant and Merchant Factors Corp., dated January 6, 2015 (substantially identical agreement entered into by USI's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 16, 2015, file No. 1-31747)
10.4	Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated November 4, 2008 for its office and warehouse located at 11407 Cronhill Drive, Suites A-D, Owings Mills, Maryland 21117 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2008, File No. 1-31747)
10.5	Amendment to Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated June 23, 2009 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K

	for the year ended March 31, 2009, File No. 1-31747)
10.6	Amended and Restated Employment Agreement dated July 18, 2007 between the Company and Harvey B. Grossblatt (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2007, File No. 1-31747), as amended by Addendum dated November 13, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 15, 2007, File No. 1-31747), by Addendum dated September 8, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 8, 2008, File No. 1-31747), by Addendum dated March 11, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 12, 2010, File No. 1-31747), by Addendum dated July 19, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 20, 2012, File No. 1-31747) , by Addendum dated July 3, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 8, 2013, File No. 1-31747), and by Addendum dated July 21, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 21, 2014, File No. 1-31747)), and by addendum dated July 23, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 28, 2015, File No. 1-31747)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended March 31, 2012, File No. 1-31747)
23.1	Consent of Marcum LLP*
23.2	Consent of Grant Thornton LLP*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*

32.1	Section 1350 Certifications*
99.1	Press Release dated September 28, 2016*
101	Interactive data files providing financial information from the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of March 31, 2016 and 2015; (ii) Consolidated Statements of Operations for the years ended March 31, 2016 and 2015; (iii) Consolidated Statements of Shareholders' Equity for the years ended March 31, 2016 and 2015; (iv) Consolidated Statements of Cash Flows for the years ended March 31, 2016 and 2015; and (v) Notes to Consolidated Financial Statements*

*Filed herewith

SIGNATURES

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

UNIVERSAL SECURITY INSTRUMENTS, INC.

September 28, 2016 By: /s/ Harvey B. Grossblatt
Harvey B. Grossblatt
President and Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Harvey B. Grossblatt Harvey B. Grossblatt	President, Chief Executive Officer and Director	September 28, 2016
/s/ James B. Huff James B. Huff	Chief Financial Officer (principal financial officer and principal accounting officer)	September 28, 2016
/s/ Cary Luskin Cary Luskin	Director	September 28, 2016
/s/ Ronald A. Seff Ronald A. Seff	Director	September 28, 2016
/s/ Ira Bormel Ira Bormel	Director	September 28, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the

Board of Directors and Shareholders

of Universal Security Instruments, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Universal Security Instruments, Inc. and Subsidiary (the "Company") as of March 31, 2016, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Security Instruments, Inc. and Subsidiary, as of March 31, 2016, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum llp

Marcum llp

Philadelphia, Pennsylvania

September 28, 2016

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

Universal Security Instruments, Inc.

We have audited the accompanying consolidated balance sheet of Universal Security Instruments, Inc. (a Maryland corporation) and Subsidiary (the “Company”) as of March 31, 2015, and the related consolidated statements of operations, comprehensive loss, changes in shareholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. We were not engaged to perform and audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Security Instruments, Inc. and Subsidiary as of March 31, 2015, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

McLean, VA

August 25, 2015

F-2

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	March 31,	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$362,728	$49,427
Funds held by factor	-	631,906
Accounts receivable:		
Trade, less allowance for doubtful accounts	17,389	381,254
Receivables from employees	62,090	53,990
Receivable from Hong Kong Joint Venture	60,506	135,768
	139,985	571,012
Amount due from factor	1,789,619	1,217,311
Inventories – finished goods	3,883,247	3,852,182
Prepaid expenses	410,166	438,745
TOTAL CURRENT ASSETS	6,585,745	6,760,583
INVESTMENT IN HONG KONG JOINT VENTURE	11,779,663	12,943,280
PROPERTY AND EQUIPMENT - NET	71,556	104,618
INTANGIBLE ASSETS - NET	67,075	71,547
OTHER ASSETS	6,000	26,000
TOTAL ASSETS	$18,510,039	$19,906,028
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit - factor	$313,891	$-
Accounts payable - trade	587,343	668,846
Accounts payable - Hong Kong Joint Venture	1,070,103	299,985
Accrued liabilities:		
Accrued payroll and employee benefits	76,480	69,180
Accrued commissions and other	74,327	111,020
TOTAL CURRENT LIABILITIES	2,122,144	1,149,031
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		

Common stock, $.01 par value per share; 20,000,000 shares authorized, 2,312,887 shares issued and outstanding at March 31, 2016 and 2015	23,129	23,129
Additional paid-in capital	12,885,841	12,885,841
Retained earnings	2,450,540	4,588,332
Accumulated other comprehensive income	1,028,385	1,259,695
TOTAL SHAREHOLDERS' EQUITY	16,387,895	18,756,997
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$18,510,039	$19,906,028

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

F-3

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,	
	2016	2015
Net sales	$13,740,840	$9,891,554
Cost of goods sold – acquired from Joint Venture	9,670,761	6,616,789
Cost of goods sold - other	290,649	946,655
GROSS PROFIT	3,779,430	2,328,110
Selling, general and administrative expense	4,480,330	4,175,584
Research and development expense	665,278	776,778
Operating loss	(1,366,178)	(2,624,252)
Other (expense) income :		
Loss from investment in Hong Kong Joint Venture	(741,846)	(1,128,559)
Interest (expense) income	(29,768)	22,826
Loss from operations before income taxes	(2,137,792)	(3,729,985)
Income tax benefit	-	25,000
NET LOSS	$(2,137,792)	$(3,704,985)
Loss per share:		
Basic and diluted	$(0.92)	$(1.60)
Shares used in computing net loss per share:		
Weighted average basis and diluted shares outstanding	2,312,887	2,312,887

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

F-4

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended March 31,	
	2016	2015
NET LOSS	$(2,137,792)	$(3,704,985)
Other Comprehensive (Loss) Income Company's Portion of Hong Kong Joint Venture's Other Comprehensive (Loss) Income:		
Currency translation	(156,983)	(53,289)
Unrealized (loss) gain on investment securities	(74,327)	122,856
Total Comprehensive (Loss) Income	(231,310)	69,567
COMPREHENSIVE LOSS	$(2,369,102)	$(3,635,418)

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock					
	Shares	Amount	**Additional Paid-In Capital**	**Retained Earnings**	**Accum. Other Comprehensive Income**	Total
Balance at April 1, 2014	2,312,887	$23,129	$12,885,841	$8,293,317	$ 1,190,128	$22,392,415
Currency translation					(53,289)	(53,289)
Unrealized gain on securities					122,856	122,856
Net loss				(3,704,985)		(3,704,985)
Balance at March 31, 2015	2,312,887	23,129	12,885,841	4,588,332	1,259,695	18,756,997
Currency translation					(156,983)	(156,983)
Unrealized gain on securities					(74,327)	(74,327)
Net loss				(2,137,792)		(2,137,792)
Balance at March 31, 2016	2,312,887	$23,129	$12,885,841	$2,450,540	$ 1,028,385	$16,387,895

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,	
	2016	2015
OPERATING ACTIVITIES:		
Net loss	$(2,137,792)	$(3,704,985)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,534	46,067
Deferred income tax benefit	-	(25,000)
Loss from investment in Hong Kong Joint Venture	741,846	1,128,559
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable and amounts due from factor	(141,281)	554,699
(Increase) Decrease in inventories	(31,065)	288,131
Decrease (Increase) in prepaid expenses	28,579	(32,733)
Increase in accounts payable and accrued expenses	659,222	363,468
Decrease in other assets	20,000	12,134
NET CASH USED IN OPERATING ACTIVITIES	(822,957)	(1,369,660)
INVESTING ACTIVITIES:		
Change in funds held by factor	631,906	(631,906)
Cash distributions from Joint Venture	190,461	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	822,367	(631,906)
FINANCING ACTIVITIES:		
Net proceeds from line of credit - factor	313,891	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	313,891	-
INCREASE (DECREASE) IN CASH	313,301	(2,001,566)
Cash at beginning of period	49,427	2,050,993
CASH AT END OF PERIOD	$362,728	$49,427
Supplemental information:		
Interest paid	$29,768	$-
Income taxes paid	$-	$-

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Universal Security Instruments, Inc.'s (the "Company") primary business is the sale of smoke alarms and other safety products to retailers, wholesale distributors and to the electrical distribution trade which includes electrical and lighting distributors as well as manufactured housing companies. The Company imports all of its safety and other products from foreign manufacturers. The Company, as an importer, is subject to numerous tariffs which vary depending on types of products and country of origin, changes in economic and political conditions in the country of manufacture, potential trade restrictions and currency fluctuations.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary USI Electric, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe that our 50% ownership interest in the Hong Kong Joint Venture allows us to significantly influence the operations of the Hong Kong Joint Venture. As such, we account for our interest in the Hong Kong Joint Venture using the equity method of accounting. We have included our investment balance as a non-current asset and have included our share of the Hong Kong Joint Venture's loss in our consolidated statements of operations. The investment and earnings are adjusted to eliminate intercompany profits.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (US-GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk with cash.

Funds Held by Factor: This amount represents funds held with the Merchant Factors Corporation (Merchant or Factor) the Company's factor. These amounts are demand deposits that are not considered cash equivalents as the Factor does not meet the definition of a financial institution.

Revenue Recognition: The Company recognizes sales upon shipment of products, when title has passed to the buyer, net of applicable provisions for any discounts or allowances. We recognize revenue when the following criteria are met: evidence of an arrangement exists; fixed and determinable fee; delivery has taken place; and collectability is reasonably assured. Customers may not return, exchange or refuse acceptance of goods without our approval. However, the Company has entered into an agreement with a customer to grant pre-approved rights of return of up to fifty percent of products sold on certain invoices to provide for and gain acceptance within certain markets. When a pre-approved right of return is granted, revenue recognition is deferred until the right of return expires. We have established allowances to cover anticipated doubtful accounts based upon historical experience.

Accounts Receivable: The Company assigns the majority of its trade receivables on a pre-approved non-recourse basis to the Factor under the Factoring Agreement on an ongoing basis. Factoring charges recognized on assignment of receivables are included in selling, general and administrative expenses in the consolidated statements of operations and amounted to $102,176 and $68,100 for the years ended March 31, 2016 and 2015, respectively. The Factoring Agreement for the assignment of accounts receivable expires on January 6, 2018 and provides for continuation of the program on successive two year periods until terminated by one of the parties to the Agreement.

Management considers amounts due from the Company’s factor to be “financing receivables”. Trade accounts receivable, other receivables, and receivables from our Hong Kong Joint Venture are not considered to be financing receivables.

At the time a receivable is assigned to our factor the credit risk associated with the credit worthiness of the debtor is assumed by the factor. The Company continues to bear any credit risk associated with delivery or warranty issues related to the products sold.

Management assesses the credit risk of both its trade accounts receivable and its financing receivables based on the specific identification of accounts that have exceeded credit terms. An allowance for uncollectible receivables is provided based on that assessment. Changes in the allowance account from one accounting period to the next are charged to operations in the period the change is determined. Amounts ultimately determined to be uncollectible are eliminated from the receivable accounts and from the allowance account in the period that the receivables' status is determined to be uncollectible.

Based on the nature of the factoring agreement and prior experience, no allowance for uncollectible financing receivables has been provided. At March 31, 2016 and 2015, an allowance of $57,000 has been provided for uncollectible trade accounts receivable.

Inventories: Inventories are stated at the lower of cost (first in/first out method) or market. Included as a component of finished goods inventory are additional non-material costs. These costs include overhead costs, freight, import duty and inspection fees. We evaluate inventories on a quarterly basis and write down inventory that is considered obsolete or unmarketable in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Impairment of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The factors considered in performing this assessment include current operating results, anticipated future results, the manner in which the asset is used and the effects of obsolescence, demand, competition and other economic factors. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and future undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows is less than the assets' carrying value, and losses are determined based upon the excess carrying value of the assets over its fair value. Based on this assessment, no impairment to long-lived assets resulted for fiscal years ended March 31, 2016 and 2015.

Income Taxes: The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the consolidated financial statements. These temporary differences may result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are reviewed periodically for recoverability and a valuation allowance is provided whenever it is more likely than not that a deferred tax asset will not be realized.

The Company follows ASC 740-10 that gives guidance to tax positions related to the recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, related to income tax matters are recorded as income tax

expenses. See Note H, Income Taxes.

Warranties: We generally provide warranties, on the safety products, from one to ten years to the non-commercial end user on all products sold. The manufacturers of our safety products provide us with a one-year warranty on all products we purchase for resale. Claims for warranty replacement of products beyond the one-year warranty period covered by the manufacturers have not been historically material.

Research and Development: Research and development costs are charged to operations as incurred.

Shipping and Handling Fees and Costs: The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are included in cost of goods sold. Shipping and handling costs associated with outbound freight are included in selling, general and administrative expenses and totaled $267,128 and $248,128 in fiscal years 2016 and 2015, respectively.

Foreign currency: The activity and accounts of the Hong Kong Joint Venture are denominated in Hong Kong dollars and are translated to US dollars in consolidation. The Company translates the accounts of the Hong Kong Joint Venture at the applicable exchange rate in effect at the year-end date for assets and liabilities and at the average exchange rate for the reporting period for statement of operation purposes. The Company currently does not maintain cash in foreign banks to support its operations in Hong Kong.

Net Loss per Share: Basic net loss per share is computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss for the period by the weighted number of common shares and common share equivalents outstanding (unless their effect is anti-dilutive) for the period. As a result of the net losses, the weighted average number of common shares outstanding is identical for the years ended March 31, 2016 and 2015 for both basic and diluted shares. In addition, there were no other securities outstanding during the 2016 or 2015.

Recently Issued Accounting Pronouncements: Changes to US-GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updated (ASU's) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASU's.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern, which is included in Accounting Standards Codification ("ASC") 205, Presentation of Financial Statements*. This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has elected to early adopt ASU 2014-15 which did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606.* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts.* In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, *Property, Plant, and Equipment,* and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other)* are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. This guidance is effective for annual periods beginning on or after December 15, 2017, including interim reporting periods within that reporting period and should be applied retrospectively to each prior reporting period presented or retrospectively with the

cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently assessing the impact that adopting this new accounting standard will have on the consolidated financial statements and footnote disclosures.

Other recently issued ASU’s were evaluated and determined to be either not applicable or are not expected to have a material impact on our consolidated financial statements.

NOTE B – MANAGEMENT PLANS

The Company had net losses of $2,137,792 and $3,704,985 for the years ended March 31, 2016 and 2015, respectively. Furthermore, as of March 31, 2016, working capital (computed as the excess of current assets over current liabilities) decreased by $1,147,951 from $5,611,552 at March 31, 2015, to $4,463,601 at March 31, 2016.

Our short-term borrowings to finance operating losses, trade accounts receivable, and foreign inventory purchases are provided pursuant to the terms of our Factoring Agreement with Merchant. Advances from the Company’s factor, are at the sole discretion of Merchant based on their assessment of the Company’s receivables, inventory and financial condition at the time of each request for an advance. In addition, we have secured extended payment terms for purchases up to $2,000,000 from our Hong Kong Joint Venture for the purchase of the new sealed battery products. These amounts are unsecured, bear interest at 3.25%, and provides for repayment terms of ninety days for each advance thereunder. The combined availability of these facilities totaled approximately $3,338,000 at March 31, 2016.

The Company has a history of sales that are insufficient to generate profitable operations and has limited sources of financing. Management's plan in response to these conditions includes increasing sales of the Company's new line of sealed battery safety alarms, decreasing payroll expenses, and seeking additional financing on our existing credit facility. The Company has seen positive results on this plan during the fiscal year ended March 31, 2016 due to the release of certain of its sealed battery products and management expects this growth to continue going forward. Though no assurances can be given, if management's plan is successful over the next twelve months, the Company anticipates that it should be able to meet its cash needs. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of these consolidated financial statements.

NOTE C – INVESTMENT IN THE HONG KONG JOINT VENTURE

The Company holds a 50% interest in a Joint Venture with a Hong Kong Corporation, which has manufacturing facilities in the People's Republic of China, for the manufacturing of consumer electronic products. As of March 31, 2016 and 2015, the Company has an investment balance of $11,779,663 and $12,943,280, respectively for its 50% interest in the Hong Kong Joint Venture. There are no material differences between the accounting principles generally accepted in the United States of America (US-GAAP) and those used by the Hong Kong Joint Venture when compared to US-GAAP.

The following represents summarized financial information derived from the financial statements of the Hong Kong Joint Venture as of March 31, 2016 and 2015.

	March 31,	
	2016	2015
Current assets	$10,528,508	$11,368,526
Property and other assets	17,903,298	20,606,047
Total assets	$28,431,806	$31,974,573
Current liabilities	$4,383,546	$5,980,992
Non-current liabilities	470,850	-
Equity	23,577,410	25,993,581
Total liabilities and equity	$28,431,806	$31,974,573

For the Year Ended March 31,	
2016	2015

Net sales	$ 17,581,195	$ 15,753,815
Gross profit	2,337,649	2,413,517
Net loss	(1,584,012)	(2,418,189)

During the years ended March 31, 2016 and 2015, the Company purchased $9,078,485 and $6,585,785, respectively, of finished product from the Hong Kong Joint Venture, which represents 97.0% and 87.3%, respectively, of the Company's total finished product purchases. Amounts due from the Hong Kong Joint Venture included in Accounts Receivable totaled $60,506 and $135,768 at March 31, 2016 and 2015, respectively.

At March 31, 2016 and 2015, the Company borrowed $1,070,103 and $299,985 under two separate extended payment term agreements with the Hong Kong Joint Venture. These agreements provide extended payment terms for the purchase of the Company's new sealed battery alarms purchased from the Hong Kong Joint Venture. Purchases under the first of these agreements are limited to $2,000,000, bear interest at 3.25%, are for a term of ninety (90) days, and are unsecured. Dividends declared and paid by the Hong Kong Joint Venture, which amounted to $190,461 during the fiscal year ended March 31, 2016, are first used to repay any outstanding balance. At March 31, 2016 and 2015, $729,135 and $299,985, respectively, was outstanding under this arrangement with our Hong Kong Joint Venture. Under the second extended payment term agreement, the Hong Kong Joint Venture provides extended repayment terms of sixty (60) days for purchases of certain other products as may from time to time be negotiated with the Hong Kong Joint Venture. At March 31, 2016 and 2015 there was $340,968 and $0, respectively, outstanding on the sixty day arrangement. Amounts borrowed, if any, under this arrangement are unsecured, non-interest bearing, and are not subject to the $2,000,000 limitation discussed above.

The Company’s investment in the Hong Kong Joint Venture as recorded on the Company’s Consolidated Balance sheets has been adjusted for the effect of intercompany profit of the Hong Kong Joint Venture in the ending inventory of the Company.

NOTE D – SHORT-TERM BORROWINGS AND CREDIT ARRANGEMENTS

On January 15, 2015, the Company entered into a Factoring Agreement (Agreement) with Merchant Factors Corporation (Merchant or Factor) for the purpose of factoring the Company’s trade accounts receivable and to provide financing secured by finished goods inventory. The Agreement for the assignment of accounts receivable expires on January 6, 2018 and provides for continuation of the program on successive two year periods until terminated by one of the parties to the Agreement. In accordance with the provisions of the Agreement with Merchant, the Company may take advances equal to eighty percent (80%) of the uncollected non-recourse factored trade accounts receivable balance less applicable factoring commissions, and may borrow up to fifty percent (50%) of eligible inventories subject to a borrowing limitation on inventory of $1,000,000. Financing from Merchant of approximately $2,067,000 is available at March 31, 2016. Advances on factored trade accounts receivable and borrowing on inventories are secured by all of the Company’s trade accounts receivable and inventories, are repaid periodically as collections are made by Merchant but are otherwise due upon demand, and bear interest at the prime commercial rate of interest, as published, plus two percent (effective rate 5.50% at March 31, 2016 and 5.25% at March 31, 2015). Advances under the Agreement are made at the sole discretion of Merchant, based on their assessment of the receivables, inventory and our financial condition at the time of each request for an advance. At March 31, 2016 and 2015 there was $313,891 and $0 borrowed and outstanding under the factoring agreement.

NOTE E - AMOUNTS DUE FROM FACTOR

Under the Agreement, the Company assigned receivables of $12,942,571 and $8,917,127 during the years ended March 31, 2016 and 2015, respectively. The uncollected balance of non-recourse receivables held by a factor amounted to $1,789,619 and $1,217,311 at March 31, 2016 and 2015. Collected cash maintained on deposit with the factor earns interest at the factor’s prime rate of interest less 2.5 percent (effective rate of 1.00% at March 31, 2016.)

NOTE F – PROPERTY AND EQUIPMENT - NET

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided by using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Expenditures for major betterments that extend the useful life of property and equipment are capitalized. Repair and maintenance costs are expensed as incurred. When property and equipment are retired or

otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is included in the results of operations.

The estimated useful lives for financial reporting purposes are as follows:

Leasehold improvements	- Shorter of term of lease or useful life of asset
Machinery and equipment	- 5 to 10 years
Furniture and fixtures	- 5 to 15 years
Computer equipment	- 5 years

Property and equipment consist of the following:

	March 31,	
	2016	2015
Leasehold improvements	$166,722	$166,722
Machinery and equipment	190,400	190,400
Furniture and fixtures	261,292	261,292
Computer equipment	286,528	286,528
	904,942	904,942
Less accumulated depreciation and amortization	(833,386)	(800,324)
	$71,556	$104,618

Depreciation and amortization expense totaled $37,534 and $46,067 for fiscal years ended March 31, 2016 and 2015, respectively.

NOTE G - LEASES

During January 2009, the Company entered into an operating lease for its office and warehouse location in Owings Mills, Maryland which expires in March 2019. This lease is subject to increasing rentals at 3% per year. In June 2009, we amended this lease to include an additional 3,000 square feet of warehouse. In March 2015, the Company renewed and expanded its operating lease through February 2017 for a 3,400 square foot office in Naperville, Illinois. This lease is subject to increasing rentals at three percent (3%) per year.

Each of the operating leases for real estate has renewal options with terms and conditions similar to the original lease. Rent expense, including common area maintenance, totaled $214,072 and $190,375 for the years ended March 31, 2016 and 2015, respectively.

	2017	2018	2019	Total
Future minimum lease payments are as follows:	202,950	154,188	142,628	$499,766

NOTE H – INCOME TAXES

The Company files its income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Deferred income tax assets and liabilities are computed and recognized for those differences that have future tax consequences and will result in net taxable or deductible amounts in future periods. Deferred tax expense or benefit is the result of changes in the net asset or liability for deferred taxes. The deferred tax liabilities and assets for the Company result primarily from net operating loss and tax credit carry forwards, reserves and accrued liabilities.

At March 31, 2016, the Company has total net operating loss carry forwards of approximately $7,527,000, which expire in various amounts at dates from 2016 through 2032. There are certain limitations to the use and application of these deferred tax assets. Management reviews net operating loss carry forwards and income tax credit carry forwards to evaluate if those amounts are recoverable. After a review of projected taxable income and the components of the deferred tax asset in accordance with applicable accounting guidance it was determined that it is more likely than not that the tax benefits associated with the remaining components of the deferred tax assets will not be realized. This determination was made based on the Company's recent history of losses from operations and the uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to their expiration. Accordingly, a valuation allowance was established to fully offset the value of the deferred tax assets. Our ability to realize the tax benefits associated with the deferred tax assets depends primarily upon the timing of future taxable income and the expiration dates of the components of the deferred tax assets. If sufficient future taxable income is generated, we may be able to offset a portion of future tax expenses.

The components of income tax (benefit) from continuing operations for the Company are as follows:

	2016	2015
Current benefit		
Federal	$ -	$(25,000)
State	-	-
Deferred benefit	-	-
Total income tax benefit	$ -	$(25,000)

F-13

The reconciliation between the statutory federal income tax provision and the actual effective tax provision for continuing operations is as follows:

	Years ended March 31,	
	2016	2015
Federal benefit at statutory rate (34%) before loss carry-forward	$(726,849)	$(1,268,195)
Non-repatriated loss of Hong Kong Joint Venture	252,228	383,710
Permanent differences	83,024	32,713
State income tax benefit – net of federal effect	(38,815)	(111,900)
Increase in deferred tax allowance	430,412	938,672
	$-	$(25,000)

The individual components of the Company's deferred tax assets are as follows:

	March 31,	
	2016	2015
Deferred tax assets:		
Accruals and allowances	$57,922	$57,965
Inventory uniform capitalization	26,309	28,250
Net operating loss carry forward	2,821,998	2,389,602
Foreign tax credit carry forward	947,347	1,190,390
Research and development tax credit carry forward	61,701	61,701
Allowance for unrealizable deferred tax assets	(3,915,277)	(3,727,908)
Net deferred tax asset	$-	$-

NOTE I - COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in various lawsuits and legal matters. It is the opinion of management, based on consultation with legal counsel, that there are no outstanding material claims outside of the normal course of business.

The Company's employment agreement with its CEO (the "CEO Agreement") requires the Company to make certain post-employment payments to the CEO in the event of his termination following a change in control, death, disability, non-renewal, or resignation with "Good Reason" under terms of the CEO Agreement. Additionally, the CEO Agreement requires the Company to make post-employment payments, which can range from approximately $94,000 to $1,995,000, dependent upon the controlling event, as discussed above. On July 12, 2016, the Company renewed the

CEO Agreement through July 31, 2017.

NOTE J - MAJOR CUSTOMERS

The Company is primarily a distributor of safety products for use in home and business under both its trade names and private labels for other companies. As described in Note C, the Company purchased a majority of its products from its 50% owned Hong Kong Joint Venture.

For the fiscal year ended March 31, 2016, the Company had one customer that represented 14.1% of the Company's net sales. The Company had one customer that represented 13% of trade accounts receivable as of March 31, 2015.

NOTE K - QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly Results of Operations (Unaudited):

The unaudited quarterly results of operations for fiscal years 2016 and 2015 are summarized as follows:

	Quarter Ended			
	June 30,	September 30,	December 31,	March 31,
2016				
Net sales	$2,936,490	$3,278,225	$4,112,908	$3,413,217
Gross profit	882,427	684,657	1,308,368	903,978
Net loss	(777,077)	(411,302)	(174,172)	(775,241)
Net loss per share:				
Basic and diluted	(0.34)	(0.18)	(0.08)	(0.34)
2015				
Net sales	$2,514,385	$2,223,943	$2,371,016	$2,782,210
Gross profit	611,488	493,516	382,335	840,771
Net loss	(742,849)	(1,112,264)	(1,101,372)	(748,500)
Net loss per share:				
Basic and diluted	(0.32)	(0.48)	(0.48)	(0.32)

The accumulated net loss per share when accumulated per the 2016 table above does not equal the total net loss per share as reported on the consolidated statement of operations due to rounding.

NOTE L – RETIREMENT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code. All full-time employees who have completed 12 months of service are eligible to participate. Employees are permitted to contribute up to the amounts prescribed by law. The Company may provide contributions to the plan consisting of a matching amount equal to a percentage of the employee's contribution, not to exceed four percent (4%). Employer contributions were $47,338 and $50,963 for the years ended March 31, 2016 and 2015, respectively.

NOTE M – RELATED PARTY TRANSACTIONS

During the fiscal year ended March 31, 2016 and 2015, inventory purchases and other company expenses of approximately $493,000 and $385,000, were charged to credit card accounts of Harvey B. Grossblatt, the Company's Chief Executive Officer and certain of his immediate family members. The Company subsequently reimbursed these charges in full. Mr. Grossblatt received mileage benefits from these charges and the Company utilized some of these benefits. The maximum amount outstanding and due to Mr. Grossblatt at any point during the fiscal year ended March 31, 2016 and 2015 amounted to $66,884 and $65,420, respectively, and the amount outstanding at March 31, 2016 and 2015 is $66,884 and $20,206, respectively.

NOTE N – INTANGIBLE ASSETS - NET

Intangible assets consist of legal expenses of $89,434 incurred in obtaining and perfecting patents on newly developed detector technology and are capitalized for financial statement purposes. Upon issuance, patents are amortized on a straight-line basis. Amortization expense for the fiscal year ended March 31, 2016 and 2015 was $4,472 and $4,472, respectively. Accumulated amortization at March 31, 2016 and 2015 was $22,359 and $17,887, respectively. Amortization expense for the next five years is expected to be $4,472 through 2021.

The estimated useful lives for financial reporting purposes are as follows:

Intangible patent costs 20 years

NOTE O – SHAREHOLDERS' EQUITY

Under the terms of the Company's 2011 Non-Qualified Stock Option Plan, 120,000 shares of common stock are reserved for the granting of stock options. There were no stock options outstanding at March 31, 2016 or 2015.

NOTE P – SUBSEQUENT EVENTS

No events occurred subsequent to March 31, 2016, and to the date of this report, that require disclosure herein.

F-16

sale of properties

152,243

81,625

Sale of property - 1031 exchange funds held in escrow
62,800

—

Proceeds from repayment of mortgage notes receivable
88,000

5,125

Capital expenditures for tenant improvements
(56,095
)

(85,698
)
Capital expenditures for redevelopments
(38,925
)

(10,195
)
Capital expenditures for developments
(122,380
)

(48,057
)
Advances for purchase of tenant assets, net of repayments
290

(212
)
Investment in unconsolidated Real Estate Ventures
(62,868
)

(16,330
)
Deposits for real estate
(451
)

—

Escrowed cash
1,004

1,076

Cash distributions from unconsolidated Real Estate Ventures in excess of cumulative equity income
7,401

7,341

Leasing costs paid
(18,295
)

(17,018
)
Net cash used in investing activities
(191,391
)

(94,748
)

Cash flows from financing activities:

Repayments of mortgage notes payable
(10,598
)

(9,994
)
Repayments of unsecured term loans
—

(250,828
)
Proceeds from unsecured notes
—

496,459

Net proceeds from issuance of common units
—

335,016

Repayments of unsecured notes
—

(120,361
)
Debt financing costs paid
(3,229
)

(3,630
)
Proceeds from the exercise of stock options
127

709

Partner contribution to consolidated real estate venture
1,025

—

Repurchase and retirement of common partnership units
(60,817
)

—

16

Distributions paid to preferred and common partnership unitholders	(86,947)	(76,887)
Net cash used in financing activities	(160,439)	370,484
Decrease in cash and cash equivalents	(206,870)	408,736
Cash and cash equivalents at beginning of period	257,502	263,207
Cash and cash equivalents at end of period	$50,632	$671,943
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the nine months ended September 30, 2015 and 2014 of $8,764 and $4,466, respectively	$80,720	$92,196
Supplemental disclosure of non-cash activity:		
Change in investments in joint venture related non-cash disposition of property	—	(5,897)
Change in real estate investments related to non-cash property acquisition	(67,261)	—
Change in investments in joint venture related to non-cash acquisition of property	67,261	—
Change in receivable from settlement of acquisitions	—	619
Change in other liabilities from contingent consideration related to a business combination	1,585	—
Change in operating real estate from contingent consideration related to a business combination	(1,585)	—
Change in other liabilities from a deferred payment related to an asset acquisition	2,000	—
Change in operating real estate from a deferred payment related to an asset acquisition	(2,000)	—
Change in capital expenditures financed through accounts payable at period end	(2,472)	4,415
Change in capital expenditures financed through retention payable at period end	6,873	3,479
Change in unfunded tenant allowance	—	(327)

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

17

BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust (“REIT”) that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, industrial, retail and mixed-use properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2015, owned a 99.1% interest in the Operating Partnership. The Parent Company’s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol “BDN”.

As of September 30, 2015, the Company owned 192 properties, consisting of 155 office properties, 20 industrial facilities, four mixed-use properties, one retail property (180 core properties), six properties classified as held for sale, four development properties, one redevelopment property and one re-entitlement property (collectively, the “Properties”) containing an aggregate of approximately 24.8 million net rentable square feet. In addition, as of September 30, 2015, the Company owned economic interests in 17 unconsolidated real estate ventures that own properties containing an aggregate of approximately 4.0 million net rentable square feet, 4.4 acres of undeveloped parcels of land and 22.5 acres of land under development (collectively, the “Real Estate Ventures”). As of September 30, 2015, the Company also owned 413 acres of undeveloped land, and held options to purchase approximately 63 additional acres of undeveloped land. As of September 30, 2015, the total potential development that these land parcels could support, under current zoning, entitlements or combination thereof, amounted to an estimated 7.8 million square feet of development, inclusive of the options to purchase approximately 63 additional acres of undeveloped land. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Richmond, Virginia; Wilmington, Delaware; Austin, Texas; and Oakland, Concord and Carlsbad, California.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of September 30, 2015, the management company subsidiaries were managing properties containing an aggregate of approximately 30.9 million net rentable square feet, of which approximately 24.7 million net rentable square feet related to Properties owned by the Company and approximately 6.2 million net rentable square feet related to properties owned by third parties and the Real Estate Ventures.

Unless otherwise indicated, all references in this Form 10-Q to square feet represent net rentable area.

2. BASIS OF PRESENTATION

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of September 30, 2015, the results of its operations for the three and nine-month periods ended September 30, 2015 and 2014 and its cash flows for the nine-month periods ended September 30, 2015 and 2014 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Parent Company’s and the Operating Partnership’s consolidated financial statements and footnotes included in their combined 2014 Annual Report on Form 10-K filed with the SEC on February 19, 2015.

The Company's Annual Report on Form 10-K for the year ended December 31, 2014 contains a discussion of our significant accounting policies under Note 2, "Summary of Significant Accounting Policies". There have been no significant changes in our significant accounting policies since December 31, 2014. Management discusses our significant accounting policies and management’s judgments and estimates with the Company's Audit Committee.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board ("FASB") issued guidance pertaining to entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The

18

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guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Any adjustments should be calculated as if the accounting had been completed at the acquisition date. The guidance is effective for public companies for fiscal years beginning after December 15, 2016, with early adoption permitted. Application of the guidance is prospective. The Company has not determined when it will adopt this guidance, nor what impact the adoption may have on its consolidated financial statements.

On July 9, 2015, the FASB elected to defer the effective date of the revenue recognition standard issued in May 2014 by one year. Reporting entities may choose to adopt the standard as of the original effective date or for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Calendar year-end public entities are therefore required to apply the new revenue guidance beginning in their 2018 interim and annual financial statements. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements. See Note 2, "Summary of Significant Accounting Policies," included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for the Company's initial disclosure of this standard.

In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. Debt issuance costs related to revolving lines of credit are not within the scope of this new guidance. Additionally, in August 2015 the FASB issued guidance expanding the April 2015 update. It states that, given the absence of authoritative guidance within the update, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset for revolving lines of credit and subsequently amortizing the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line of credit. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. Full retrospective application is required. Early adoption is permitted. The adoption of this guidance will not have a material impact on its consolidated financial position or results of operations as the update relates only to changes in financial statement presentation.

In February 2015, the FASB issued guidance modifying the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance does not change the general order in which the consolidation models are applied. A reporting entity that holds an economic interest in, or is otherwise involved with, another legal entity must first determine if the variable interest entity model applies, and if so, whether it holds a controlling financial interest under that model. If the entity being evaluated for consolidation is not a variable interest entity, then the voting interest model should be applied to determine whether the entity should be consolidated by the reporting entity. Key changes to the guidance include, but are not limited to: (i.) limiting the extent to which related party interests are included to determine the decision maker’s effective financial interest in the entity, (ii.) requiring that the limited partners in the limited partnership (or the members of a limited liability company that is similar to a limited partnership) have either substantive kick-out rights or substantive participating rights over the general partner to demonstrate that the limited partnership is a voting interest entity, (iii.) changing the evaluation of whether the equity holders at risk lack decision making rights when decision making is outsourced and (iv.) changing how the economics test is performed. The guidance does not amend the existing disclosure requirements for variable interest entities or voting interest model entities. The guidance is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may elect to either apply the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or apply the amendments retrospectively. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of September 30, 2015 and December 31, 2014, the gross carrying value of the Company’s Properties was as follows (in thousands):

	September 30, 2015	December 31, 2014
Land	$658,280	$669,635
Building and improvements	3,438,563	3,409,303
Tenant improvements	532,380	524,754
	4,629,223	4,603,692
Assets held for sale - real estate investments (a)	74,706	27,436
Total	$4,703,929	$4,631,128

(a) Real estate investments related to assets held for sale above represents gross real estate assets and does not include accumulated depreciation or other assets on the balance sheets of the properties held for sale.

Acquisitions

On August 11, 2015, the Company acquired a 2.7 acre parcel of land containing a vacant office building, located at 9 Presidential Boulevard, Bala Cynwyd, Pennsylvania, for $4.1 million with available corporate funds. The Company intends to demolish the vacant building and develop the property but has not yet determined the timing and cost of construction for the project as of September 30, 2015. The Company accounted for this transaction as an asset acquisition.

On July 7, 2015, the Company acquired a 0.8 acre parcel of land located at 2100 Market Street in Philadelphia, Pennsylvania for $18.8 million. The Company funded $16.8 million of the purchase price with available corporate funds and the remaining $2.0 million of the purchase price was deferred until the earlier of the commencement of development or 24 months from settlement. The Company accounted for this transaction as an asset acquisition and capitalized a nominal amount of acquisition related costs and other costs as part of land inventory on its consolidated balance sheet. In connection with the purchase agreement, if certain land parcels adjacent to 2100 Market Street are acquired from unaffiliated third parties, the Company may be required to pay additional consideration to the seller of 2100 Market Street. The unaffiliated third parties are not party to this transaction and any land parcels acquired will be acquired in arms length transactions. The amount of additional consideration, if any, is contingent on the purchase price of the adjacent land parcels and cannot be determined at this time. The Company has not yet determined the timing and cost of construction for the project as of September 30, 2015.

On June 22, 2015, through a series of transactions with International Business Machines ("IBM"), the Company acquired the remaining 50.0% interest in Broadmoor Austin Associates, consisting of seven office buildings and the 66.0 acre underlying land parcel located in Austin, Texas, for an aggregate purchase price of $211.4 million. The office buildings contain 1,112,236 net rentable square feet of office space and were 100.0% occupied as of June 30, 2015. The Company funded the cost of the acquisition with an aggregate cash payment of $143.8 million, consisting of $81.0 million from available corporate funds and $62.8 million previously held in escrow related to a Section 1031 like-kind exchange. Part of the cash payment was used at closing to repay, at no repayment penalty, the remaining $51.2 million of secured debt. The Company incurred $0.2 million of acquisition related costs that are classified within general and administrative expenses.

The Company previously accounted for its 50.0% non-controlling interest in Broadmoor Austin Associates under the equity method of accounting. As a result of acquiring IBM's remaining 50.0% common interest in Broadmoor Austin Associates, the Company obtained control of Broadmoor Austin Associates and the Company's existing investment balance was remeasured based on fair value of the underlying properties acquired and the existing distribution provisions under the relevant partnership agreement. As a result, the Company recorded a $0.8 million gain on remeasurement.

The Company has treated its acquisition of the 50.0% ownership interest in Broadmoor Austin Associates as a business combination and allocated the purchase price to the tangible and intangible assets and liabilities. The Company utilized a number of sources in making estimates of fair values for purposes of allocating the purchase price

to tangible and intangibles assets acquired and intangible liabilities assumed. The purchase price has been allocated as follows (in thousands):

20

	June 22, 2015
Building, land and improvements	$163,271
Land inventory	6,045
Intangible assets acquired (a)	50,637
Below market lease liabilities assumed (b)	(8,600)
	$211,353
Return of existing equity method investment	(67,261)
Net working capital assumed	(271)
Total cash payment at settlement	$143,821

(a) Weighted average amortization period of 4.0 years.
(b) Weighted average amortization period of 1.5 years.

The unaudited pro forma information below summarizes the Company's combined results of operations for the three and nine-month periods ended September 30, 2015 and 2014, respectively, as though the acquisition of Broadmoor Austin Associates was completed on January 1, 2014. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transaction had been completed as set forth above, nor do they purport to represent the Company's results of operations for future periods (in thousands except for per share amounts).

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2015	2014	2015	2014
Pro forma revenue	$152,585	$149,951	$455,141	$459,722
Pro forma income from continuing operations	20,308	11,525	35,954	15,914
Pro forma net income available to common shareholders	18,346	9,607	30,305	11,332
Earnings per common share from continuing operations:				
Basic -- as reported	$0.11	$0.05	$0.18	$0.05
Basic -- as pro forma	$0.11	$0.07	$0.20	$0.10
Diluted -- as reported	$0.11	$0.05	$0.18	$0.05
Diluted -- as pro forma	$0.11	$0.07	$0.20	$0.10
Earnings per common share:				
Basic -- as reported	$0.10	$0.04	$0.15	$0.02
Basic -- as pro forma	$0.10	$0.06	$0.17	$0.07
Diluted -- as reported	$0.10	$0.04	$0.15	$0.02
Diluted -- as pro forma	$0.10	$0.06	$0.17	$0.07

The Company wholly owned the Broadmoor Austin properties at September 30, 2015, and as such, no pro forma adjustments were necessary during three-month period ended September 30, 2015. For the three-month periods ended September 30, 2015 and 2014, there were no acquisition related costs related to the transaction. For the nine-month period ended September 30, 2014, $0.2 million of acquisition related costs are included as if the transaction occurred January 1, 2014.

21

On April 9, 2015, the Company acquired the leasehold interest in a 0.4 acre land parcel at 405 Colorado Street located in the central business district of Austin, Texas for $2.6 million. The property is currently being operated as a surface parking lot with the intent to develop the site into an office property. The Company has not yet determined the timing and cost of construction for the project as of September 30, 2015. The Company accounted for this transaction as an asset acquisition.

On April 6, 2015, the Company acquired a 0.8 acre parcel of land, located at 25 M Street Southeast, Washington, D.C. for $20.3 million. The Company funded the cost of this acquisition with available corporate funds. The Company capitalized $0.3 million of acquisition related costs and these costs are included as part of land inventory on the Company's consolidated balance sheet. On May 12, 2015, the Company subsequently contributed the land parcel into a newly formed real estate venture known as 25 M Street Holdings, LLC (“25 M Street”), a joint venture between the Company and Jaco 25 M Investors, LLC (“Akridge”), an unaffiliated third party, with the intent to construct a 271,000 square foot Class A office property. The Company holds a 95.0% ownership interest in 25 M Street and Akridge contributed $1.0 million in cash for its 5.0% ownership interest in 25 M Street. The $1.0 million contribution from Akridge was distributed to the Company. 25 M Street is consolidated within the Company's financial statements. See Note 4, "Investment in Unconsolidated Real Estate Ventures," for further information. The partners of the venture have not determined the timing and cost of construction for the project as of September 30, 2015.

On April 2, 2015, the Company acquired, from an unaffiliated third party, a property comprised of a parking garage with 330 parking spaces and mixed-use space totaling 14,404 rentable square feet located at 618 Market Street in Philadelphia, Pennsylvania for an aggregate fair value of $19.4 million. The property is currently fully operational. The purchase price includes contingent consideration, recorded at fair value and payable to the seller upon commencement of development, totaling $1.6 million, and cash of $17.8 million.

The Company has treated the acquisition of 618 Market Street as a business combination and allocated the purchase price to the tangible and intangible assets. The Company utilized a number of sources in making estimates of fair values for purposes of allocating the purchase price to tangible and intangibles assets acquired. The Company allocated $19.2 million to building, land and improvements and $0.2 million to intangible assets.

The fair value of contingent consideration was determined using a probability weighted discounted cash flow model. The significant inputs to the discounted cash flow model was the discount rate and weighted probability scenarios. As the inputs are unobservable, the Company determined the inputs used to value this liability falls within Level 3 for fair value reporting. As of September 30, 2015, there was no significant changes to the inputs and the liability remains within Level 3 for fair value reporting.

Dispositions

The Company sold the following office properties during the nine-month period ended September 30, 2015 (dollars in thousands).

Disposition Date	Property/Portfolio Name	Location	Number of Properties	Rentable Square Feet	Sale Price	Gain/(Loss) On Sale (a)	
September 29, 2015	1000 Howard Boulevard	Mt. Laurel, NJ	1	105,312	$16,500	$4,823	
August 13, 2015	Bay Colony	Wayne, PA	4	247,294	37,500	288	
August 11, 2015	741 First Avenue	King of Prussia, PA	1	77,184	4,900	372	
June 10, 2015	100 Gateway Centre Parkway	Richmond, VA	1	74,991	4,100	—	(b)
April 24, 2015	Christina / Delaware Corporate Centers	Newark, DE / Wilmington, DE	5	485,182	50,125	1,797	
April 9, 2015	Lake Merritt Tower	Oakland, CA	1	204,336	65,000	—	(c)
January 8, 2015	Atrium I / Libertyview	Mt. Laurel, NJ / Cherry Hill, NJ	2	221,405	28,300	9,040	
Total Dispositions			15	1,415,704	$206,425	$16,320	(d)

(a) Gain/(Loss) on Sale is net of closing and other transaction related costs.

(b) The Company recorded an impairment loss of $0.8 million for 100 Gateway Centre Parkway during the second quarter of 2015. As such, there was no gain/(loss) at disposition for this property.

(c) The Company recorded an impairment loss of $1.7 million for Lake Merritt Tower at March 31, 2015. As such, there was no gain/(loss) at disposition for this property. Sales proceeds were deposited in escrow under Section 1031 of the Internal Revenue Code and applied to purchase the Broadmoor Austin portfolio. Refer to Broadmoor Austin Associates acquisition summary, above, for further details.

(d) Total gain/(loss) on sale does not include a deferred gain of $0.5 million related to a prior sale and $0.1 million in losses associated with prior sales.

The Company sold the following land parcels during the nine-month period ended September 30, 2015 (dollars in thousands).

Disposition Date	Property/Portfolio Name	Location	Number of Parcels	Acres	Sale Price	Gain/(Loss) on Sale
September 1, 2015	7000 Midlantic	Mt. Laurel, NJ	1	3.5	$2,200	$(169)
August 31, 2015	Four Points	Austin, TX	1	8.6	2,500	71
August 25, 2015	Two Kaiser Plaza	Oakland, CA	1	1.0	11,100	3,117
Total Dispositions			3	13.1	$15,800	$3,019

The sales of properties referenced above do not represent a strategic shift that has a major effect on the Company's operations and financial results. The operating results of these properties remain classified within continuing operations for all periods presented.

As a result of selling $206.4 million of real estate as of September 30, 2015, the Company increased its current year business plan disposition target to $400.0 million. The Company is exploring the disposition of several properties, individually or as a portfolio,

during the remainder of 2015 in alignment with its business plan. As of September 30, 2015, the Company has not entered into agreements, other than the six properties categorized as held for sale, to sell additional properties nor can we provide assurance as to any/or which properties for which a sale might be realized. Accordingly, the Company has prepared undiscounted cash flow analyses for the relevant properties based upon several reasonably possible scenarios and the estimated likelihood of each scenario occurring. These estimated probability weighted undiscounted cash flows exceed the carrying values for the properties, and, therefore, no impairment charge has been recorded at September 30, 2015. Significant estimates were made in the determination of the future undiscounted cash flows, including expected future rents and operating expenses, holding periods, cash proceeds at the end of the estimated holding period and the probability of the various reasonably possible scenarios. Changes to estimates made by management for certain properties, including those related to holding periods, may result in the recognition of impairment losses, and such amounts could be material to the Company’s results of operations.

Impairments Measured at Fair Value on a Non-recurring Basis

During the nine-month period ended September 30, 2015, the Company recognized $2.5 million in impairment charges on properties sold to reduce the carrying value of the properties to their sales price in connection with the anticipated disposition. The fair value measurement related to these impairment charges was determined by the respective sales agreement. As the sales price is unobservable, the Company determined that the significant input used to value these real estate investments falls within Level 3 for fair value reporting.

Held for Sale

As of September 30, 2015, the Company entered into an agreement of sale for six suburban New Jersey properties containing 560,147 rentable square feet for an anticipated sales price of $56.5 million. The properties have been designated as held for sale in accordance with applicable accounting standards for long lived assets. At such date, the fair value less the costs of sale exceed carrying value of the property and, as a result, no impairment loss was recognized. The fair value measurement was based on the sales agreement. As the sales price is unobservable, the Company determined that the significant inputs used to value these real estate investments falls within Level 3 for fair value reporting.

The disposal of the properties referenced above do not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the operating results of these properties remain classified within continuing operations for all periods presented.

4. INVESTMENT IN UNCONSOLIDATED VENTURES

As of September 30, 2015, the Company held ownership interests in 17 unconsolidated Real Estate Ventures for an aggregate investment balance of $210.7 million, of which $211.8 million is included in assets and $1.1 million is included in other liabilities relating to the negative investment balance of one real estate venture. The Company formed or acquired interests in these ventures with unaffiliated third parties to develop or manage office, residential, and/or mixed-use properties or to acquire land in anticipation of possible development of office, residential and/or mixed-use properties. As of September 30, 2015, nine of the real estate ventures owned 29 office buildings that contain an aggregate of approximately 4.0 million net rentable square feet; three real estate ventures owned 4.4 acres of undeveloped parcels of land; three real estate ventures owned 22.5 acres of land under development; one real estate venture owned a residential tower that contains 345 apartment units and one real estate venture owned a hotel property that contains 137 rooms in Conshohocken, PA.

The Company accounts for its unconsolidated interests in its Real Estate Ventures using the equity method. The Company’s unconsolidated interests range from 20% to 70%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The amounts reflected in the following tables (except for the Company’s share of equity and income) are based on the historical financial information of the individual Real Estate Ventures. The Company does not record operating losses of a Real Estate Venture in excess of its investment balance unless the Company is liable for the obligations of the Real Estate Venture or is otherwise committed to provide financial support to the Real Estate Venture.

The following is a summary of the financial position of the Real Estate Ventures as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Net property	$1,165,941	$1,281,282
Other assets	144,415	195,121
Other liabilities	65,290	68,481
Debt	761,067	965,077
Equity	484,000	442,845
Company’s share of equity (Company’s basis) (a) (b)	$211,771	$225,004

(a) This amount includes the effect of the basis difference between the Company's historical cost basis and the basis recorded at the Real Estate Venture level, which is typically amortized over the life of the related assets and liabilities. Basis differentials occur from the impairment of investments, purchases of third party interests in existing Real Estate Ventures and upon the transfer of assets that were previously owned by the Company into a Real Estate Venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the Real Estate Venture level.

(b) Does not include the negative investment balance of one real estate venture totaling $1.1 million as of September 30, 2015 and $1.2 million as of December 31, 2014, which is included in other liabilities.

The Company held interests in 17 Real Estate Ventures containing an aggregate of approximately 4.0 million net rentable square feet as of the three and nine-month periods ended September 30, 2015 and 17 Real Estate Ventures containing an aggregate of approximately 5.9 million net rentable square feet as of the three and nine-month periods ended September 30, 2014. The following is a summary of results of operations of the Real Estate Ventures in which the Company had interests during these periods (in thousands):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2015	2014	2015	2014
Revenue	$37,076	$37,446	$126,424	$106,905
Operating expenses	(16,917)	(15,433)	(54,581)	(44,257)
Interest expense, net	(7,936)	(9,245)	(27,918)	(26,234)
Depreciation and amortization	(15,681)	(13,552)	(52,218)	(40,423)
Net loss	$(3,458)	$(784)	$(8,293)	$(4,009)
Company’s share of loss (Company’s basis)	$(1,093)	$(486)	$(1,835)	$(733)

JBG - Ventures

On May 29, 2015, the Company and an unaffiliated third party, JBG/DC Manager, LLC ("JBG"), formed 51 N 50 Patterson, Holdings, LLC Venture ("51 N Street") and 1250 First Street Office, LLC Venture ("1250 First Street"), as real estate ventures, with the Company owning a 70.0% interest and JBG owning a 30.0% interest in each of the two ventures. At formation, the Company and JBG made cash contributions of $15.2 million and $6.5 million, respectively, to 51 N Street, which was used to purchase 0.9 acres of undeveloped land. At formation, the Company and JBG made cash capital contributions of $13.2 million and $5.7 million, respectively, to 1250 First Street, which was used to purchase 0.5 acres of undeveloped land.

Based upon the facts and circumstances at formation of each of the two ventures with JBG, the Company determined that each venture is a VIE in accordance with the accounting standard for the consolidation of VIEs. As a result, the Company used the variable interest model under the accounting standard for consolidation in order to determine whether to consolidate the JBG Ventures. JBG is the managing member of the ventures, and pursuant to the operating and related agreements, major decisions require the approval of both members. Based upon each member's shared power over the activities of each of the two ventures, which most significantly impact the economics of the ventures,

neither venture is consolidated by the Company. Each venture is accounted for under the equity method of accounting.

Broadmoor Austin Associates

On June 22, 2015, the Company became the sole owner of Broadmoor Austin Associates upon the Company's acquisition from an unaffiliated third party of the remaining 50.0% ownership interest in Broadmoor Austin Associates. Broadmoor Austin Associates owns seven office buildings in Austin, Texas. See Note 3, "Real Estate Investments," for further information.

25 M Street (Akridge)

On May 12, 2015, the Company contributed the parcel of land purchased on April 9, 2015 into a newly formed real estate venture known as 25 M Street, a joint venture between the Company and Akridge, an unaffiliated third party. See Note 3, "Real Estate Investments," for further information.

Based on the facts and circumstances at formation of 25 M Street, the Company determined that 25 M Street is a variable interest entity (VIE) in accordance with the accounting standard for consolidation of VIEs. Accordingly, the Company used the variable interest model under the accounting standard for consolidation in order to determine whether to consolidate 25 M Street. Under the operating and related agreements the Company has the power to control substantially all of the activities which most significantly impact the economics of 25 M Street, and accordingly, 25 M Street is consolidated within the Company’s financial statements. As of September 30, 2015, the carrying value of the assets of 25 M Street was $20.5 million.

DRA - PA Venture

On December 19, 2007, the Company formed G&I Interchange Office LLC, a real estate venture (the “Interchange Venture”), with an unaffiliated third party, G&I VI Investment Interchange Office LLC (“G&I VI”), an investment vehicle advised by DRA Advisors LLC. The Interchange Venture owns 29 office properties containing an aggregate of 1,611,961 net rentable square feet located in Montgomery, Lehigh and Bucks counties, Pennsylvania. The Company contributed these 29 properties to the Interchange Venture upon the Interchange Venture's formation and in exchange for the contribution received a cash distribution from the Venture and a 20.0% ownership interest in the Interchange Venture.

On February 27, 2015, the Interchange Venture entered into a forbearance agreement with an unaffiliated lender that holds a nonrecourse mortgage on the Venture's assets. The loan matured on January 1, 2015. On August 12, 2015, the lender sold the properties to an unaffiliated third-party purchaser under the forbearance agreement and assumed the proceeds. Commensurate with the sale, the Interchange Venture was dissolved.

The Company has no obligation to fund any amounts to the lender under the loan or mortgage. The Company has not had any investment basis in the Interchange Venture since formation of the Interchange Venture in 2007. The Company is not obligated to fund any of the losses incurred by the Interchange Venture and, as a result, has not recognized losses in excess of its invested capital balance.

Austin Venture

On January 30, 2015, the Austin Venture closed on a mortgage loan with a non-affiliated institutional lender, and used the proceeds of the loan to repay in full an $88.0 million short-term secured loan made by the Company to fund costs of the Austin Venture's acquisition of River Place. For further information regarding this acquisition, see Note 4, "Investment In Unconsolidated Ventures," included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Guarantees

As of September 30, 2015, the Company had provided guarantees on behalf of certain real estate ventures, consisting of (i) a $24.7 million payment guarantee on the construction loan for the project being undertaken by evo at Cira; (ii) a $3.2 million payment guarantee on the construction loan for the development project being undertaken by TB-BDN Plymouth Apartments; (iii) a several cost overrun guaranty on the $88.9 million construction loan for the development project being undertaken by 1919 Market Street LP; and (iv) a $0.5 million payment guarantee on a loan provided to PJP VII. In addition, during construction undertaken by real estate ventures, the Company has provided and expects to continue to provide cost overrun and completion guarantees, with rights of contribution among partners in the real estate ventures, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements. For additional information regarding these real estate ventures, see Note 4, "Investments in Unconsolidated Ventures," in notes to the audited financial statements included in the Company's

Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

26

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5. INTANGIBLE ASSETS AND LIABILITIES

As of September 30, 2015 and December 31, 2014, the Company’s intangible assets/liabilities were comprised of the following (in thousands):

	September 30, 2015		
	Total Cost	Accumulated Amortization	Intangible assets/liabilities, net
Intangible assets, net:			
In-place lease value	$170,925	$(52,638)	$118,287
Tenant relationship value	23,772	(18,608)	5,164
Above market leases acquired	5,444	(1,807)	3,637
Total intangible assets, net	$200,141	$(73,053)	$127,088
Acquired lease intangibles, net:			
Below market leases acquired	$53,531	$(24,990)	$28,541

	December 31, 2014		
	Total Cost	Accumulated Amortization	Intangible assets/liabilities, net
Intangible assets, net:			
In-place lease value	$129,411	$(42,068)	$87,343
Tenant relationship value	34,172	(26,344)	7,828
Above market leases acquired	5,641	(1,409)	4,232
Total intangible assets, net	$169,224	$(69,821)	$99,403
Acquired lease intangibles, net:			
Below market leases acquired	$53,049	$(27,039)	$26,010

As of September 30, 2015, the Company’s annual amortization for its intangible assets/liabilities were as follows (in thousands, and assuming no prospective early lease terminations):

	Assets	Liabilities
2015 (three months remaining)	$12,262	$2,669
2016	36,901	7,595
2017	20,080	3,461
2018	12,852	2,217
2019	11,553	1,885
Thereafter	33,440	10,714
Total	$127,088	$28,541

6. DEBT OBLIGATIONS

During the three and nine-month periods ended September 30, 2015, the Company repaid $3.7 million and $10.9 million, respectively, of principal on its mortgage debt in the ordinary course of business. Except as indicated below with respect to the Company's revolving credit facility and unsecured Term Loan C, during these periods there were no changes to the outstanding balances of the Company's unsecured debt.

On August 19, 2015, the Company entered into a forbearance agreement to extend the maturity date of the mortgage note payable collateralized by two of its properties located at 8260 Greensboro Drive and 1676 International Drive in Mclean, Virginia (referred to as "Tysons Corner" in Note 7 "Debt Obligations" in the Company's Annual Report on

Form 10-K for the fiscal year ended December 31, 2014) until October 9, 2015. At September 30, 2015, the outstanding balance was $88.0 million. See Note 14, "Subsequent Events," for further information regarding the repayment of the note.

27

On May 15, 2015, the Company closed on a new four-year unsecured revolving credit facility (the "New Credit Facility") that provides for borrowings of up to $600.0 million. The Company expects to use advances under the New Credit Facility for general business purposes, including to fund costs of acquisitions, developments and redevelopments of properties, fund share repurchases and to repay from time to time other debt. On terms and conditions specified in the credit agreement, the Company may enter into unsecured term loans and/or increase the initial amount of the credit facility by up to, in the aggregate for all such term loans and increases, an additional $400.0 million. The New Credit Facility includes a $65.0 million sub-limit for the issuance of letters of credit and a $60.0 million sub-limit for swing-loans. The New Credit Facility has a scheduled maturity date of May 15, 2019, and is subject to two six-month extensions on terms and conditions specified in the credit agreement.

At the Company's option, loans outstanding under the New Credit Facility will bear interest at a rate per annum equal to (1) LIBOR plus between 0.875% and 1.55% based on the Company's credit rating or (2) a base rate equal to the greatest of (a) the Administrative Agent's prime rate, (b) the Federal Funds rate plus 0.5% or (c) LIBOR for a one month period plus 1.00%, in each case, plus a margin ranging from 0.0% to 0.55% based on the Company's credit rating. The New Credit Facility also contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a reduced interest rate. In addition, the Company is also obligated to pay (1) in quarterly installments a facility fee on the total commitment at a rate per annum ranging from 0.125% to 0.30% based on the Company's credit rating and (2) an annual fee on the undrawn amount of each letter or credit equal to the LIBOR Margin. Based on the Company's current credit rating, the LIBOR margin is 1.20% and the facility fee is 0.25%. The Company had no borrowings under the New Credit Facility as of September 30, 2015.

The terms of the New Credit Facility require that the Company maintain customary financial and other covenants, including: (i) a fixed charge coverage ratio greater than or equal to 1.5 to 1.00; (ii) a minimum net worth; (iii) a leverage ratio less than or equal to 0.60 to 1.00, subject to specified exceptions; (iv) a ratio of unsecured indebtedness to unencumbered asset value less than or equal to 0.60 to 1.00, subject to specified exceptions; (v) a ratio of secured indebtedness to total asset value less than or equal to 0.40 to 1.00; and (vi) a ratio of unencumbered cash flow to interest expense on unsecured debt greater than 1.75 to 1.00. In addition, the New Credit Facility restricts payments of dividends and distributions on shares in excess of 95% of the Company's funds from operations (FFO) except to the extent necessary to enable the Company to continue to qualify as a REIT for Federal income tax purposes. At September 30, 2015, the Company was in compliance with all covenants in the New Credit Facility.

Concurrently with its entry into the New Credit Facility, the Company terminated its then existing unsecured revolving credit facility, which had a scheduled maturity date of February 1, 2016.

On June 1, 2015, the Company amended its Term Loan C Agreement dated December 15, 2011 to align the above aforementioned financial and operating covenants and restrictions of the New Credit Facility with that of Term Loan C. The amendment was filed as part of the Quarterly Report on Form 10-Q for the period ended June 30, 2015. See Item 6.,"Exhibits."

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determined the fair values disclosed below using available market information and discounted cash flow analyses as of September 30, 2015 and December 31, 2014, respectively. The discount rate used in calculating fair value is the sum of the current risk free rate and the risk premium on the date of measurement of the instruments or obligations. Considerable judgment is necessary to interpret market data and to develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize upon disposition. The use of different estimates and valuation methodologies may have a material effect on the fair value amounts shown. The Company believes that the carrying amounts reflected in the consolidated balance

sheets at September 30, 2015 and December 31, 2014 approximate the fair values for cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses. The following are financial instruments for which the Company's estimates of fair value differ from the carrying amounts (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes payable	$1,518,931	$1,552,682	$1,518,108	$1,593,212
Variable rate debt	$278,610	$254,405	$278,610	$257,188
Mortgage notes payable	$642,396	$673,959	$654,590	$707,241
Mortgage note receivable (a)	$—	$—	$88,000	$87,692

28

(a) On January 30, 2015 the mortgage note was repaid. For further information regarding the mortgage note, see Note 2, "Summary of Significant Accounting Policies," included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

The fair value of the Company's unsecured notes payable are categorized as Level 2 (as provided by the accounting standard for Fair Value Measurements and Disclosures). This is because the Company valued these instruments using quoted market prices as of September 30, 2015 and December 31, 2014. For the fair value of the Company's variable rate debt, the Company uses a discount rate based on the indicative new issue pricing provided by lenders.

The fair value of the Company's mortgage notes payable, variable rate debt and mortgage note receivable are all categorized at a Level 3 basis (as provided by the accounting standard for Fair Value Measurements and Disclosures). The fair value of the variable rate debt was estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities, as applicable. The fair value of the mortgage debt was determined by discounting the future contractual interest and principal payments by a blended market rate for loans with similar terms, maturities and loan-to-value. The fair value of the mortgage note receivable was determined by using the expected cash flows of the notes receivable, and discounting those cash flows using the market rate of interest for mortgage notes with a comparable level of risk. These financial instruments have been categorized as Level 3 because the Company considers the rates used in the valuation techniques to be unobservable inputs.

For the Company's mortgage loans, the Company uses an estimate based on its knowledge of the mortgage market. The weighted average discount rate for the combined variable rate debt and mortgage loans used to calculate fair value as of September 30, 2015 was 4.5%. An increase in the discount rate used in the discounted cash flow model would result in a decrease to the fair value of the Company's long-term debt. Conversely, a decrease in the discount rate used in the discounted cash flow model would result in an increase to the fair value of the Company's long-term debt.

Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of September 30, 2015 and December 31, 2014. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since September 30, 2015, and current estimates of fair value may differ from the amounts presented herein.

8. LIMITED PARTNERS' NON-CONTROLLING INTERESTS IN THE PARENT COMPANY

Non-controlling interests in the Parent Company’s financial statements relate to redeemable common limited partnership interests in the Operating Partnership held by parties other than the Parent Company and properties which are consolidated but not wholly owned.

Operating Partnership

The aggregate book value of the non-controlling interests associated with the redeemable common limited partnership interests in the accompanying consolidated balance sheet of the Parent Company as of September 30, 2015 and December 31, 2014 was $16.9 million and $17.5 million, respectively. Under the applicable accounting guidance, the redemption value of limited partnership units are carried at, on a limited partner basis, the greater of historical cost adjusted for the allocation of income and distributions or fair value. The Parent Company believes that the aggregate settlement value of these interests (based on the number of units outstanding and the closing price of the common shares on the balance sheet dates as of September 30, 2015 and December 31, 2014, respectively, was approximately $18.9 million and $24.5 million.

9. BENEFICIARIES' EQUITY OF THE PARENT COMPANY

Earnings per Share (EPS)

The following tables detail the number of shares and net income used to calculate basic and diluted earnings per share (in thousands, except share and per share amounts; results may not add due to rounding):

	Three-month periods ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$20,308	$20,308	$8,885	$8,885
Net income from continuing operations attributable to non-controlling interests	(161)	(161)	(108)	(108)
Nonforfeitable dividends allocated to unvested restricted shareholders	(76)	(76)	(82)	(82)
Preferred share dividends	(1,725)	(1,725)	(1,725)	(1,725)
Income from continuing operations available to common shareholders	18,346	18,346	6,970	6,970
Loss from discontinued operations	—	—	(3)	(3)
Net income attributable to common shareholders	$18,346	$18,346	$6,967	$6,967
Denominator				
Weighted-average shares outstanding	178,188,037	178,188,037	171,606,722	171,606,722
Contingent securities/Share based compensation	—	588,647	—	1,587,148
Weighted-average shares outstanding	178,188,037	178,776,684	171,606,722	173,193,870
Earnings per Common Share:				
Income from continuing operations attributable to common shareholders	$0.10	$0.10	$0.04	$0.04
Discontinued operations attributable to common shareholders	—	—	—	—
Net income attributable to common shareholders	$0.10	$0.10	$0.04	$0.04

30

	Nine-month periods ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$31,960	$31,960	$7,893	$7,893
Net income from continuing operations attributable to non-controlling interests	(221)	(221)	(47)	(47)
Nonforfeitable dividends allocated to unvested restricted shareholders	(253)	(253)	(268)	(268)
Preferred share dividends	(5,175)	(5,175)	(5,175)	(5,175)
Income from continuing operations available to common shareholders	26,311	26,311	2,403	2,403
Income from discontinued operations	—	—	918	918
Discontinued operations attributable to non-controlling interests	—	—	(10)	(10)
Discontinued operations attributable to common shareholders	—	—	908	908
Net income attributable to common shareholders	$26,311	$26,311	$3,311	$3,311
Denominator				
Weighted-average shares outstanding	179,198,714	179,198,714	161,866,955	161,866,955
Contingent securities/Share based compensation	—	789,778	—	1,487,015
Weighted-average shares outstanding	179,198,714	179,988,492	161,866,955	163,353,970
Earnings per Common Share:				
Income from continuing operations attributable to common shareholders	$0.15	$0.15	$0.01	$0.01
Discontinued operations attributable to common shareholders	—	—	0.01	0.01
Net income attributable to common shareholders	$0.15	$0.15	$0.02	$0.02

Redeemable common limited partnership units totaling 1,535,102 and 1,721,905 as of September 30, 2015 and 2014, respectively, were excluded from the diluted earnings per share computations because they are not dilutive.
Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three and nine-month periods ended September 30, 2015 and 2014, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted shares issued to the Company’s executives and other employees under the Company's shareholder-approved long-term incentive plan.

Common and Preferred Shares

On September 15, 2015, the Parent Company declared a distribution of $0.15 per common share, totaling $26.6 million, payable on October 19, 2015 to shareholders of record as of October 5, 2015. In addition, the Parent Company declared distributions on its Series E Preferred Shares to holders of record as of September 30, 2015. These shares are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions to be paid on October 15, 2015 to holders of Series E Preferred Shares will total $1.7 million.

On July 22, 2015, the Company's Board of Trustees authorized share repurchases of up to $100.0 million of its common shares with no expiration date. Prior to the authorization 539,200 common shares were available for repurchase under the preexisting share repurchase program. The Company expects to fund the share repurchases with a combination of available cash balances and availability under its line of credit. As of September 30, 2015, 4,701,302 common shares have been repurchased and retired by the Company at an average purchase price of $12.92 per share and totaling $60.8 million. The timing and amounts of any purchases will depend on a variety of factors, including

market conditions, regulatory requirements, share prices, capital availability and other factors as determined by the Company's management team. The repurchase program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without notice.

On November 5, 2013, the Parent Company commenced a continuous equity offering program (the “Offering Program”), under which it may sell, in at-the-market offerings, up to an aggregate amount of 16,000,000 common shares until November 5, 2016. The Parent Company may sell common shares in amounts and at times to be determined by the Parent Company. Actual sales will depend on a variety of factors to be determined by the Parent Company, including, among others, market conditions, the trading price of the Company’s common shares and determinations by the Parent Company of the appropriate sources of funding. Sales agents engaged by the Parent Company under the Offering Program are entitled to receive, as compensation and in aggregate, up to 2% of the gross sales price per share sold under the Offering Program. From inception of the Offering Program through September 30, 2015, the Parent Company had not sold any shares under the program, leaving 16,000,000 remaining shares available for sale.

10. PARTNERS’ EQUITY OF THE OPERATING PARTNERSHIP

Earnings per Common Partnership Unit

The following tables detail the number of units and net income used to calculate basic and diluted earnings per common partnership unit (in thousands, except unit and per unit amounts; results may not add due to rounding):

	Three-month periods ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$20,308	$20,308	$8,885	$8,885
Nonforfeitable dividends allocated to unvested restricted unitholders	(76)	(76)	(82)	(82)
Preferred unit dividends	(1,725)	(1,725)	(1,725)	(1,725)
Net loss attributable to non-controlling interests	(1)	(1)	(24)	(24)
Net income from continuing operations available to common unitholders	18,506	18,506	7,054	7,054
Discontinued operations attributable to common unitholders	—	—	(3)	(3)
Net income attributable to common unitholders	$18,506	$18,506	$7,051	$7,051
Denominator				
Weighted-average units outstanding	179,723,139	179,723,139	173,341,782	173,341,782
Contingent securities/Share based compensation	—	588,647	—	1,587,148
Total weighted-average units outstanding	179,723,139	180,311,786	173,341,782	174,928,930
Earnings per Common Partnership Unit:				
Income from continuing operations attributable to common unitholders	$0.10	$0.10	$0.04	$0.04
Discontinued operations attributable to common unitholders	—	—	—	—
Net income attributable to common unitholders	$0.10	$0.10	$0.04	$0.04

	Nine-month periods ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	$31,960	$31,960	$7,893	$7,893
Amount allocable to unvested restricted unitholders	(253)	(253)	(268)	(268)
Preferred unit dividends	(5,175)	(5,175)	(5,175)	(5,175)
Net income attributable to non-controlling interests	4	4	(12)	(12)
Income from continuing operations available to common unitholders	26,536	26,536	2,438	2,438
Discontinued operations attributable to common unitholders	—	—	918	918
Net income attributable to common unitholders	$26,536	$26,536	$3,356	$3,356
Denominator				
Weighted-average units outstanding	180,733,816	180,733,816	163,620,963	163,620,963
Contingent securities/Share based compensation	—	789,778	—	1,487,015
Total weighted-average units outstanding	180,733,816	181,523,594	163,620,963	165,107,978
Earnings per Common Partnership Unit:				
Income from continuing operations attributable to common unitholders	$0.15	$0.15	$0.01	$0.01
Discontinued operations attributable to common unitholders	—	—	0.01	0.01
Net income attributable to common unitholders	$0.15	$0.15	$0.02	$0.02

Unvested restricted units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three and nine-month periods ended September 30, 2015 and 2014, earnings representing nonforfeitable dividends as noted in the table above were allocated to the unvested restricted units issued to the Parent Company’s executives and other employees under the Parent Company's shareholder-approved long-term incentive plan.

Common Partnership Units and Preferred Mirror Units

On September 15, 2015, the Operating Partnership declared a distribution of $0.15 per common partnership unit, totaling $26.6 million, payable on October 19, 2015 to unitholders of record as of October 5, 2015. In addition, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of October 5, 2015. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per unit liquidation preference. Distributions to be paid on October 15, 2015 to holders of Series E-Linked Preferred Mirror Units will total $1.7 million.

11. SEGMENT INFORMATION

During the quarter ended September 30, 2015, the Company was managing its portfolio within seven segments: (1) Pennsylvania Suburbs, (2) Philadelphia Central Business District (CBD), (3) Metropolitan Washington, D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania Suburbs segment includes properties in Chester, Delaware, and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and southern Maryland. The New Jersey/Delaware segment includes properties in Burlington and Camden counties in New Jersey and in New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Chesterfield, Goochland and Henrico counties and one property in Durham, North Carolina. The Austin, Texas segment includes properties in the City of Austin, Texas. The California segment includes properties in Oakland, Concord and Carlsbad. The corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions.

The following tables provide selected asset information and results of operations of the Company's reportable segments (in thousands):

Real estate investments, at cost:

	September 30, 2015	December 31, 2014
Philadelphia CBD	$1,394,267	$1,338,655
Pennsylvania Suburbs	1,126,611	1,178,470
Metropolitan Washington, D.C.	1,216,161	1,183,652
New Jersey/Delaware (a)	239,235	392,581
Richmond, Virginia	311,642	317,076
California	111,587	193,258
Austin, Texas (c)	229,720	—
	$4,629,223	$4,603,692
Less: Assets held for sale (a) (b)	74,706	27,436
Operating Properties	$4,703,929	$4,631,128
Corporate		
Construction-in-progress	$242,246	$201,360
Land inventory	$135,917	$90,603

(a) As of September 30, 2015, the Company categorized six properties in the New Jersey/Delaware segment as held for sale in accordance with applicable accounting standards for long lived assets. The sale is not classified as a significant disposition under the accounting guidance for discontinued operations.

(b) On December 31, 2014, the Company was actively marketing for sale its Atrium I and Libertyview properties, comprised of two office properties located in the New Jersey/Delaware segment. As of December 31, 2014 the properties were classified as held for sale on the consolidated balance sheet. The properties were sold on January 8, 2015. See Note 3, "Real Estate Investments," for further information. The sale is not classified as a significant disposition under the accounting guidance for discontinued operations.

(c) On June 22, 2015 the Company acquired the remaining 50.0% of the common interest in Broadmoor Austin Associates. As such, the Company has seven wholly owned properties in its Austin, Texas business segment at September 30, 2015. See Note 3, "Real Estate Investments," for further information regarding this transaction.

Net operating income:

	Three-month periods ended September 30,					
	2015			2014		
	Total revenue	Operating expenses (a)	Net operating income	Total revenue	Operating expenses (a)	Net operating income (loss)
Philadelphia CBD	$52,203	$(18,750)	$33,453	$49,469	$(18,168)	$31,301
Pennsylvania Suburbs	39,507	(14,004)	25,503	39,996	(13,409)	26,587
Metropolitan Washington, D.C.	27,587	(10,792)	16,795	27,764	(10,672)	17,092
New Jersey/Delaware	11,922	(6,594)	5,328	14,975	(7,506)	7,469
Richmond, Virginia	9,130	(3,700)	5,430	8,354	(3,724)	4,630
Austin, Texas (b)	8,533	(2,625)	5,908	843	(569)	274
California	3,223	(1,767)	1,456	4,902	(2,711)	2,191
Corporate	480	(386)	94	255	(472)	(217)
Operating Properties	$152,585	$(58,618)	$93,967	$146,558	$(57,231)	$89,327

	Nine-month periods ended September 30,					
	2015			2014		
	Total revenue	Operating expenses (a)	Net operating income	Total revenue	Operating expenses (a)	Net operating income (loss)
Philadelphia CBD	$157,595	$(56,587)	$101,008	$150,303	$(55,399)	$94,904
Pennsylvania Suburbs	118,407	(41,286)	77,121	121,313	(41,542)	79,771
Metropolitan Washington, D.C.	81,947	(33,197)	48,750	87,403	(33,134)	54,269
New Jersey/Delaware	37,149	(20,857)	16,292	45,440	(23,728)	21,712
Richmond, Virginia	27,381	(11,603)	15,778	25,543	(11,629)	13,914
Austin, Texas (b)	11,999	(4,993)	7,006	3,900	(2,362)	1,538
California	11,599	(5,778)	5,821	14,399	(7,634)	6,765
Corporate	2,562	(1,364)	1,198	871	(1,484)	(613)
Operating Properties	$448,639	$(175,665)	$272,974	$449,172	$(176,912)	$272,260

(a) Includes property operating expense, real estate taxes and third party management expense.

(b) On June 22, 2015 the Company acquired the remaining 50.0% of the common interest in Broadmoor Austin Associates. See Note 3, "Real Estate Investments," for further information regarding this transaction. On April 3, 2014, the Company contributed Four Points Centre to an unconsolidated real estate venture. See Note 3, "Real Estate Investments," in notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Unconsolidated real estate ventures (in thousands):

	Investment in real estate ventures, at equity		Equity in income (loss) of real estate ventures			
	As of		Three-month periods ended September 30,		Nine-month periods ended September 30,	
	September 30, 2015	December 31, 2014	2015	2014	2015	2014
Philadelphia CBD (a)	$43,236	$27,137	$(186)	$32	$(636)	$13
Pennsylvania Suburbs	16,796	17,385	(120)	(578)	(142)	(937)
Metropolitan Washington, D.C. (b)	113,222	73,127	(343)	(142)	(572)	(117)
New Jersey/Delaware	—	—	67	82	231	204
Richmond, Virginia	1,512	1,574	106	184	438	253
Austin, Texas (c) (d)	37,005	105,781	(617)	(64)	(1,154)	(149)
Total	$211,771	$225,004	$(1,093)	$(486)	$(1,835)	$(733)

(a) evo at Cira was placed into service during the third quarter ended September 30, 2014.

(b) Investment in real estate ventures as of September 30, 2015 includes the JBG Ventures, which were formed on May 29, 2015.

(c) Investment in real estate ventures does not include the $1.1 million and $1.2 million negative investment balance in one real estate venture as of September 30, 2015 and December 31, 2014, respectively, which is included in other liabilities.

(d) On June 22, 2015 the Company acquired the remaining 50.0% of the common interest in Broadmoor Austin Associates. As such, equity method investment at June 30, 2015 related to the Austin Venture only. See Note 3, "Real Estate Investments," for further information regarding the purchase of Broadmoor Austin Associates.

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2015	2014	2015	2014
	(amounts in thousands)			
Consolidated net operating income	$93,967	$89,327	$272,974	$272,260
Other income (expense):				
Depreciation and amortization	(58,314)	(52,616)	(160,355)	(157,773)
General and administrative expenses	(6,127)	(5,900)	(21,554)	(20,086)
Interest income	126	528	1,189	1,298
Interest expense	(27,900)	(31,481)	(83,971)	(94,837)
Recognized hedge activity	—	(828)	—	(828)
Interest expense - amortization of deferred financing costs	(1,010)	(1,566)	(3,377)	(3,952)
Interest expense - financing obligation	(296)	(273)	(906)	(861)
Equity in loss of Real Estate Ventures	(1,093)	(486)	(1,835)	(733)
Net gain on disposition of real estate	6,083	4,698	16,673	4,698
Net gain on sale of undepreciated real estate	3,019	—	3,019	1,184
Net gain from remeasurement of investment in a real estate venture	—	—	758	458
Loss on real estate venture transactions	—	—	—	(417)
Loss on early extinguishment of debt	—	(2,606)	—	(2,606)
Provision for impairment on assets held for sale/sold	—	(1,765)	(2,508)	(1,765)
Tax credit transaction income	11,853	11,853	11,853	11,853
Income from continuing operations	20,308	8,885	31,960	7,893
Income from discontinued operations	—	(3)	—	918
Net income	$20,308	$8,882	$31,960	$8,811

12. 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 will establish reserves for specific legal proceedings when it determines that the likelihood of an unfavorable outcome is probable and when the amount of loss is reasonably estimable. The Company does not expect that the liabilities, if any, which may ultimately result from any current legal actions will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Environmental

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

Ground Rent

Future minimum rental payments under the terms of all non-cancelable ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The Company's ground leases have remaining lease terms ranging from 6 to 74 years. Minimum future rental payments on non-cancelable leases at September 30, 2015 are as follows (in thousands):

2015 (three months remaining)	$461
2016	1,385
2017	1,385
2018	1,385
2019	1,385
Thereafter	68,499
Total	$74,500

The Company obtained ground tenancy rights related to certain properties in Philadelphia, Pennsylvania, which provide for contingent rent participation by the lessor in certain capital transactions and net operating cash flows of the properties after certain returns are achieved by the Company. Such amounts, if any, will be reflected as contingent rent when incurred. The leases also provide for payment by the Company of certain operating costs relating to the land, primarily real estate taxes. The above schedule of future minimum rental payments does not include any contingent rent amounts or any reimbursed expenses. Reference is made in our Annual Report on Form 10-K for the year ended December 31, 2014 for further detail regarding commitments and contingencies.

Put Option

On May 4, 2015, the Company entered into a put agreement in the ordinary course of business that grants an unaffiliated third party the unilateral option to require the Company to purchase a property, at a predetermined price, until May 4, 2018. In addition to the $35.0 million purchase price, the Company would be responsible for transaction and closing costs. There can be no assurance that the counterparty will exercise the option.

13. HISTORIC TAX CREDIT

On November 17, 2008, the Company closed a transaction with US Bancorp ("USB") related to the historic rehabilitation of the IRS Philadelphia Campus, a 862,692 square foot office building that is 100% leased to the IRS. On August 27, 2010, the Company completed the development of the IRS Philadelphia Campus and the IRS lease commenced. In connection with this completed development project, USB contributed to the Company $64.1 million of total project costs.

In exchange for its contributions to the development of the IRS Philadelphia Campus, USB is entitled to substantially all of the benefits derived from the tax rehabilitation credits available under section 47 of the Internal Revenue Code. USB does not have a material interest in the underlying economics of the property. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase USB's interest in the IRS Philadelphia Campus. The put option was exercised on September 30, 2015 and USB's interest in the IRS Philadelphia Campus was assigned to the Company. A purchase price of $3.2 million was attributed to that puttable non-controlling interest obligation, which was funded with available corporate funds. Upon exercise of the put option, the Company funded USB's final 2% preferred return of $1.0 million. Amounts included in interest expense related to the accretion of the non-controlling interest liability and the 2% return expected to be paid to USB on its non-controlling interest aggregates to $1.1 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

Based on the contractual arrangements that obligate the Company to deliver tax benefits and provide other guarantees to USB and that entitle the Company through fee arrangements to receive substantially all available cash flow from the IRS Philadelphia Campus, the Company concluded that the IRS Philadelphia Campus should be consolidated. The Company also concluded that capital contributions received from USB, in substance, are consideration that the Company receives in exchange for its obligation to deliver tax credits and other tax benefits to USB. These receipts other than the amounts allocated to the put obligation will be recognized as revenue in the consolidated financial statements beginning when the obligation to USB is relieved which occurs upon delivery of the expected tax benefits net of any associated costs. The tax credit is subject to 20% recapture per year beginning one year after the completion of the IRS Philadelphia Campus. Beginning September 2011 to September 2015, the Company recognized the cash

received as revenue net of allocated expenses over the five year credit recapture period as defined in the Internal Revenue Code within other income (expense) in its consolidated statement of operations. The fifth and final recapture period ended September 30, 2015 and the Company recognized $11.9 million of cash received as revenue, net of $0.5 million of allocated expenses within other income (expense) it its consolidated statement of operations. The total USB contributions presented in the Company's balance sheet were $0.0 million and $15.1 million as of September 30, 2015 and December 31, 2014. The

contributions were recorded net of the amounts allocated to non-controlling interest for 2014, as described above of $3.0 million at year end December 31, 2014, with the remaining balance presented within deferred income.
Direct and incremental costs incurred in structuring the transaction are deferred and will be recognized as expense in the consolidated financial statements upon the recognition of the related revenue as discussed above. The deferred costs at September 30, 2015 and December 31, 2014 are $0.0 million and $0.5 million, respectively, and are included in other assets in the Company’s consolidated balance sheet.

14. SUBSEQUENT EVENTS

Repayment of Mortgage Note Payable - Tysons Corner

On October 9, 2015, the Company funded $88.4 million, including $0.4 million of accrued interest, in repayment of the Tysons Corner mortgage note with funds from the additional borrowings under the seven-year term loan referenced below.

Additional Borrowings under Seven-Year Term Loan

On October 8, 2015, the Company amended its $200.0 million seven-year term loan maturing February 1, 2019. Pursuant to the terms of the amendment, the Company increased the term loan by an additional $50.0 million, lengthened the maturity date to October 8, 2022, and exercised the option to increase the aggregate amount by up to $150.0 million. The loan will bear interest at LIBOR plus 1.80%. Through a series of interest rate swaps, the $250.0 million outstanding balance of the term loan will have a fixed interest rate of 3.72%.

39

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

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

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

- failure to manage effectively our growth into new product types within our real estate venture arrangements;
- failure of dispositions to close in a timely manner;
- failure of buyers of our properties to comply with terms of their financing agreements to us;
- earthquakes and other natural disasters;
- the unforeseen impact of climate change and compliance costs relating to laws and regulations governing climate change;
- risks associated with federal, state and local tax audits;
- complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT; and

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- the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results.

Given these uncertainties, and the other risks identified in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2014, we caution readers not to place undue reliance on forward-looking statements. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

The discussion that follows is based primarily on our consolidated financial statements as of September 30, 2015 and December 31, 2014 and for the three and nine-month periods ended September 30, 2015 and 2014 and should be read along with the consolidated financial statements and related notes appearing elsewhere in this report. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

OVERVIEW

As of September 30, 2015, we owned 192 properties that contain an aggregate of approximately 24.8 million net rentable square feet and consist of 155 office properties, 20 industrial facilities, four mixed-use properties, one retail property (180 core properties), six properties classified as held for sale, four development properties, one redevelopment property and one re-entitlement property (collectively, the "Properties"). In addition, as of September 30, 2015, we owned economic interests in 17 unconsolidated Real Estate Ventures that contain approximately 4.0 million net rentable square feet, 4.4 acres of undeveloped parcels of land and 22.5 acres of land under development (collectively, the "Real Estate Ventures"). In addition to managing properties that we own, as of September 30, 2015, we were managing approximately 6.2 million net rentable square feet of office and industrial properties for third parties and the Real Estate Ventures.

During the nine-month period ended September 30, 2015, we were managing our portfolio within seven segments: (1) Pennsylvania Suburbs, (2) Philadelphia CBD, (3) Metropolitan Washington, D.C., (4) New Jersey/Delaware, (5) Richmond, Virginia, (6) Austin, Texas and (7) California. The Pennsylvania Suburbs segment includes properties in Chester, Delaware and Montgomery counties in the Philadelphia suburbs. The Philadelphia CBD segment includes properties located in the City of Philadelphia in Pennsylvania. The Metropolitan Washington, D.C. segment includes properties in Northern Virginia, Washington, D.C. and southern Maryland. The New Jersey/Delaware segment includes properties in Burlington and Camden counties in New Jersey and in New Castle county in the state of Delaware. The Richmond, Virginia segment includes properties primarily in Albemarle, Goochland, Chesterfield, and Henrico counties and one property in Durham, North Carolina. The Austin, Texas segment includes properties in the City of Austin, Texas. The California segment includes properties in Oakland, Concord and Carlsbad. Our corporate group is responsible for cash and investment management, development of certain real estate properties during the construction period, and certain other general support functions.

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

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

Adverse changes in economic conditions could reduce the availability of financing and potentially increase borrowing costs. Vacancy rates may increase, and rental rates may decline, through 2015 and possibly beyond as the economic climate contains demand for commercial space and negatively impact tenants.

Overall economic conditions, including but not limited to deteriorating financial and credit markets, could have a dampening effect on the fundamentals of our business, including increases in past due accounts, tenant defaults, lower occupancy and reduced effective rents. These conditions would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition. We believe that the quality of our assets and our

strong balance sheet will enable us to raise debt capital, if necessary, in various forms and from different sources, including traditional term or secured loans from banks, pension funds and life insurance companies. However, there can be no assurance that we will be able to borrow funds on terms that are economically attractive or at all.

We continue to seek revenue growth throughout our portfolio by increasing occupancy and rental rates. Occupancy at our core properties at September 30, 2015 was 92.5% compared to 91.4% at December 31, 2014
The table below summarizes selected operating and leasing statistics of our core properties for the three and nine-month periods ended September 30, 2015:

	Three-month period ended September 30, 2015		Nine-month period ended September 30, 2015	
Leasing Activity:				
Core portfolio net rentable square feet owned (end of period) (1)	22,641,707		22,641,707	
Occupancy percentage (end of period)	92.5	%	92.5	%
Average occupancy percentage	92.3	%	91.4	%
New leases and expansions commenced (square feet)	428,215		992,734	
Leases renewed (square feet)	510,686		1,330,275	
Net absorption (square feet) (2)	145,225		90,061	
Percentage change in rental rates per square feet (3):				
New and expansion rental rates	14.6	%	9.0	%
Renewal rental rates	9.7	%	5.9	%
Combined rental rates	11.2	%	6.7	%
Capital Costs Committed (4):				
Leasing commissions (per square feet)	$4.15		$2.99	
Tenant Improvements (per square feet)	$15.68		$10.12	
Weighted average lease term for leases commenced in the current period	8.5		7.5	
Total capital per square foot per lease year	$2.63		$1.93	

(1) Includes all properties in the core portfolio (i.e. not under development, redevelopment, sold or classified as held for sale).
(2) Includes leasing related to completed developments and redevelopments.
(3) Rental rates include base rent plus reimbursement for operating expenses and real estate taxes.
(4) Calculated on a weighted average basis.

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

Tenant Rollover Risk:

We are subject to the risk that tenant leases, upon expiration, will not be renewed, that space may not be relet, or that the terms of renewal or reletting (including the cost of renovations) may be less favorable to us than the current lease terms. Leases that accounted for approximately 0.6% of our aggregate final annualized base rents as of September 30, 2015 (representing approximately 0.9% of the net rentable square feet of the Properties) are scheduled to expire without penalty in 2015. We maintain an active dialogue with our tenants in an effort to maximize lease renewals. In our core portfolio the retention rate for the nine-month period ended September 30, 2015 was 76.4% compared to a retention rate of 71.4% for the year ended December 31, 2014. Rental rates on leases expiring during 2015 did not deviate significantly from market renewal rates in the regions in which we operate. If we are unable to renew leases or relet space under expiring leases, at anticipated rental rates, or if tenants terminate their leases early, our cash flow would be adversely impacted.

Tenant Credit Risk:

In the event of a tenant default, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. Our management regularly evaluates our accounts receivable reserve policy in light of our tenant base and general and local economic conditions. Our accounts receivable allowance was $15.3 million or 8.7% of total receivables (including accrued rent receivables) as of September 30, 2015 compared to $15.3 million or 9.1% of total receivables (including accrued rent receivables) as of December 31, 2014.

42

If economic conditions persist or deteriorate further, we may experience increases in past due accounts, defaults, lower occupancy and reduced effective rents. This condition would negatively affect our future net income and cash flows and could have a material adverse effect on our financial condition.
Development Risk:

Development projects are subject to a variety of risks, including construction delays, construction cost overruns, inability to obtain financing on favorable terms, inability to lease space at projected rates, inability to enter into construction, development and other agreements on favorable terms, and unexpected environmental and other hazards.
As of September 30, 2015, the following development properties and joint venture development projects remain under construction (in thousands, except square footage/acreage and number of buildings):
Wholly Owned Developments:

Construction Commencement Date	Expected Completion	Activity Type	Property/Portfolio Name	Location	Number of Buildings	Square Footage	Estimated Costs	Amount Funded
Q2 2014	Q3 2016	Development	30th & Walnut Streets (FMC Tower at Cira Centre South)	Philadelphia, PA	1	870,000	$385,000	$155,600
			Total		1	870,000	$385,000	$155,600

Real Estate Venture Developments:

Construction Commencement Date	Expected Completion	Percent owned	Property/Portfolio Name	Location	Number of Buildings	Square Footage/Units	Our Share of Estimated Costs	Our Share of Amount Funded
Q4 2014	Q2 2016	50%	1919 Market Street (1919 Ventures)	Philadelphia, PA	1	321 units	$29,600	$29,600
Q2 2013	Q3 2015	50%	134 Plymouth Road (The Parc at Plymouth Meeting Apartments)	Plymouth Meeting, PA	7	398 units	12,200	12,200
Q2 2014 (a)	TBD	50%	4040 Wilson (4040 Wilson LLC Venture)	Arlington, VA	1	426,900	36,000	35,500
			Total		9		$77,800	$77,300

(a) Relates to construction of garage only; building construction to commence upon reaching certain pre-leasing levels.

Reference is made to our Annual Report on Form 10-K for the year ended December 31, 2014 for project overviews, as well as risks associated with these development projects. See Item 2., "Liquidity and Capital Resources - Commitments and Contingencies" for contractual commitments relating to our ongoing development projects.

Land Holdings

As of September 30, 2015, we owned approximately 413 acres of undeveloped land, and held options to purchase approximately 63 additional acres of undeveloped land. As market conditions warrant, we will seek to opportunistically dispose of those parcels that we do not anticipate developing. For parcels of land that we ultimately develop, we will be subject to risks and costs associated with land development, including building moratoriums and the inability to obtain necessary zoning, land-use, building, occupancy and other required governmental approvals,

construction cost increases or overruns and construction delays, and insufficient

43

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occupancy rates and rental rates. As of September 30, 2015, the total potential development that these land parcels could support, under current zoning, entitlements or combination thereof, amounted to 7.8 million square feet of development, inclusive of the options to purchase approximately 63 additional acres of undeveloped land.

Impairments and Disposal of Long-Lived Assets

We review our long-lived assets for impairment each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of an asset is not recoverable and exceeds its fair value. In such case, an impairment loss is recognized in the amount of the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. The cash flow analysis is based on reasonably possible alternative courses of action and the estimated likelihood of each scenario occurring. Since cash flows on properties considered to be "long-lived assets to be held and used" are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our holding strategy were to change or if market conditions were to otherwise dictate an earlier sale date, then an impairment loss may be recognized and such loss could be material.

As a result of selling $206.4 million of real estate as of September 30, 2015, we have increased our current year business plan disposition target to $400.0 million. We are exploring the disposition of several properties, individually or as a portfolio, during the remainder of 2015 in alignment with our business plan. As of September 30, 2015, we have not entered into agreements, other than the six properties categorized as held for sale, to sell additional properties nor can we provide assurance as to any/or which properties for which a sale might be realized. Accordingly, we have prepared undiscounted cash flow analyses for the relevant properties based upon several reasonably possible scenarios and the estimated likelihood of each scenario occurring. These estimated probability weighted undiscounted cash flows exceed the carrying values for the properties, and, therefore, no impairment charge has been recorded at September 30, 2015. Significant estimates were made in the determination of the future undiscounted cash flows, including expected future rents and operating expenses, holding periods, cash proceeds at the end of the estimated holding period and the probability of the various reasonably possible scenarios. Changes made by management for certain properties, including those related to holding periods, may result in the recognition of impairment losses, and such amounts could be material to the our results of operations.

Equity Method Investment Valuation

We report our equity method investments on the balance sheet at cost. As required under accounting rules, we periodically evaluate and assess our equity method investments for other than temporary impairment. We generally use a combination of comparable market sales, internal appraisals, cash flow analysis and independent broker quotes of the properties in valuing our underlying equity method investments. To the extent we are unable to lease our development projects as planned, incur greater construction costs than planned, or if real estate market conditions deteriorate, it could result in a decline in the fair value of our equity method investments that are other-than-temporary and we might incur impairment charges that are material. Significant estimates were made in the valuation of our equity method investments including tenant lease up, discount rates, capitalization rates, determination of the future discounted cash flows, including expected future rents and operating expenses.

RECENT PROPERTY TRANSACTIONS

Acquisitions

On August 11, 2015, we acquired a 2.7 acre parcel of land containing a vacant office building, located at 9 Presidential Boulevard, Bala Cynwyd, Pennsylvania, for $4.1 million with available corporate funds. We intend to demolish the vacant building and develop the property but we have not yet determined the timing and cost of construction for the project as of September 30, 2015. We accounted for this transaction as an asset acquisition.

On July 7, 2015, we acquired a 0.8 acre parcel of land located at 2100 Market Street in Philadelphia, Pennsylvania for $18.8 million. We funded $16.8 million of the purchase price with available corporate funds and the remaining $2.0 million of the purchase price was deferred until the earlier of the commencement of development or 24 months from settlement. We accounted for this transaction as an asset acquisition and capitalized a nominal amount of acquisition related costs and other costs as part of land inventory on our consolidated balance sheet. In connection with the purchase agreement, if certain land parcels adjacent to 2100 Market Street are acquired from unaffiliated third parties, we may be required to pay additional consideration to the seller of 2100 Market Street. The unaffiliated third parties are not party to this transaction and any land parcels acquired will be acquired in arms length transactions. The amount of additional consideration, if any, is contingent on the purchase price of the adjacent

land parcels and cannot be determined at this time. We have not yet determined the timing and cost of construction for the project as of September 30, 2015.
On June 22, 2015, through a series of transactions with International Business Machines ("IBM"), we acquired the remaining 50.0% interest in Broadmoor Austin Associates, consisting of seven office buildings and the 66.0 acre underlying land parcel located in Austin, Texas, for an aggregate purchase price of $211.4 million. The office buildings contain 1,112,236 net rentable square feet of office space and were 100.0% occupied as of June 30, 2015. We funded the cost of the acquisition with an aggregate cash payment of $143.8 million, consisting of $81.0 million from available corporate funds and $62.8 million previously held in escrow related to a Section 1031 like-kind exchange. Part of the cash payment was used at closing to repay, at no repayment penalty, the remaining $51.2 million of secured debt. We incurred $0.2 million of acquisition related costs that are classified within general and administrative expenses.
We previously accounted for our 50.0% non-controlling interest in Broadmoor Austin Associates under the equity method of accounting. As a result of acquiring IBM's remaining 50.0% common interest in Broadmoor Austin Associates, we obtained control of Broadmoor Austin Associates and our existing investment balance was remeasured based on fair value of the underlying properties acquired and the existing distribution provisions under the relevant partnership agreement. As a result, we recorded a $0.8 million gain on remeasurement.
On April 9, 2015, we acquired the leasehold interest in an approximately 0.4 acre land parcel at 405 Colorado Street located in the central business district of Austin, Texas for $2.6 million. The property is currently operated as a surface parking lot. We intend to develop this site into mixed-use property. We have not yet determined the timing and cost of construction for the project as of September 30, 2015. We accounted for this transaction as an asset acquisition.
On April 6, 2015, we acquired a 0.8 acre parcel of land, located at 25 M Street Southeast, Washington, D.C. for $20.3 million. We funded the cost of this acquisition with available corporate funds. We capitalized $0.3 million of acquisition related costs and these costs are included as part of land inventory on our consolidated balance sheet. On May 12, 2015, we contributed the land parcel into a newly formed real estate venture known as 25 M Street Holdings, LLC (“25 M Street”), a joint venture between us and Jaco 25M Investors, LLC (“Akridge”), an unaffiliated third party, with the intent to construct a 271,000 square foot Class A office property. We hold a 95.0% ownership interest in 25 M Street and Akridge contributed $1.0 million in cash for its 5.0% ownership interest in 25 M Street. The $1.0 million contribution from Akridge was distributed to us. 25 M Street is consolidated within our financial statements. See Note 4, "Investment in Unconsolidated Real Estate Ventures," for further information. The partners of the venture have not determined the timing and cost of construction for the project as of September 30, 2015.
On April 2, 2015, we acquired, from an unaffiliated third party, a property comprised of a parking garage with 330 parking spaces and mixed-use space totaling 14,404 rentable square feet located at 618 Market Street in Philadelphia, Pennsylvania for an aggregate fair value of $19.4 million. The property is currently fully operational. The purchase price includes contingent consideration, recorded at fair value and payable to the seller upon commencement of development, totaling $1.6 million and cash of $17.8 million.
We have treated the acquisition of 618 Market Street as a business combination and allocated the purchase price to the tangible and intangible assets. We utilized a number of sources in making estimates of fair values for purposes of allocating the purchase price to tangible and intangibles assets acquired. We allocated $19.2 million to building, land and improvements and $0.2 million to intangible assets.

Dispositions

We sold the following office properties during the nine-month period ended September 30, 2015 (dollars in thousands).

Date of Sale	Property/Portfolio Name	Location	Number of Properties	Rentable Square Feet	Property/Portfolio Occupancy % at Date of Sale		Sale Price	Net gain (loss) on Sale (a)	
September 29, 2015	1000 Howard	Mt. Laurel, NJ	1	105,312	100.0	%	$16,500	$4,823	
August 13, 2015	Bay Colony	Wayne, PA	4	247,294	86.5	%	37,500	288	
August 11, 2015	741 First Avenue	King of Prussia, PA	1	77,184	100.0	%	4,900	372	
June 10, 2015	100 Gateway Centre Parkway	Richmond, VA	1	74,991	58.3	%	4,100	—	(b)
April 24, 2015	Delaware Corporate Center I & II/Christian Corporate Center	Wilmington, DE/Newark, DE	5	485,182	66.5	%	50,125	1,797	
April 9, 2015	Lake Merritt Tower	Oakland, CA	1	204,336	86.4	%	65,000	—	(c)
January 8, 2015	Atrium I/Libertyview	Mt. Laurel, NJ/Cherry Hill, NJ	2	221,405	93.4	%	28,300	9,040	
Total Dispositions			15	1,415,704			$206,425	$16,320	(d)

(a) Gain/(Loss) on Sale is net of closing and other transaction related costs.

(b) We recorded an impairment loss of $0.8 million for 100 Gateway Centre Parkway during the second quarter of 2015. As such, there was no gain/(loss) at disposition for this property.

(c) We recorded an impairment loss of $1.7 million for Lake Merritt Tower at March 31, 2015. As such, there was no gain/(loss) at disposition for this property. Sales proceeds were deposited in escrow under Section 1031 of the Internal Revenue Code and applied to purchase the Broadmoor Austin portfolio. Refer to Broadmoor Austin Associates acquisition summary, above, for further details.

(d) Total gain/(loss) on sale does not include a deferred gain of $0.5 million related to a prior sale and $0.1 million in losses associated with prior sales.

We sold the following land parcels during the nine-month period ended September 30, 2015 (dollars in thousands).

Date of Sale	Property/Portfolio Name	Location	Number of Parcels	Acres	Property/Portfolio Occupancy % at Date of Sale	Sale Price	Net gain (loss) on Sale
September 1, 2015	7000 Midlantic	Mt. Laurel, NJ	1	3.5	N/A	$2,200	$(169)
August 31, 2015	Four Points	Austin, TX	1	8.6	N/A	2,500	71
August 25, 2015	Two Kaiser Plaza	Oakland, CA	1	1.0	N/A	11,100	3,117
Total Dispositions			3	13.1		$15,800	$3,019

The sales of properties referenced above do not represent a strategic shift that has a major effect on our operations and financial results. The operating results of these properties remain classified within continuing operations for all

periods presented.

Held for Sale
As of September 30, 2015, we entered into an agreement of sale for six suburban New Jersey properties containing 560,147 rentable square feet for an anticipated sales price of $56.5 million. The properties have been designated as held for sale in accordance with applicable accounting standards for long lived assets.
The disposal of the properties referenced above do not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the operating results of these properties remain classified within continuing operations for all periods presented.
JBG - Venture
On May 29, 2015, we and an unaffiliated third party, JBG/DC Manager, LLC ("JBG"), formed 51 N 50 Patterson, Holdings, LLC Venture ("51 N Street") and 1250 First Street Office, LLC Venture ("1250 First Street"), as real estate ventures, with us owning a 70.0% interest and JBG owning a 30.0% interest in each of the two ventures. At formation, we and JBG made cash contributions of $15.2 million and $6.5 million, respectively, to 51 N Street, which was used to purchase 0.9 acres of undeveloped land. At formation, we and JBG made cash capital contributions of $13.2 million and $5.7 million, respectively, to 1250 First Street, which was used to purchase 0.5 acres of undeveloped land.
51 N Street expects to construct two mixed-use buildings, which will include approximately 278,000 square feet of loft office, residential, ground floor retail, movie theater and on-grade public plaza space in Washington, D.C. 51 N Street expects to develop the office buildings on parcels contributed by us and JBG to the venture at an agreed upon value of $21.7 million. As of September 30, 2015, the venture has not finalized development plans or received committed debt financing. The venture plans to fund the remaining amount, which has not yet been determined.
1250 First Street expects to construct an eleven-story, mixed-use building, which will include approximately 232,100 square feet of office, 15,300 square feet of retail and 145 below-grade parking spaces in Washington, D.C. 1250 First Street expects to develop the office building on a parcel contributed by us and JBG to the venture at an agreed upon value of $18.9 million. As of September 30, 2015, the venture has not finalized development plans or received committed debt financing. The venture plans to fund the remaining amount, which has not yet been determined.
DRA - PA Venture
On December 19, 2007, we formed G&I Interchange Office LLC, a real estate venture (the “Interchange Venture”), with an unaffiliated third party, G&I VI Investment Interchange Office LLC (“G&I VI”), an investment vehicle advised by DRA Advisors LLC. The Interchange Venture owns 29 office properties containing an aggregate of 1,611,961 net rentable square feet located in Montgomery, Lehigh and Bucks counties, Pennsylvania. We contributed these 29 properties to the Interchange Venture upon the Interchange Venture's formation and in exchange for the contribution received a cash distribution from the Interchange Venture and a 20.0% ownership interest in the Interchange Venture.
On February 27, 2015, the Interchange Venture entered into a forbearance agreement with an unaffiliated lender that holds a nonrecourse mortgage on the Interchange Venture's assets. The loan matured on January 1, 2015. On August 12, 2015, the lender sold the properties to an unaffiliated third-party purchaser under the forbearance agreement and assumed the proceeds. Commensurate with the sale, the Interchange Venture was dissolved.
We have no obligation to fund any amounts to the lender under the loan or mortgage. We have not had any investment basis in the Interchange Venture since its formation in 2007. We are not obligated to fund any of the losses incurred by the Venture and, as a result, have not recognized losses in excess of our invested capital balance.
Austin Venture
On January 30, 2015, the Austin Venture closed on a mortgage loan with a non-affiliated institutional lender, and used the proceeds of the loan to repay in full an $88.0 million short-term secured loan made by us to fund costs of the Austin Venture's acquisition of River Place. For further information regarding this acquisition, see Note 4, "Investment In Unconsolidated Ventures," included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in accounting estimate are reasonably likely to occur from period to period. Management bases its estimates and assumptions on historical experience and current economic conditions. On an on-going basis, management evaluates its estimates and assumptions including those related to revenue, impairment of long-lived assets and the allowance for doubtful accounts. Actual results may differ from those estimates and assumptions.

Our Annual Report on Form 10-K for the year ended December 31, 2014 contains a discussion of our critical accounting policies. There have been no significant changes in our critical accounting policies since December 31, 2014. See also Note 2, "Basis of Presentation," in our unaudited consolidated financial statements for the three and nine-month periods ended September 30, 2015 set forth herein. Management discusses our critical accounting policies and management's judgments and estimates with our Audit Committee.

RESULTS OF OPERATIONS

The following discussion is based on our Consolidated Financial Statements for the three and nine-month periods ended September 30, 2015 and 2014. We believe that presentation of our consolidated financial information, without a breakdown by segment, will effectively present important information useful to our investors.

Net operating income ("NOI") as presented in the comparative analysis below is defined as revenue less property operating expenses, real estate taxes and third party management expenses. Property operating expenses that are included in determining NOI consist of costs that are necessary and allocable to our operating properties such as utilities, property-level salaries, repairs and maintenance, property insurance, management fees and bad debt expense. General and administrative expenses that are not reflected in NOI primarily consist of corporate-level salaries, amortization of share awards and professional fees that are incurred as part of corporate office management. NOI is a non-GAAP financial measure that we use internally to evaluate the operating performance of our real estate assets by segment, as presented in Note 11, "Segment Information," to the consolidated financial statements, and of our business as a whole. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. While NOI is a relevant and widely used measure of operating performance of real estate investment trusts, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an alternative to those measures in evaluating our liquidity or operating performance. NOI does not reflect interest expenses, real estate impairment losses, depreciation and amortization costs, capital expenditures and leasing costs. We believe that net income, as defined by GAAP, is the most appropriate earnings measure. See Note 11, "Segment Information," to the Consolidated Financial Statements for a reconciliation of NOI to our consolidated net income (loss).

Comparison of the Three-Month Periods Ended September 30, 2015 and September 30, 2014

The table below shows selected operating information for the "Same Store Property Portfolio" and the "Total Portfolio." The Same Store Property Portfolio consists of 173 properties containing an aggregate of approximately 21.5 million net rentable square feet, and represents properties that we owned for the entire three-month periods ended September 30, 2015 and 2014. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to July 1, 2014 and owned and held for sale through September 30, 2015. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2014, disposed of prior to September 30, 2015 or classified as held for sale as of September 30, 2015. A property is excluded from our Same Store Property Portfolio and moved into the redevelopment column in the period that we determine that a redevelopment would be the best use of the asset, and when said asset is taken out of service or is undergoing re-entitlement for a future development strategy. This table also includes a reconciliation from the Same Store Property Portfolio to the Total Portfolio net income (i.e., all properties owned by us during the three-month periods

ended September 30, 2015 and 2014) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the three-month periods ended September 30, 2015 and 2014 (in thousands).

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

Comparison of three-months ended September 30, 2015 to the three-months ended September 30, 2014

	Same Store Property Portfolio			Recently Completed/Acquired Properties (a)		Development/Redevelopment Properties (b)		Other (Eliminations) (c)		Total Portfolio		
(dollars in thousands)	2015	2014	Increase/ (Decrease)	2015	2014	2015	2014	2015	2014	2015	2014	In (D
Revenue:												
Cash rents	$108,161	$103,468	$4,693	$2,746	$—	$2,651	$2,103	$1,768	$8,976	$115,326	$114,547	$7
Straight-line rents	4,680	4,217	463	989	—	176	4	251	12	6,096	4,233	1,
Above/below market rent amortization	917	1,237	(320)	1,573	—	351	271	—	—	2,841	1,508	1,
Total rents	113,758	108,922	4,836	5,308	—	3,178	2,378	2,019	8,988	124,263	120,288	3,
Tenant reimbursements	18,592	16,802	1,790	910	—	443	413	1,608	2,880	21,553	20,095	1,
Termination fees	1,097	1,363	(266)	—	—	—	—	—	55	1,097	1,418	(3
Third party management fees, labor reimbursement and leasing	—	—	—	—	—	—	—	4,274	3,932	4,274	3,932	34
Other	927	630	297	—	—	140	43	331	152	1,398	825	57
Total revenue	134,374	127,717	6,657	6,218	—	3,761	2,834	8,232	16,007	152,585	146,558	6,
Property operating expenses	40,698	38,695	(2,003)	257	—	1,570	1,534	1,369	2,446	43,894	42,675	(1
Real estate taxes	11,129	11,283	154	898	—	365	241	727	1,345	13,119	12,869	(2
Third party management expenses	—	—	—	—	—	—	—	1,605	1,687	1,605	1,687	82
Net operating income	82,547	77,739	4,808	5,063	—	1,826	1,059	4,531	10,529	93,967	89,327	4,
General & administrative expenses	—	—	—	22	—	7	5	6,098	5,895	6,127	5,900	(2
Depreciation and amortization	47,144	46,561	(583)	8,199	—	1,565	1,822	1,406	4,233	58,314	52,616	(5
Operating income (loss)	$35,403	$31,178	$4,225	$(3,158)	$—	$254	$(768)	$(2,973)	$401	$29,526	$30,811	$(
Number of properties	173	173		7		6		6		192		
Square feet	21,529	21,529		1,113		1,592		560		24,794		
Core Occupancy % (d)	92.1 %	89.2 %		100.0 %								

Other income (expense):			
Interest income	126	528	(4
Tax credit transaction income	11,853	11,853	—
Interest expense	(27,900)	(31,481)	3,
Amortization of deferred financing costs	(1,010)	(1,566)	55
Interest expense — financing obligation	(296)	(273)	(2
Recognized hedge activity	—	(828)	82
Equity in loss of real estate ventures	(1,093)	(486)	(6
Net gain on disposition of real estate	6,083	4,698	1,
Net gain on sale of undepreciated real estate	3,019	—	3,
Loss on early extinguishment of debt	—	(2,606)	2,
Provision for impairment on assets held for sale/sold	—	(1,765)	1,
Income from continuing operations	20,308	8,885	11
Loss from discontinued operations	—	(3)	3
Net income	$20,308	$8,882	$
Income attributable to common shareholders per common share	$0.10	$0.04	$

EXPLANATORY NOTES

(a) Results include: seven properties completed/acquired and placed in service.

(b) Results include: four developments, one redevelopment and one re-entitlement property.

49

(c) Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated in consolidation and third-party management fees. It also includes properties sold that do not qualify as discontinued operations and properties classified as held for sale.

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

Total Revenue

Cash rents from the Total Portfolio increased by $0.8 million during the third quarter of 2015 compared to the third quarter of 2014, primarily attributable to a:

- $7.2 million decrease due to 21 properties sold subsequent to the third quarter of 2014;
- $4.7 million increase in the Same Store Property Portfolio due to a 2.9% increase in occupancy for the third quarter of 2015 compared to the third quarter of 2014;
- $2.7 million increase from Recently Completed/Acquired Properties for the third quarter of 2015 compared to the third quarter of 2014; and
- $0.5 million increase from Development/Redevelopment Properties for the third quarter of 2015 compared to the third quarter of 2014.

Straight-line rents increased by $1.9 million on a consolidated basis due to increased leasing activity and the timing of revenue recognition under the straight-line method of accounting.

Tenant reimbursements from the Total Portfolio increased by $1.5 million during the third quarter of 2015 compared to the third quarter of 2014 primarily attributable to a $1.8 million increase at the Same Store Portfolio, which trended along with the increase in operating expenses over the same period. Expense recoveries at the Same Store Portfolio increased modestly with a reimbursement percentage of 35.9% during the third quarter of 2015 compared to 33.6% in the third quarter of 2014. In addition, $0.9 million related to the Recently Completed/Acquired Properties. These increases were offset by a decrease of $1.2 million due to 21 properties sold subsequent to the third quarter of 2014.

Other income increased $0.6 million during the third quarter of 2015 when compared to the third quarter of 2014, which is primarily attributable to; (i) $0.2 from the receipt of escheat funds, (ii) $0.2 in tax settlements and (iii) $0.2 million related to other income across our portfolio.

Above/below Market Rent Amortization

Above/below market rent amortization increased by $1.3 million as a result of acquiring 7 properties subsequent to the third quarter of 2014.

Real Estate Taxes

Real estate taxes across our Total Portfolio increased by $0.3 million for the third quarter of 2015 compared to the third quarter of 2014, primarily attributable to a $0.9 million increase from Recently Completed/Acquired Properties. This increase was offset by a $0.8 million decrease from the 21 properties sold subsequent to the third quarter of 2014.

Property Operating Expenses

Property operating expenses across our Total Portfolio increased $1.2 million for the third quarter of 2015 compared to the third quarter of 2014, primarily attributable to the following: (i) $1.7 million in payroll and office expenses, (ii) $1.0 million increase in utilities, (iii) $0.7 million increase in repairs and maintenance expense due to the timing of tenant needs, (iv) $0.3 million related to properties acquired subsequent to the third quarter of 2014 and (v) $0.3 million increase in management fees. These increases were offset by a $2.8 million decrease from the 21 properties sold subsequent to the second quarter of 2014.

Depreciation and Amortization

Depreciation and amortization expense across our Total Portfolio increased by $5.7 million for the third quarter of 2015 compared to the third quarter of 2014, primarily attributable to the following: (i) $8.2 million increase from Recently Completed/Acquired Properties and (ii) $0.6 million increase to the Same Store Property Portfolio in additional depreciation expense from increased tenant improvements and accelerations related to early lease terminations. These increases were offset by $2.8 million decrease from the 21 properties sold subsequent to the second quarter of 2014 and $0.3 million decrease to Development/Redevelopment Properties related to accelerated

depreciation of the re-entitlement property in the third quarter of 2014.

Interest Income

Interest income decreased $0.4 million for the third quarter of 2015 compared to the third quarter of 2014, due to lower average cash and cash equivalents.

Interest Expense

The decrease in interest expense of $3.6 million for the third quarter of 2015 from the third quarter of 2014 is primarily due to the following decreases:

- $1.5 million related to an increase in capitalized interest which is directly attributable to increased development activity compared to the third quarter of 2014;
- $0.6 million due to the repayment of our $150.0 million three-year term loan due February 2015 during the third quarter of 2014;
- $0.3 million due to the repayment of our $100.0 million four-year term loan due February 2016 during the third quarter of 2014;
- $0.3 million due to the termination of interest rate swap contracts associated with our $100.0 million four-year term loan due February 2016;
- $2.9 million due to repurchases of $75.1 million and $143.5 million, in the third and fourth quarters of 2014, respectively, of our 5.400% Guaranteed Notes due 2014; and
- $3.0 million due to repurchases of $42.7 million and $114.9 million, in the third and fourth quarters, respectively, of our 7.500% Guaranteed Notes due 2015.

These decreases were partially offset by an increase of $4.6 million related to the September 2014 issuance of $250.0 million in principal amount of 4.10% Guaranteed Notes due 2024 and $250.0 million in principal amount of 4.55% Guaranteed Notes due 2029.

Recognized Hedge Activity

The $0.8 million of recognized hedge activity during the third quarter of 2014 relates to terminating interest rate swap contracts upon repayment of the $150 million three-year term loan due February 2015.

Equity in Loss of Real Estate Ventures

The decrease in equity in income of Real Estate Ventures of $0.6 million during the third quarter of 2015 compared to the third quarter of 2014 is primarily attributable to net operating losses of $0.8 million at the Austin Venture, offset by $0.2 million in increases related to the acquisition of Broadmoor Austin Associates.

Net Gain on Disposition of Real Estate

The $6.1 million net gain on disposition of real estate resulted from the sale of six office properties located in Mt. Laurel, New Jersey, Wayne, Pennsylvania and King of Prussia, Pennsylvania during the third quarter of 2015. See Item 2., "Recent Property Transactions for further information. The $4.7 million net gain on disposition of real estate resulted from the sale of an office property during the third quarter of 2014.

Net Gain on Sale of Undepreciated Real Estate

The $3.0 million net gain on sale of undepreciated real estate recognized during the third quarter of 2015 resulted from the sale of three land parcels located in Mount Laurel, New Jersey, Oakland, California and Austin, Texas. There were no land sales during the third quarter of 2014.

Loss on Early Extinguishment of Debt

During the third quarter of 2014, we funded; (i) $88.7 million repurchase of our 5.400% Guaranteed Notes due 2014, (ii) $46.5 million repurchase of our 7.500% Guaranteed Notes due 2015, (iii) repayment of the entire $150.0 million three-year loan due February 2015 and (iv) repayment of the entire $100.0 million four-year loan due February 2016, which resulted in a net loss on early extinguishment of debt of $2.6 million.

Provision for Impairment on Assets Held for Sale/Sold

As of September 30, 2014, the carrying value of the Valleybrooke office portfolio exceeded the fair value less the costs of sale and, as a result, we recognized an impairment loss totaling approximately $1.8 million during the third quarter of 2014.

51

Net Income

Net income increased by $11.4 million during the third quarter of 2015 compared to the third quarter of 2014 as a result of the factors described above. Net income is significantly impacted by depreciation of operating properties and amortization of acquired intangibles. These non-cash charges do not directly affect our ability to pay dividends. Amortization of acquired intangibles will continue over the related lease terms or estimated duration of the tenant relationships.

Comparison of the Nine-Month Periods Ended September 30, 2015 and September 30, 2014

The table below shows selected operating information for the “Same Store Property Portfolio” and the “Total Portfolio.” The Same Store Property Portfolio consists of 171 properties containing an aggregate of approximately 21.4 million net rentable square feet, and represents properties that we owned for the entire nine-month periods ended September 30, 2015 and 2014. The Same Store Property Portfolio includes properties acquired or placed in service on or prior to January 1, 2014 and owned and held for sale through September 30, 2015. The Total Portfolio includes the effects of other properties that were either placed into service, acquired or redeveloped after January 1, 2014, disposed prior to September 30, 2015 or classified as held for sale as of September 30, 2015. A property is excluded from our Same Store Property Portfolio and moved into the redevelopment column in the period that we determine that a redevelopment would be the best use of the asset, and when said asset is taken out of service or is undergoing re-entitlement for a future development strategy. This table also includes a reconciliation from the Same Store Property Portfolio to the Total Portfolio net income (i.e., all properties owned by us during the nine-month periods ended September 30, 2015 and 2014) by providing information for the properties which were acquired, placed into service, under development or redevelopment and administrative/elimination information for the nine-month periods ended September 30, 2015 and 2014 (in thousands).

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

Comparison of nine-months ended September 30, 2015 to the nine-months ended September 30, 2014

	Same Store Property Portfolio			Recently Completed/Acquired Properties (a)		Development/Redevelopment Properties (b)		Other (Eliminations) (c)		Total Portfolio	
(dollars in thousands)	2015	2014	Increase/ (Decrease)	2015	2014	2015	2014	2015	2014	2015	201
Revenue:											
Cash rents	$316,731	$309,545	$7,186	$6,476	$2,746	$7,140	$6,345	$10,400	$28,323	$340,747	$34
Straight-line rents	15,181	10,710	4,471	1,821	616	108	18	471	72	17,581	11,4
Above/below market rent amortization	2,782	4,367	(1,585)	1,707	—	982	780	1	59	5,472	5,20
Total rents	334,694	324,622	10,072	10,004	3,362	8,230	7,143	10,872	28,454	363,800	363
Tenant reimbursements	55,859	52,749	3,110	1,590	339	1,264	1,280	5,293	9,689	64,006	64,0
Termination fees	2,561	6,484	(3,923)	—	—	—	—	—	486	2,561	6,97
Third party management fees, labor reimbursement and leasing	—	—	—	—	—	—	—	12,805	12,269	12,805	12,2
Other	2,942	1,559	1,383	250	10	193	149	2,082	577	5,467	2,29
Total revenue	396,056	385,414	10,642	11,844	3,711	9,687	8,572	31,052	51,475	448,639	449
Property operating expenses	123,261	118,724	(4,537)	1,481	801	5,066	4,230	3,367	8,857	133,175	132
Real estate taxes	32,672	33,242	570	1,270	268	888	751	2,802	4,906	37,632	39,1
Third party management expenses	—	—	—	—	—	—	—	4,858	5,133	4,858	5,13
Net Operating Income	240,123	233,448	6,675	9,093	2,642	3,733	3,591	20,025	32,579	272,974	272
General & administrative expenses	—	—	—	249	—	132	83	21,173	20,003	21,554	20,0
Depreciation and amortization	140,092	137,989	(2,103)	9,901	701	4,386	5,376	5,976	13,707	160,355	157
Operating Income (loss)	$100,031	$95,459	$4,572	$(1,057)	$1,941	$(785)	$(1,868)	$(7,124)	$(1,131)	$91,065	$94
Number of properties	171	171		9		6		6		192	
Square feet	21,350	21,350		1,292		1,592		560		24,794	
Occupancy % (d)	92.1 %	89.2 %		100.0 %							

Other Income (Expense):		
Interest income	1,189	1,2
Tax credit transaction income	11,853	11,
Interest expense	(83,971)	(94
Amortization of deferred financing costs	(3,377)	(3,
Interest expense — financing obligation	(906)	(86
Recognized hedge activity	—	(82
Equity in loss of real estate ventures	(1,835)	(73
Net gain on disposition of real estate	16,673	4,6
Net gain on sale of undepreciated real estate	3,019	1,1
Net gain from remeasurement of investment in real estate ventures	758	458
Net loss on real estate venture transactions	—	(41
Loss on early extinguishment of debt	—	(2,
Provision for impairment on assets held for sale/sold	(2,508)	(1,
Income from continuing operations	31,960	7,8
Income from discontinued operations	—	918
Net income	$31,960	$8,
Income attributable to commons shareholders per common share	$0.15	$0.

53

EXPLANATORY NOTES

(a) Results include: nine properties completed/acquired and placed in service.

(b) Results include: four developments, one redevelopment and one re-entitlement property

(c) Represents certain revenues and expenses at the corporate level as well as various intercompany costs that are eliminated in consolidation and third-party management fees. It also includes properties sold that do not qualify as discontinued operations and properties classified as held for sale.

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

Total Revenue

Cash rents from the Total Portfolio decreased by $6.2 million during the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, primarily attributable to a:

- $17.9 million decrease due to the 22 properties sold subsequent to January 1, 2014;
- $7.2 million increase in the Same Store Property Portfolio due to a 2.9% increase in occupancy for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014;
- $3.7 million increase from Recently Completed/Acquired Properties for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014; and
- $0.8 million increase from Development/Redevelopment Properties for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014.

Straight-line rents increased by $6.2 million on a consolidated basis due to increased leasing activity and the timing of revenue recognition under the straight-line method of accounting.

Tenant reimbursements from the Total Portfolio decreased by $0.1 million, of which $4.5 million of the decrease is due to the 22 properties sold subsequent to January 1, 2014. This decrease was offset by an increase of $3.1 million at the Same Store Portfolio, which trended along with the increase in operating expenses over the same period. Expense recoveries at the Same Store Portfolio remained consistent with a reimbursement percentage of 35.8% during the nine-month period ended September 30, 2015 compared to 34.7% in the nine-month period ended September 30, 2014. An additional $1.3 million increase resulted from Recently Completed/Acquired Properties.

Termination fees at our Total Portfolio decreased by $4.4 million due to timing and volume of tenant early terminations during the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014.

Other income increased $3.2 million during the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, which is primarily attributable to; (i) $1.1 million of recognized real estate tax assessment adjustments, (ii) $0.8 million related to other income across our portfolio, (iii) $0.6 million in liquidating distributions from an unconsolidated partnership was accounted for using the cost method for investments, (iv) $0.5 million from the receipt of escheat funds and (v) $0.2 million in tax settlements.

Property Operating Expenses

Property operating expenses across our Total Portfolio increased $0.6 million for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, primarily attributable to a: (i) $2.6 million increase in repairs and maintenance expense due to the timing of tenant needs, (ii) $2.5 million increase in payroll related costs, (iii) $0.8 million increase in office expenses (iv) $0.6 million in management fees and (v) $1.2 million increase in utilities. These increases were offset by a $7.1 million decrease from the 22 properties sold subsequent to January 1, 2014.

Real Estate Taxes

Real estate taxes across our Total Portfolio decreased by $1.5 million for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, primarily attributable to a $2.3 million decrease from the 22 properties sold subsequent to the second quarter of 2014 and $0.2 million decrease from property tax assessments. These decreases were offset by $1.0 million from Recently Completed/Acquired Properties.

General and Administrative Expenses

General and administrative expenses across our Total Portfolio increased $1.5 million for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, primarily attributable to; (i) $0.9 million increase in share-based compensation costs, (ii) $0.3 million increase in acquisition deal costs and (iii) $0.3 increase in charitable contributions.

Depreciation and Amortization

Depreciation and amortization expense across our Total Portfolio increased by $2.6 million for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014, primarily attributable to a $9.2 million increase from Recently Completed/Acquired Properties and $2.1 million increase to the Same Store Property Portfolio in additional depreciation expense from increased tenant improvements and accelerations related to early lease terminations. These increases were offset by a $7.7 million decrease from the 22 properties sold subsequent to January 1, 2014 and $1.0 million decrease to Development/Redevelopment Properties related to accelerated depreciation of the re-entitlement property in the second quarter of 2014.

Interest Expense

The decrease in interest expense of $10.9 million for the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014 is primarily due to the following decreases;

- $9.1 million due to repurchases of $42.7 million and $114.9 million, in the third and fourth quarters, respectively, of our 7.500% Guaranteed Notes due 2015;
- $8.9 million due to repurchases of $75.1 million and $143.5 million, in the third and fourth quarters of 2014, respectively, of our 5.400% Guaranteed Notes due 2014;
- $4.3 million related to an increase in capitalized interest which is directly attributable to increased development activity compared to the nine-month period ended September 30, 2014;
- $1.9 million due to the repayment of our $150.0 million three-year term loan due February 2015 during the third quarter of 2014;
- $1.3 million due to the repayment of our $100.0 million four-year term loan due February 2016 during the third quarter of 2014;
- $0.8 million due to the termination of interest rate swap contracts associated with our $100.0 million four-year term loan due February 2016; and
- $0.4 million related to mortgage interest expense.

These decreases were partially offset by an increase of $15.8 million related to the September 2014 issuance of $250.0 million in principal amount of 4.10% Guaranteed Notes due 2024 and $250.0 million in principal amount of 4.55% Guaranteed Notes due 2029.

Recognized Hedge Activity

The $0.8 million of recognized hedge activity during the nine-month period ended September 30, 2014 relates to terminating interest rate swap contracts upon repayment of the $150 million three-year term loan due February 2015.

Equity in Loss of Real Estate Ventures

The decrease in equity in income of Real Estate Ventures of $1.1 million during the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014 is primarily attributable to net operating losses of $1.0 million at the Austin Venture and $0.7 million at the evo at Cira Centre South. These decreases were offset by $0.6 million in increases related to the sale of the DRA - PA Venture.

Net Gain on Disposition of Real Estate

The $16.7 million net gain on disposition of real estate venture resulted from the sale of 15 office properties located in Mt. Laurel, New Jersey, Wayne, Pennsylvania, King of Prussia, Pennsylvania, Richmond, Virginia, Newark/Wilmington, Delaware, Oakland, California and Cherry Hill, New Jersey during the nine-month period ended September 30, 2015. See Item 2., "Recent Property Transactions for further information. The $4.7 million net gain on disposition of real estate resulted from the sale of an office property during the nine-month period ended September 30, 2014.

Gain on Sale of Undepreciated Real Estate

The $3.0 million net gain on sale of undepreciated real estate during the nine-month period ended September 30, 2015 resulted from the sale of three land parcels located in Mount Laurel, New Jersey, Oakland, California and Austin, Texas. During the nine-month period ended September 30, 2014 we sold two land parcels located in Dallas, Texas and Austin, Texas for a $1.2 million net gain.

Gain from Remeasurement of Investment in a Real Estate Venture

The gain on remeasurement of investment in a real estate venture increased $0.3 million. The $0.8 million gain recognized during the nine-month period ended September 30, 2015 resulted from the acquisition of the remaining interest in Broadmoor Austin Associates. The $0.5 million gain recognized during the nine-month period ended September 30, 2014 resulted from the final settlement of the increase in ownership interest of the One and Two Commerce partnerships.

Provision for Impairment on Assets Held for Sale/Sold

During the quarter ended March 31, 2015, we determined to dispose of the Lake Merritt office property, and as the carrying value exceeded the fair value of the property exceeded the fair value less the costs of sale, we recognized an impairment loss totaling approximately $1.7 million, which approximates the cost of sale.

During the quarter ended June 30, 2015, we determined to dispose of the 100 Gateway Centre Parkway office property, and as the carrying value exceeded the fair value less the costs of sale, we recognized an impairment loss totaling approximately $0.8 million, which approximates the loss on sale.

During the quarter ended September 30, 2014, we determined to dispose of the Valleybrooke office portfolio, and as the carrying value exceeded the fair value less the costs of sale, we recognized an impairment loss totaling approximately $1.8 million, which approximates the loss on sale.

See Note 3, "Real Estate Investments," for further information related to the impairments.

Discontinued Operations

During the nine-month period ended September 30, 2014 there were no property sales classified as discontinued operations. The gain of $0.9 million during the nine-month period ended September 30, 2014 relates to the settlement of the sale of a portfolio of eight office properties located in Lawrenceville, New Jersey during the first quarter of 2013. There were no properties classified as discontinued operations during the nine-month period ended September 30, 2015.

Net Income

Net income increased by $23.1 million during the nine-month period ended September 30, 2015 compared to the nine-month period ended September 30, 2014 as a result of the factors described above. Net income is significantly impacted by depreciation of operating properties and amortization of acquired intangibles. These non-cash charges do not directly affect our ability to pay dividends. Amortization of acquired intangibles will continue over the related lease terms or estimated duration of the tenant relationships.

LIQUIDITY AND CAPITAL RESOURCES

General

Our principal liquidity needs for the next twelve months are as follows:

- fund normal recurring expenses,
- fund capital expenditures, including capital and tenant improvements and leasing costs,
- fund repayment of certain debt instruments when they mature,
- fund current development and redevelopment costs,
- fund commitments to unconsolidated real estate ventures,
- fund distributions to shareholders to maintain REIT status, and
- fund share repurchases.

As of September 30, 2015, the Parent Company owned a 99.1% interest in the Operating Partnership. The remaining interest of approximately 0.9% pertains to common limited partnership interests owned by non-affiliated investors who contributed property to the Operating Partnership in exchange for their interests. As the sole general partner of the Operating Partnership, the Parent Company has full and complete responsibility for the Operating Partnership's day-to-day operations and management. The Parent Company's source of funding for its dividend payments and other obligations is the distributions it receives from the Operating Partnership.

We believe that our liquidity needs will be satisfied through available cash balances and cash flows generated by operations, financing activities and selective property sales. Rental revenue, expense recoveries from tenants, and other income from operations are our principal sources of cash to pay operating expenses, debt service, recurring capital expenditures and the minimum distributions required to maintain our REIT qualification. We seek to increase cash flows from our properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our revenue also includes third-party fees generated by our property management, leasing, and development and construction businesses. We believe that our revenue, together with proceeds from property sales and debt financings, will continue to provide funds for our short-term liquidity needs. However, material changes in our operating or financing activities may adversely affect our net cash flows. With uncertain economic conditions, vacancy rates may increase, effective rental rates on new and renewed leases may decrease and tenant installation costs, including concessions, may increase in most or all of our markets throughout 2015 and possibly beyond. As a result, our revenues and cash flows could be insufficient to cover operating expenses, including increased tenant installation costs, pay debt service or make distributions to shareholders over the short-term. If this situation were to occur, we expect that we would finance cash deficits through borrowings under our unsecured credit facility and other sources of debt and equity financings. In addition, a material adverse change in cash provided by operations could adversely affect our compliance with financial performance covenants under our unsecured credit facility, including our unsecured term loans, and under our unsecured notes. As of September 30, 2015, we were in compliance with all of our debt covenants and requirement obligations.

We use multiple sources to finance our long-term capital needs. When needed, we use borrowings under our unsecured credit facility for general business purposes, including to meet debt maturities and to fund distributions to shareholders as well as development and acquisition costs and other expenses from time to time as necessary. In light of the continuing volatility in financial markets and economic uncertainties, it is possible, that one or more lenders under our unsecured revolving credit facility could fail to fund a borrowing request. Such an event could adversely affect our ability to access funds from our unsecured credit facility when needed to fund distributions or pay expenses.

Our ability to incur additional debt is dependent upon a number of factors, including our credit ratings, the value of our unencumbered assets, our degree of leverage and borrowing restrictions imposed by our lenders. If one or more rating agencies were to downgrade our unsecured credit rating, our access to the unsecured debt market would be more limited and the interest rate under our unsecured credit facility and unsecured term loans would increase.

The Parent Company unconditionally guarantees the Operating Partnership's secured and unsecured obligations, which, as of September 30, 2015, amounted to $645.1 million and $1,803.5 million, respectively.

We maintain a shelf registration statement that has registered the offering and sale of common shares, preferred shares, depositary shares, warrants and unsecured debt securities. Subject to our ongoing compliance with securities

laws, and if warranted by market conditions, we may offer and sell equity and debt securities from time to time under the shelf registration statement. We also

57

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maintain a continuous offering program under which we may sell up to 16,000,000 common shares until November 5, 2016 in at-the-market offerings.

The Parent Company, other than acting as the sole general partner of the Operating Partnership, also issues equity from time to time, the proceeds of which it contributes to the Operating Partnership in exchange for additional interests in the Operating Partnership, and guarantees debt obligations of the Operating Partnership. The Parent Company’s ability to sell common shares and preferred shares is dependent on, among other things, general market conditions for REITs, market perceptions about the Company as a whole and the current trading price of the Parent Company's shares.

The Parent Company maintains a share repurchase program under which the Board of Trustees has authorized the Parent Company to repurchase shares of its preferred and common stock with no expiration date. On July 22, 2015, the Parent Company's Board of Trustees authorized additional share repurchases of up to $100.0 million. Prior to the authorization 539,200 common shares were available for repurchase under the preexisting share repurchase program. We expect to fund the share repurchases with a combination of available cash balances and availability under our line of credit. As of September 30, 2015, 4,701,302 common shares have been repurchased and retired at an average purchase price of $12.92 per share and totaling $60.8 million. The timing and amounts of any purchases will depend on a variety of factors, including market conditions, regulatory requirements, share prices, capital availability and other factors as determined by our management team. The repurchase program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without notice.

We also consider sales of selected properties as another source of managing our liquidity. We use proceeds from asset sales, as appropriate, to repay existing indebtedness, provide capital for our development activities and to strengthen our financial condition. See Item 2. "Recent Property Transactions" for disclosure of current year dispositions.

Cash Flows

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

As of September 30, 2015 and December 31, 2014, we maintained cash and cash equivalents of $50.6 million and $257.5 million, respectively. The following are the changes in cash flow from our activities for the nine-month periods ended September 30, 2015 and 2014 (in thousands):

Activity	2015	2014
Operating	$144,960	$133,000
Investing	(191,391)	(94,748)
Financing	(160,439)	370,484
Net cash flows	$(206,870)	$408,736

Our principal source of cash flows is from the operation of our properties. Our properties provide a relatively consistent stream of cash flows that provides us with the resources to fund operating expenses, debt service and quarterly dividends. We do not restate our cash flows for discontinued operations.

The net increase of $12.0 million in cash from operating activities for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is primarily attributable to the timing of cash receipts and cash expenditures in the normal course of operations.

The net increase of $96.6 million in cash used in investing activities during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is primarily attributable to the following:

- an decrease of $191.7 million in funds used for acquisitions, driven by the purchases of the remaining 50% common interest in the Broadmoor Austin Associates real estate venture, 405 Colorado Drive, 25 M Street, 618 Market Street, 2100 Market Street and 9 Presidential Boulevard (See Item 2., "Recent Property Transactions" above for disclosure of current year acquisitions) during the nine months ended September 30, 2015 compared to the purchase of a development project in Austin, Texas known as Encino Trace during the nine months ended September 30, 2014;

58

- an increase of $74.7 million in capital expenditures for tenant improvements, developments/redevelopments and leasing commissions during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily attributed to the development of the FMC Tower at Cira Centre South and Encino Trace (For further information on development projects see Item 1., "Developments," included in the our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and Item 2., "Development Risk," above;
- an increase of $46.5 million of investments in unconsolidated Real Estate Ventures primarily due to contributions for the nine months ended September 30, 2015 of $28.4 million to form the JBG real estate ventures (See Item 2. "Recent Property Transactions" above for further disclosure), $8.8 million in contributions to the 4040 Wilson real estate venture, $16.2 million to Brandywine 1919 Ventures, $3.4 million to the DRA Austin real estate venture and $6.0 million in contributions to other real estate ventures compared to $7.6 million in contributions to the 4040 Wilson real estate venture, $6.4 million to the DRA Austin real estate venture and $2.3 million in contributions to other real estate ventures during the nine months ended September 30, 2014; and
- an increase of $0.5 million in deposits for real estate during the nine months ended September 30, 2015, when compared to the nine months ended September 30, 2014.

The decrease in cash used in investing activities was offset by the following transactions:

- an increase of $133.4 million of net proceeds from the sale of 15 properties and three land parcels during the nine months ended September 30, 2015 compared to the sale of one office building, the contribution of an office building to an unconsolidated real estate venture and the sale of two land parcels during the nine months ended September 30, 2014 (See Item 2., "Recent Property Transactions") above;
- an increase of $82.9 million in payments on the mortgage note receivable during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to the repayment of the short term loan to the Austin Venture (See Note 4, "Investment in Unconsolidated Ventures," to our consolidated financial statements);
- a decrease in advances made for purchase of tenant assets, net of repayments, of $0.5 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.
- a decrease of $0.1 million in escrow cash due to timing of payments; and
- an increase of $0.1 million in cash distributions in excess of cumulative equity in income from Real Estate Ventures during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

The net increase of $530.9 million in cash used in financing activities during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is primarily attributable to the following:

- a decrease of $496.5 million in net proceeds from the issuance of $250.0 million 4.100% Guaranteed Notes due 2024 and $250.0 million 4.550% Guaranteed Notes due 2029 during the nine months ended September 30, 2014, with no such activity in the current year;
- a decrease of $335.0 million in net proceeds from to the issuance of 21,850,000 common shares during the nine months ended September 30, 2014, with no such activity in the current year;
- an increase of $0.6 million in repayments of mortgage notes payable during nine months ended September 30, 2015 compared to the nine months ended September 30, 2014;
- a decrease of $0.6 million in proceeds from the exercise of stock options;
- an increase of $60.8 million in repurchases of common stock, with no such repurchases in the prior year, and;
- an increase in distributions paid to shareholders and on non-controlling interests to $86.9 million during the nine months ended September 30, 2015 from $76.9 million during the nine months ended September 30, 2014 resulting from the Parent Company issuance of 21,850,000 common shares during the third quarter of 2014.

The increase in cash used in financing activities was offset by the following transactions:

- a decrease in the repayment of unsecured term loans from the repayment of the $150.0 million three-year term loan, $100.0 million four-year term loan and settlement of associated interest rate swap contracts during the third quarter of 2014, with no such repayments during the current year;
- a decrease in repayments of unsecured notes of $120.4 million during the nine months ended September 30, 2015, primarily relating to redemption of a portion of the 5.40% Guaranteed Notes due November 1, 2014 and the 7.50% Guaranteed Notes due May 15, 2015 during the nine months ended September 30, 2014, with no such activity in the

current year;

- a decrease of $0.4 million in debt financing costs, primarily due to the new revolving credit facility (See Item 2. "Capitalization") below; and
- an increase of $1.0 million from a partner contribution to a consolidated joint venture, with no such contribution in the prior year.

Capitalization
Indebtedness

The table below summarizes indebtedness under our mortgage notes payable and our unsecured notes at September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	(dollars in thousands)			
Balance:				
Mortgage notes payable	$645,069		$655,934	
Unsecured debt	1,803,529		1,803,529	
Total	$2,448,598		$2,459,463	
Percent of Total Debt:				
Mortgage notes payable	26.3	%	26.7	%
Unsecured debt	73.7	%	73.3	%
Total	100.0	%	100.0	%
Weighted-average interest rate at period end:				
Mortgage notes payable	5.7	%	5.7	%
Unsecured debt	4.7	%	4.7	%
Total	5.0	%	5.0	%
Weighted-average maturity in years:				
Mortgage notes payable	6.5		7.3	
Unsecured debt	6.3		7.0	
Total	6.3		7.1	

All debt shown above is fixed rate, which includes a $200.0 million term loan swapped to fixed. Scheduled principal payments and related weighted average annual effective interest rates for our debt as of September 30, 2015 are as follows (in thousands):

Period	Scheduled Amortization	Principal Maturities		Total	Weighted Average Interest Rate of Maturing Debt	
2015	$3,090	$88,042	(a)	$91,132	5.41	%
2016	9,957	357,779		367,736	5.61	%
2017	9,906	320,417		330,323	5.63	%
2018	11,954	325,000		336,954	5.19	%
2019	13,155	200,000		213,155	3.81	%
2020	13,915	—		13,915	6.64	%
2021	14,719	—		14,719	6.64	%
2022	15,571	—		15,571	6.65	%
2023	14,666	351,236		365,902	4.27	%
2024	14,933	250,000		264,933	4.39	%
Thereafter	105,648	328,610		434,258	4.96	%
Totals	$227,514	$2,221,084		$2,448,598	4.96	%

(a) On August 19, 2015, we entered into a forbearance agreement to extend the maturity date of the mortgage note payable collateralized by two of our properties located at 8260 Greensboro Drive and 1676 International Drive in Mclean, Virginia (referred to as "Tysons Corner" in Note 7 "Debt Obligations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014) until October 9, 2015. At September 30, 2015, the outstanding balance was $88.0 million. See Note 14, "Subsequent Events," for further information regarding the repayment of the note.

60

The indenture under which the Operating Partnership issued its unsecured notes contains financial covenants, including (i) a leverage ratio not to exceed 60%, (ii) a secured debt leverage ratio not to exceed 40%, (iii) a debt service coverage ratio of greater than 1.5 to 1.0 and (iv) an unencumbered asset value of not less than 150% of unsecured debt. The Operating Partnership is in compliance with all covenants as of September 30, 2015.

The Operating Partnership has mortgage loans that are collateralized by certain of its properties. Payments on mortgage loans are generally due in monthly installments of principal and interest, or interest only. The Operating Partnership intends to refinance or repay its mortgage loans as they mature through the use of proceeds from selective property sales and secured or unsecured borrowings. However, in the current and expected future economic environment one or more of these sources may not be available on attractive terms or at all.
On October 8, 2015, we amended our $200.0 million seven-year term loan maturing February 1, 2019. Pursuant to the terms of the amendment, we increased the term loan by an additional $50.0 million, lengthened the maturity date to October 8, 2022, and exercised the option to increase the aggregate amount by up to $150.0 million. The loan will bear interest at LIBOR plus 1.80%. Through a series of interest rate swaps, the $250.0 million outstanding balance of the term loan will have a fixed interest rate of 3.72%.

On May 15, 2015, we closed on a new four-year unsecured revolving credit facility (the "New Credit Facility") that provides for borrowings of up to $600.0 million. We expect to use advances under the New Credit Facility for general business purposes, including to fund costs of acquisitions, developments and redevelopments of properties and to repay from time to time other debt. On terms and conditions specified in the credit agreement, we may enter into unsecured term loans and/or increase the initial amount of the credit facility by up to, in the aggregate for all such term loans and increases, an additional $400.0 million. The New Credit Facility includes a $65.0 million sub-limit for the issuance of letters of credit and a $60.0 million sub-limit for swing-loans. The New Credit Facility has a scheduled maturity date of May 15, 2019, and is subject to two six-month extensions on terms and conditions specified in the credit agreement.

At our option, loans outstanding under the New Credit Facility will bear interest at a rate per annum equal to (1) LIBOR plus between 0.875% and 1.55% based on our credit rating or (2) a base rate equal to the greatest of (a) the Administrative Agent's prime rate, (b) the Federal Funds rate plus 0.5% or (c) LIBOR for a one month period plus 1.00%, in each case, plus a margin ranging from 0.0% to 0.55% based on our credit rating. The New Credit Facility also contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to us at a reduced interest rate. In addition, we are also obligated to pay (1) in quarterly installments a facility fee on the total commitment at a rate per annum ranging from 0.125% to 0.30% based on our credit rating and (2) an annual fee on the undrawn amount of each letter or credit equal to the LIBOR Margin. Based on our current credit rating, the LIBOR margin is 1.20% and the facility fee is 0.25%. We had no borrowings under the New Credit Facility as of September 30, 2015.

The terms of the New Credit Facility require that we maintain customary financial and other covenants, including: (i) a fixed charge coverage ratio greater than or equal to 1.5 to 1.00; (ii) a minimum net worth; (iii) a leverage ratio less than or equal to 0.60 to 1.00, subject to specified exceptions; (iv) a ratio of unsecured indebtedness to unencumbered asset value less than or equal to 0.60 to 1.00, subject to specified exceptions; (v) a ratio of secured indebtedness to total asset value less than or equal to 0.40 to 1.00; and (vi) a ratio of unencumbered cash flow to interest expense on unsecured debt greater than 1.75 to 1.00. In addition, the New Credit Facility restricts payments of dividends and distributions on shares in excess of 95% of our funds from operations (FFO) except to the extent necessary to enable us to continue to qualify as a REIT for Federal income tax purposes. At September 30, 2015, we were in compliance with all covenants in the New Credit Facility.

Concurrently with our entry into the New Credit Facility, we terminated our then existing unsecured revolving credit facility, which had a scheduled maturity date of February 1, 2016.

On June 1, 2015, we amended our Term Loan C Agreement dated December 15, 2011 to align the above aforementioned financial and operating covenants and restrictions of the New Credit Facility with that of Term Loan C. The amendment was filed as part of the Quarterly Report on Form 10-Q for the period ended June 30, 2015. See Item 6.,"Exhibits."

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

Equity

On September 15, 2015, the Parent Company declared a distribution of $0.15 per common share, totaling $26.6 million, payable on October 19, 2015 to its shareholders of record as of October 5, 2015. In addition, the Parent Company declared a distribution on its Series E Preferred Shares to holders of record as of September 30, 2015. These shares are entitled to a preferential return of 6.90% per annum on the $25.00 per share liquidation preference. Distributions paid on October 15, 2015 to holders of Series E Preferred Shares totaled $1.7 million. To fund this distribution, on September 15, 2015, the Operating Partnership declared distributions on its Series E-Linked Preferred Mirror Units to holders of record as of September 30, 2015. These units are entitled to a preferential return of 6.90% per annum on the $25.00 per unit liquidation preference. Distributions to be paid on October 15, 2015 to holders of Series E-Linked Preferred Mirror Units will total $1.7 million. In order to maintain its qualification as a REIT, the Parent Company is required to, among other things, pay dividends to its shareholders of at least 90% of its REIT taxable income.

The Parent Company also maintains a continuous offering program (the "Offering Program"), under which we may sell up to an aggregate amount of 16,000,000 common shares until November 5, 2016 in at the market offerings. This program was put in place on November 5, 2013. During the nine months ended September 30, 2015, we did not sell any shares under the Offering Program and 16,000,000 remained available.

The Parent Company maintains a share repurchase program under which the Board of Trustees has authorized the Parent Company to repurchase up to $100.0 million of its common shares with no expiration date. Prior to the authorization 539,200 common shares were available for repurchase under our share repurchase program. We expect to fund the share repurchases with a combination of available cash balances and availability under its line of credit. As of September 30, 2015, 4,701,302 common shares have been repurchased and retired at an average purchase price of $12.92 per share for total cash consideration of $60.8 million. The timing and amounts of any purchases will depend on a variety of factors, including market conditions, regulatory requirements, share prices, capital availability and other factors as determined by our management team. The repurchase program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without notice.

Inflation

A majority of our leases provide for tenant reimbursement of real estate taxes and operating expenses either on a triple net basis or over a base amount. In addition, many of our office leases provide for fixed base rent increases. We believe that inflationary increases in expenses will be partially offset by expense reimbursement and contractual rent increases.

Contractual Obligations

The following table outlines the timing of payment requirements related to our contractual obligations as of September 30, 2015:

	Payments by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Mortgage notes payable (a)	$645,069	$306,465	$41,586	$26,694	$270,324
Unsecured term loan (b)	200,000	—	—	200,000	—
Unsecured guaranteed notes (a)	1,603,529	149,919	625,000	—	828,610
Ground leases (c)	74,500	1,385	2,770	2,770	67,575
Development contracts (d)	297,490	286,983	10,507	—	—
Interest expense (e)	622,290	102,915	149,597	100,352	269,426
Other liabilities (f)	24,391	361	4,483	7,108	12,439
	$3,467,269	$848,028	$833,943	$336,924	$1,448,374

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

(b) On October 8, 2015, the Company amended its $200.0 million seven-year term loan maturing February 1, 2019. Pursuant to the terms of the amendment, the Company increased the term loan by an additional $50.0 million and lengthened the maturity date to October 8, 2022.

(c) Future minimum rental payments under the terms of all non-cancelable ground leases under which we are the lessee are expensed on a straight-line basis regardless of when payments are due. The table does not include the future minimum rental payments related to two ground leases in Philadelphia, Pennsylvania, as these leases provide for contingent participation by the lessor and are not estimable at September 30, 2015. The two ground leases in Philadelphia, Pennsylvania are discussed in Note 12, "Commitments and Contingencies," to our consolidated financial statements.

(d) Represents contractual obligations for development projects and does not contemplate all costs expected to be incurred for such developments. See Item 2., "Overview - Development Risk" above for total expected costs related to developments.

(e) Variable rate debt future interest expense commitments are calculated using September 30, 2015 interest rates.

(f) Other liabilities consists of (i) our deferred compensation liability, (ii) the liability investment balance related to Coppell Associates real estate venture located in Austin, Texas (iii) the interest accretion on the existing transfer tax liability on Two Logan Square in Philadelphia, Pennsylvania (iv) the contingent consideration associated with the purchase of 618 Market Street in Philadelphia, Pennsylvania and the deferred payment associated with the purchase of 2100 Market Street in Philadelphia, Pennsylvania (See Item 2., "Recent Property Transactions") above.

See Note 4, "Investment in Unconsolidated Ventures," to our consolidated financial statements for further details on payment guarantees provided on the behalf of real estate ventures.

As of September 30, 2015, we were obligated to pay a maximum of $85.0 million for tenant improvements not yet completed, which is not included in the above table. We expect that most of the obligations will be paid within one year.

On May 4, 2015, we entered into a put agreement in the ordinary course of business that grants an independent third party the unilateral option to require us to purchase a property, at a predetermined price, until May 4, 2018. In addition to the $35.0 million purchase price, we would be responsible for transaction and closing costs. There can be no assurance that the counterparty will exercise the option.

Funds from Operations (FFO)

Pursuant to the revised definition of FFO adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”), we calculate FFO by adjusting net income/(loss) attributable to common unit holders (computed in accordance with GAAP) for gains (or losses) from sales of properties, impairment losses on depreciable consolidated real estate, impairment losses on investments in unconsolidated joint ventures driven by a measurable decrease in the fair value of depreciable real estate held by the unconsolidated Real Estate Ventures, real

estate related depreciation and amortization, and after similar adjustments for unconsolidated Real Estate Ventures. FFO is a non-GAAP financial measure. We believe that the use of FFO combined with the required U.S. GAAP presentations, has been beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REITs' operating results more meaningful. We consider FFO to be a useful

63

measure for reviewing comparative operating and financial performance because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and real estate depreciation and amortization, FFO can help the investing public compare the operating performance of a company's real estate between periods or as compared to other companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently.

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

The following table presents a reconciliation of net income attributable to common unit holders to FFO for the three and nine-month periods ended September 30, 2015 and 2014:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2015	2014	2015	2014
	(unaudited, in thousands, except share information)			
Net income attributable to common unitholders	$18,506	$7,051	$26,536	$3,356
Add (deduct):				
Nonforfeitable dividends allocated to unvested restricted shareholders	76	82	253	268
Loss on real estate venture transactions	—	—	—	417
Net gain on disposition of real estate	(6,083)	(4,698)	(16,673)	(4,698)
Net (gain) loss on disposition of discontinued operations	—	3	—	(900)
Gain from remeasurement of investment in a real estate ventures	—	—	(758)	(458)
Provision for impairment on assets held for sale/sold	—	1,765	2,508	1,765
Depreciation and amortization:				
Real property — continuing operations	40,459	41,579	120,249	123,220
Leasing costs including acquired intangibles — continuing operations	17,755	10,990	38,829	34,427
Real property — discontinued operations	—	—	—	—
Company's share of unconsolidated real estate ventures	6,514	6,226	21,596	17,020
Partners' share of consolidated real estate ventures	(55)	(87)	(168)	(188)
NAREIT Funds from operations	$77,172	$62,911	$192,372	$174,229
Funds from operations allocable to unvested restricted shareholders	(223)	(192)	(603)	(628)
NAREIT Funds from operations available to common unitholders (FFO)	$76,949	$62,719	$191,769	$173,601
Weighted-average shares/units outstanding — fully diluted	180,311,786	174,928,930	181,523,594	165,107,978

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, commodity prices and equity prices. In pursuing our business plan, the primary market risk to which we are exposed is interest rate risk. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between our yield on invested

assets and cost of funds and, in turn, our ability to make distributions or payments to our shareholders. While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or continued economic slowdown, defaults could increase and result in losses to us which would adversely affect our operating results and liquidity.

Interest Rate Risk and Sensitivity Analysis

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. The range of changes chosen reflects our 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.

Our financial instruments consist of both fixed and variable rate debt. As of September 30, 2015, our consolidated debt consisted of $645.1 million of mortgage loans and $1,524.9 million of unsecured notes, all of which are fixed rate borrowings. As of September 30, 2015, we also have variable rate debt consisting of $78.6 million in trust preferred securities and $200.0 million of unsecured term loans all of which have been swapped to fixed. All financial instruments were entered into for other than trading purposes and the net market value of these financial instruments is referred to as the net financial position. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

If market rates of interest increase by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt would decrease by approximately $23.3 million. If market rates of interest decrease by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt would increase by approximately $25.4 million.

As of September 30, 2015, based on prevailing interest rates and credit spreads, the fair value, net of $6.0 million of discounts, of our $1,518.9 million of unsecured notes was $1,552.7 million. For sensitivity purposes, a 100 basis point change in the discount rate equates to a change in the total fair value of our debt of approximately $15.2 million at September 30, 2015.

From time to time or as the need arises, we use derivative instruments to manage interest rate risk exposures and not for speculative purposes. The total carrying value of our variable rate debt (including variable swapped to fixed) was approximately $278.6 million at September 30, 2015. The total fair value of our debt was approximately $254.4 million at September 30, 2015. For sensitivity purposes, if market rates of interest increase by 100 basis points the fair value of our variable rate debt would decrease by approximately $14.5 million at September 30, 2015. If market rates of interest decrease by 100 basis points the fair value of our outstanding variable rate debt would increase by approximately $16.4 million.

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

Item 4. Controls and Procedures

Controls and Procedures (Parent Company)

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

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

Controls and Procedures (Operating Partnership)

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

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A "Risk Factors," in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014. There have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report, which could materially affect our business, financial condition or future results and are incorporated herein by reference. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(a) None.
(b) Not applicable.
(c) Issuer Purchases of Equity Securities.
The following table summarizes repurchases of our common stock during the three months ended September 30, 2015 pursuant to publicly announced repurchase plans:

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (i)
July 1, 2015 - July 31, 2015				
Open Market Purchases	210,000	$13.57	210,000	
August 1, 2015 - August 31, 2015				
Open Market Purchases	2,469,302	$13.55	2,469,302	
September 1, 2015 - September 30, 2015				
Open Market Purchases	2,022,000	$12.08	2,022,000	
Total	4,701,302	$12.92	4,701,302	$39.2 million

(i) On July 22, 2015, the Company's Board of Trustees authorized share repurchases of up to $100.0 million of its preferred and common stock with no expiration date. Prior to the authorization 539,200 common shares were available for repurchase under the share repurchase program.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

10.1	Letter dated August 10, 2015 to Cohen & Steers Capital Management, Inc. relating to waiver of share ownership limit, including Representations, Warranties and Agreements of Cohen & Steers Capital Management, Inc. (incorporated by reference to Exhibit 10.1 to Brandywine Realty Trust's Current Report on Form 8-K filed on August 13, 2015)
10.2	Amended and Restated Term Loan C Agreement dated as of October 8, 2015
31.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer of Brandywine Realty Trust pursuant to 13a-14 under the Securities Exchange Act of 1934
31.3	Certification of the Chief Executive Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
31.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 13a-14 under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer of Brandywine Realty Trust pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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32.4	Certification of the Chief Financial Officer of Brandywine Realty Trust, in its capacity as the general partner of Brandywine Operating Partnership, L.P., pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from the Quarterly Reports on Form 10-Q of Brandywine Realty Trust and Brandywine Operating Partnership, L.P. for the quarter ended September 30, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, detailed tagged and filed herewith.

68

SIGNATURES OF REGISTRANT

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

BRANDYWINE REALTY TRUST
(Registrant)

Date:	October 26, 2015	By:	/s/ Gerard H. Sweeney Gerard H. Sweeney, President and Chief Executive Officer (Principal Executive Officer)
Date:	October 26, 2015	By:	/s/ Thomas E. Wirth Thomas E. Wirth, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	October 26, 2015	By:	/s/ Daniel Palazzo Daniel Palazzo, Vice President and Chief Accounting Officer (Principal Accounting Officer)

SIGNATURES OF REGISTRANT

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

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

Date:	October 26, 2015	By:	/s/ Gerard H. Sweeney Gerard H. Sweeney, President and Chief Executive Officer (Principal Executive Officer)
Date:	October 26, 2015	By:	/s/ Thomas E. Wirth Thomas E. Wirth, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	October 26, 2015	By:	/s/ Daniel Palazzo Daniel Palazzo, Vice President and Chief Accounting Officer (Principal Accounting Officer)

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